



# Second Quarter Financial Results Fiscal Year 2010 (Ending March 2011)

October 29, 2010

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## ■ Disclaimer regarding forward-looking statements

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The foregoing statements regarding future results reflect the Company's expectations based on information available at the time of announcement. The information contains certain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, the competitive environment, market trends, general economic conditions, technological changes, exchange rate fluctuations and our ability to continue to timely introduce new products and services.

## ■ Numerical values presented herein

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Numbers are rounded to the unit indicated.  
Percentages are rounded off to one decimal place.

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## Changes to segment reporting based on new management approach

From FY2010

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- Under our new management approach, Head Office expenses that were allocated to the various segments and business in proportion to their respective sales will be consolidated under the Corporate Segment from fiscal 2010.
- The functions of subsidiaries that provided services to the Epson Group and whose results were reported under the “Other” segment have been transferred to the various businesses.
- In the slides showing the fiscal 2010 outlook, fiscal 2009 segment profit and loss figures have been adjusted for the purpose of comparison.

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- - **This fiscal year we adopted the management approach to reporting the financial performance of operating segments in compliance with new accounting standards.**
  - **The fiscal 2009 net sales and income figures for each segment have been adjusted for the sake of comparison against our fiscal 2010 performance and outlook.**

## Financial Highlights (First Half)



(Billions of yen)	FY2009		FY2010				Change (amount, %)	
	Actual	%	7/30 Outlook	%	Actual	%	Y/Y	Vs. 7/30 Outlook
Net Sales	449.6	-	489.0	-	479.2	-	+29.6 +6.6%	-9.7 -2.0%
Operating Income	-9.3	-2.1%	12.0	2.5%	14.6	3.1%	+23.9 -	+2.6 -22.2%
Ordinary Income	-14.4	-3.2%	14.0	2.9%	14.8	3.1%	+29.2 -	+0.8 +6.1%
Net Income Before Income Taxes	-20.3	-4.5%	13.0	2.7%	13.4	2.8%	+33.8 -	+0.4 +3.3%
Net Income	-29.1	-6.5%	8.0	1.6%	7.4	1.6%	+36.6 -	-0.5 -6.8%
EPS	-¥146.92		¥40.04		¥37.33			
Exchange Rate	USD	¥95.49	¥89.00		¥88.95			
	EUR	¥133.15	¥114.00		¥113.85			

Previous outlook exchange rate assumptions from Q2 onward  
USD: ¥85.00, EUR: ¥110.00

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### ■ Financial highlights

- **Our fiscal 2010 first-half financials improved sharply compared to the same period last year. First-half net sales were ¥479.2 billion, up ¥29.6 billion. Operating income was ¥14.6 billion, up ¥23.9 billion. Net income was ¥7.4 billion, an increase of ¥36.6 billion.**
- **Net sales were slightly below the estimate presented in the July 30th outlook, while operating income exceeded expectations.**
- **We will share profit with shareholders by paying out, as planned, an interim dividend of ¥10 per share.**

## FY2010 Business Outlook



(Billions of yen)	FY2009		FY2010				Change (amount, %)	
	Actual	%	7/30 Outlook	%	Current Outlook	%	Y/Y	Vs. Prev. Outlook
Net Sales	985.3	-	1,013.0	-	1,000.0	-	+14.6 +1.5%	-13.0 -1.3%
Operating Income	18.2	1.8%	27.0	2.7%	35.0	3.5%	+16.7 +92.0%	+8.0 +29.6%
Ordinary Income	13.8	1.4%	24.0	2.4%	34.0	3.4%	+20.1 +145.0%	+10.0 +41.7%
Net Income Before Income Taxes	-0.7	-0.1%	12.0	1.2%	22.0	2.2%	+22.7 -	+10.0 +83.3%
Net Income	-19.7	-2.0%	0	0.0%	10.0	1.0%	+29.7 -	+10.0 -
EPS	-¥99.34		¥0.00		¥50.05			
Exchange Rate	USD	¥92.85	¥87.00		¥84.00		<b>Current outlook exchange rate assumptions for FY2010/H2</b> USD: ¥ 80.00 EUR: ¥110.00	
	EUR	¥131.15	¥112.00		¥112.00			

Previous outlook exchange rate assumptions from Q2 onward  
 USD: ¥85.00, EUR: ¥110.00

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### ■ FY2010 full-year financial outlook

- We expect to post ¥1,000 billion in net sales for the full year, or ¥13 billion less than forecast back in July. However, we see operating income coming in at ¥35 billion, exceeding the outlook by ¥8 billion.
- Our primary objective for the year has been to reach or exceed breakeven in net income. We look to be on track to achieving this objective, with a projected ¥10 billion in net income.
- We will be wrapping up our business reorganization this year, and our assumptions regarding extraordinary loss and tax charges still stand.
- As for second half foreign exchange, we have adjusted our yen-dollar assumption from 85 yen down to 80 yen. The yen-euro exchange rate is unchanged, at 110 yen to the euro.



### Information Equipment Segment

- ◆ IJP: Grow hardware unit shipments 10% by expanding & enhancing product lines for home, SOHO & emerging markets
- ◆ BS: Capture SIDM orders in China associated with implementation of new tax, and POS demand in advanced & emerging markets
- ◆ PRJ: Use lineup to put space between us & the competition in business, education & home markets

### Electronic Devices Segment

- ◆ QD: Strengthen efforts to leverage our industry-leading supply capacity & to reduce variable and fixed costs
- ◆ IC: Develop synergies with quartz device/sensor business and printer business & focus on strengths such as EPD controllers
- ◆ HTPS: Capture external demand and drive down unit costs

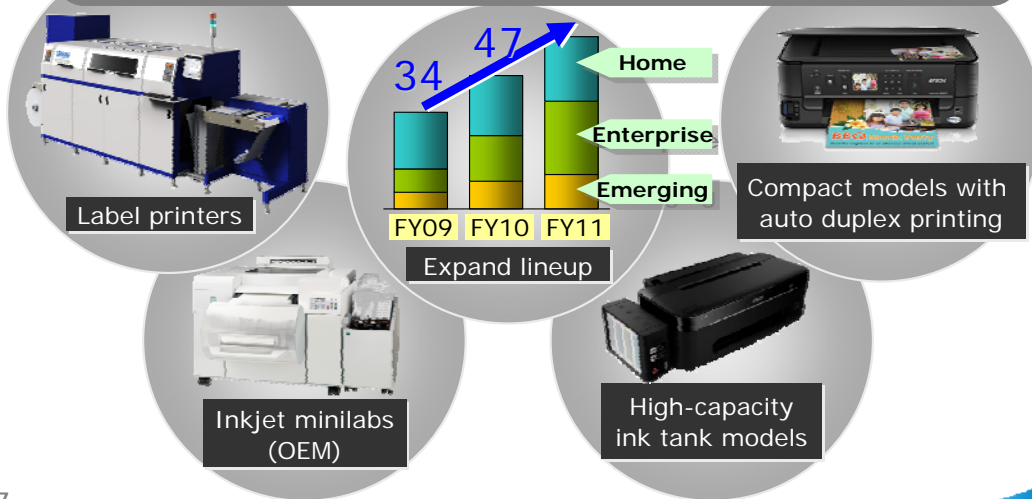
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#### ■ Actions we're taking to meet this year's financial outlook

- **The inkjet printer business will grow hardware unit shipments by 10% by sharply expanding and enhancing the product lineup for every market segment.**
- **In business systems, we will capture SIDM orders in China, where demand related to a new tax collection system continues to be strong, and we will take advantage of POS system opportunities by rolling out high-valued-added products in developed nations and by riding trends in emerging nations where POS system demand is expanding.**
- **In projectors we will offer an extensive lineup to further build on our No. 1 position by capturing anticipated continued second-half demand for education models in North America, as well as demand for business and home projectors.**
- **In quartz devices, we expect continued steady demand in the mobile phone market but expect fourth-quarter demand to decline in markets such as digital home electronics, personal computers, and games. So, in addition to strengthening our efforts to win orders by leveraging our industry-leading supply capacity, we will work to reduce both variable and fixed costs.**
- **The semiconductor business, too, reports fourth-quarter uncertainty, but will work to develop further synergies with our other businesses and will contribute to the bottom line by focusing on electronic paper display controllers and other areas where it can capitalize on Epson's strengths.**
- **In the high-temperature polysilicon TFT panel business, internal demand remains strong while external customer demand is softening. We will take action to strengthen the business, including driving down overall unit costs.**

**Inkjet Printer Business**

◆ Expand product lineup to provide products tailored to the needs of specific customer segments and accelerate moves into the commercial and industrial segments



■ Getting back on a growth trajectory in 2011

- We are significantly enhancing and expanding our inkjet product lineup this year in line with our strategy of providing products tailored to the needs of customers in the home, enterprise and emerging segments.
- For example, we have launched inkjet printers equipped with high-capacity ink tanks in certain emerging markets. We have also commercially developed a compact model with automatic duplex printing for SOHO customers.
- We are also accelerating our moves into the commercial and industrial segments.
- This year we moved steadily into the execution phase of our strategy and are providing commercial products such as a label press and OEM inkjet minilab.
- Inkjet printers will continue to be a core Epson business. We believe we can establish a new growth trajectory by further refining Epson's unique Micro Piezo technology to deliver value to customers in both existing and new spaces.



**Projector Business**

- ◆ Refine the advantages and new technologies that support our leading position and offer an extensive product lineup that heightens customer value



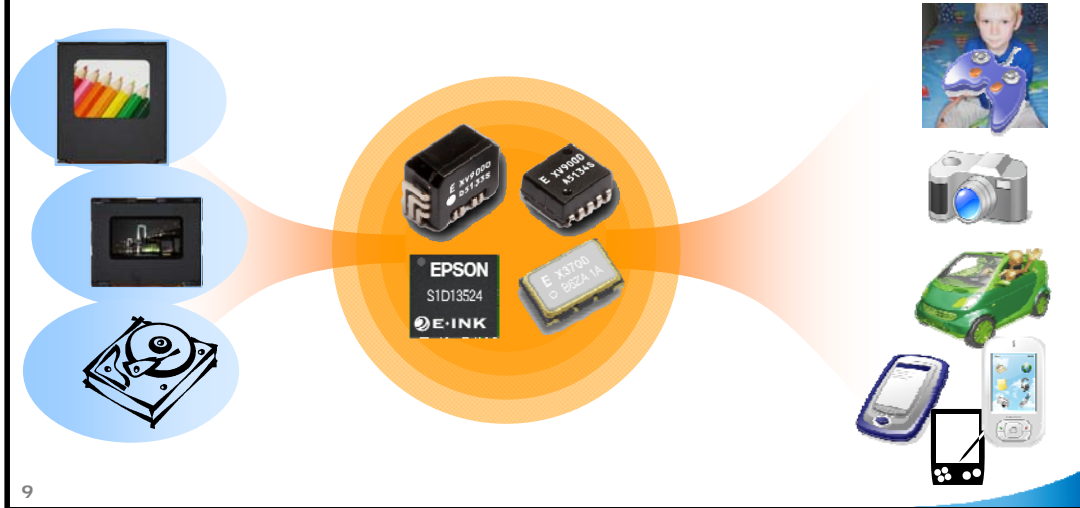
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■ Getting back on a growth trajectory in 2011

- In the projector business, we will expand our share by leveraging the competitive advantage that our core technologies provide to offer an extensive product lineup as the No. 1 name in projectors.
- This year we completed development work on a new reflective high-temperature polysilicon TFT panel. These new reflective panels are used in home theater 3LCD projectors that achieve unprecedented contrast ratios of 1,000,000 : 1.
- We also combined Epson's strong HTPS, optics, power supply, circuit design, lamp and other technologies to engineer the world's thinnest 3LCD projector, a 44-mm model that easily fits into a briefcase.
- By further accelerating projects like these and providing products that heighten customer value, we will further expand our share of the projector market, estimated to be about 25% this year.

### Quartz Device & Sensor Business

- ◆ Build stronger synergies with our semiconductor business to achieve new value in compactness, precision, and accuracy



#### ■ Getting back on a growth trajectory in 2011

- This year in the quartz device and sensor business we resumed capital spending to expand production capacity in order to put space between us and our competitors in terms of supply capacity and to maintain our position as the top manufacturer in the industry.
- A portion of the capital expenditures are being used to introduce Epson's QMEMS technology, which until now has been used exclusively for tuning-fork type crystal products, into the AT crystal device segment as a means to facilitate further advances in miniaturization and accuracy.
- As mobile electronics spread globally, we will use our QMEMS technology to reduce the size and increase the accuracy of our AT crystal products, making them the de facto standard for mobile devices, thus ensuring that we capture demand and grow the business. In October, moreover, we began to position ourselves to deliver the types of microsystems that will be indispensable in the future by establishing a new Microdevices Operations Division to foster greater synergy between the quartz device/ sensor business and the semiconductor business.
- The compact, energy-saving, high-precision technologies we have accumulated in the development of quartz watches dovetail perfectly with the megatrends of cloud computing and the evolution and expansion of mobile equipment.
- We aim to build strong synergies among Epson's crystal devices, sensors, and semiconductors to create and provide new devices that provide customer value by offering the ultimate in compactness, precision and accuracy.

## FY2010 Objectives



In the second year of our mid-range business plan (FY2009 - FY2011), we will aim to set a profit-generating corporate structure firmly in place

- Aim for at least breakeven in net income
- Lay the groundwork to achieve the goals of the SE15 long-range corporate vision
- Bring business reorganization to completion



In fiscal 2011, the final year of the mid-range business plan, set Epson on a new growth trajectory aimed at fulfilling the SE15 Long-Range Corporate Vision

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### ■ FY2010 objectives

- **Fiscal 2010 is the second year of our mid-range business plan. Our aim this year has been to set a profit-generating corporate structure firmly in place. The first half has only just ended, but our objective of reaching or exceeding breakeven in net income is within sight.**
- **We are steadily laying the groundwork for achieving the goals of our SE15 long-range corporate vision.**
- **This year we vowed to finish off the business reorganization and have decided on clear action to address the remaining issues in the small- and medium-sized displays business. As such, we have reached a decision to wind down contract manufacturing for Sony and terminate our Tottori production operations. We will decide on the treatment of Epson employees working on the lines that are to be shut down and those currently on assignment to Sony before the end of the fiscal year, with some employees joining Sony and, where possible, others being reassigned within the Epson Group.**
- **The costs associated with these moves is expected to fall within the projected scope of the extraordinary loss for the year.**
- **As I have said, we succeeded in accomplishing our goals for the first half of the 2010 fiscal year. In the second half and beyond, we will continue to work as a team to establish a new growth trajectory and realize the goals of the SE15 long-term corporate vision.**

1) FY2010 Q2 Financial Results

2) FY2010 Business Outlook

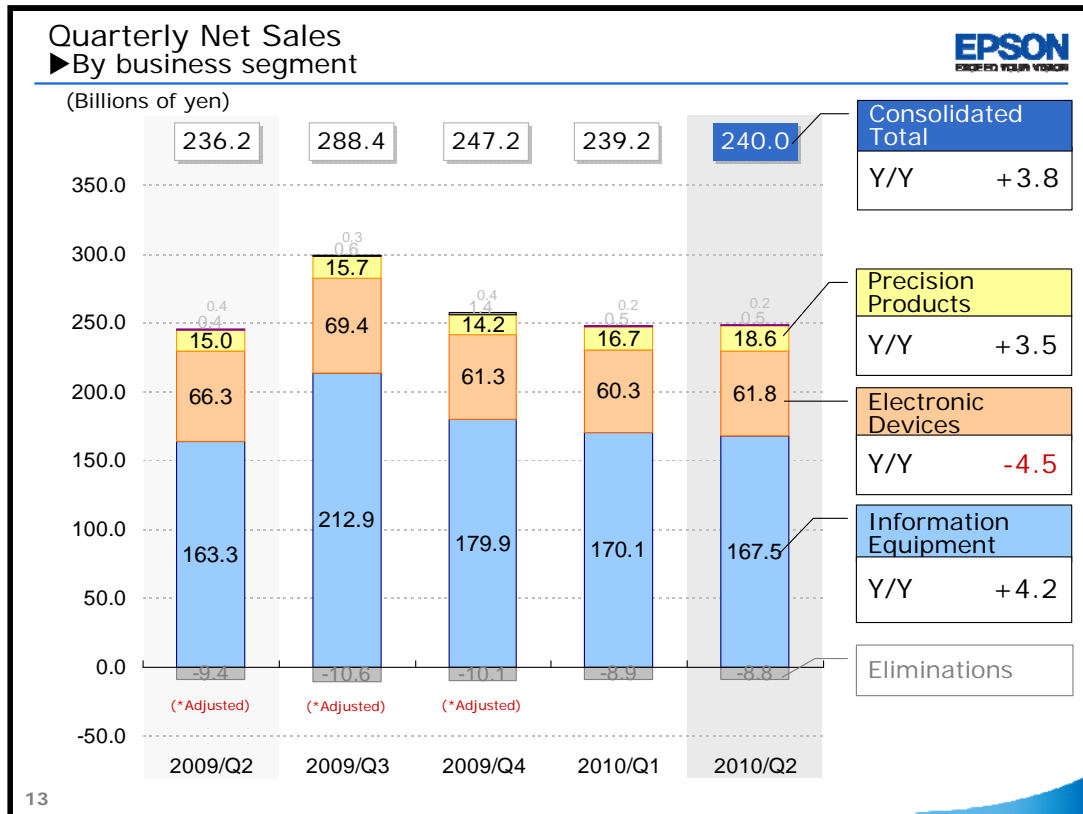
## Financial Highlights (Second Quarter)



(Billions of yen)	FY2009		FY2010		Change	
	Q2 Actual	%	Q2 Actual	%	Amount	%
Net Sales	236.2	-	240.0	-	+3.8	+1.6%
Operating Income	3.1	1.3%	3.9	1.6%	+0.7	+24.9%
Ordinary Income	0.6	0.3%	3.6	1.5%	+3.0	+481.0%
Net Income Before Income Taxes	-3.5	-1.5%	2.7	1.1%	+6.3	-
Quarterly Net Income	-6.8	-2.9%	-0.4	-0.2%	+6.3	-
EPS	-¥34.14		-¥2.43			
Exchange Rate	USD	¥93.65	¥85.90			
	EUR	¥133.73	¥110.70			

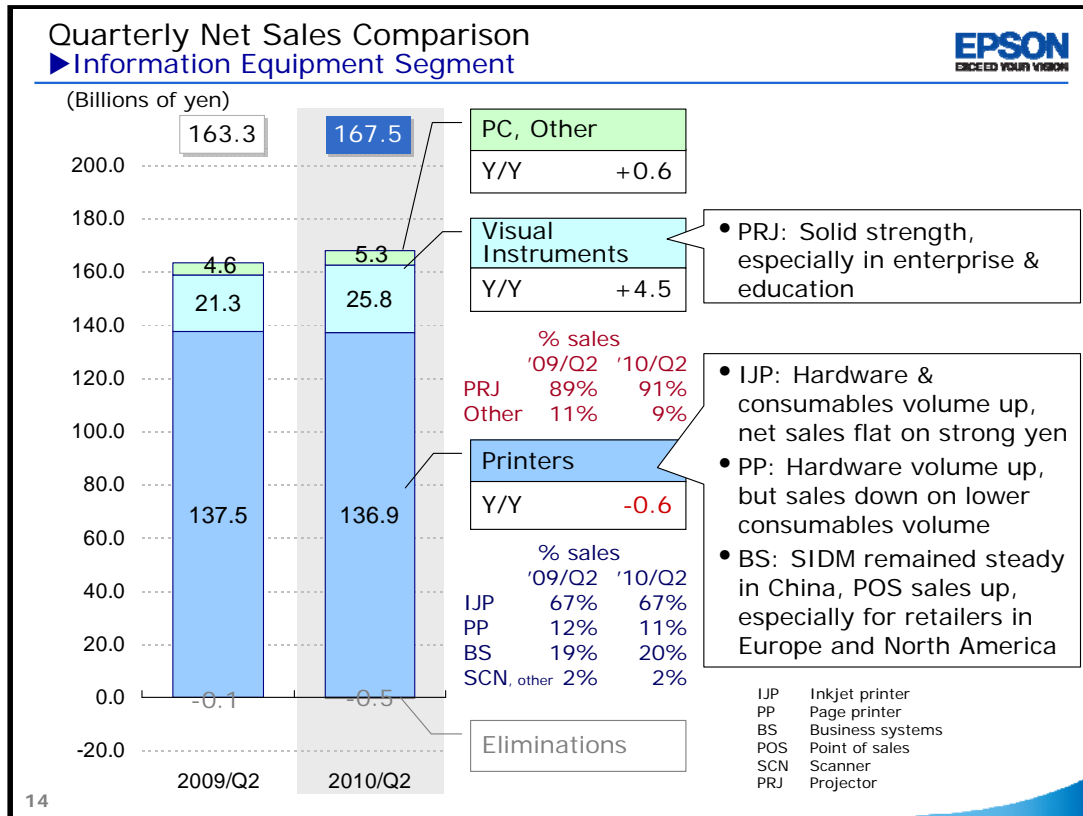
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### ■ FY2010 second-quarter financial highlights



■ **Quarterly net sales by segment.**

- **Compared to the same period last year, information-related equipment net sales increased by ¥4.2 billion, electronic devices net sales declined by ¥4.5 billion, and precision products net sales increased by ¥3.5 billion.**



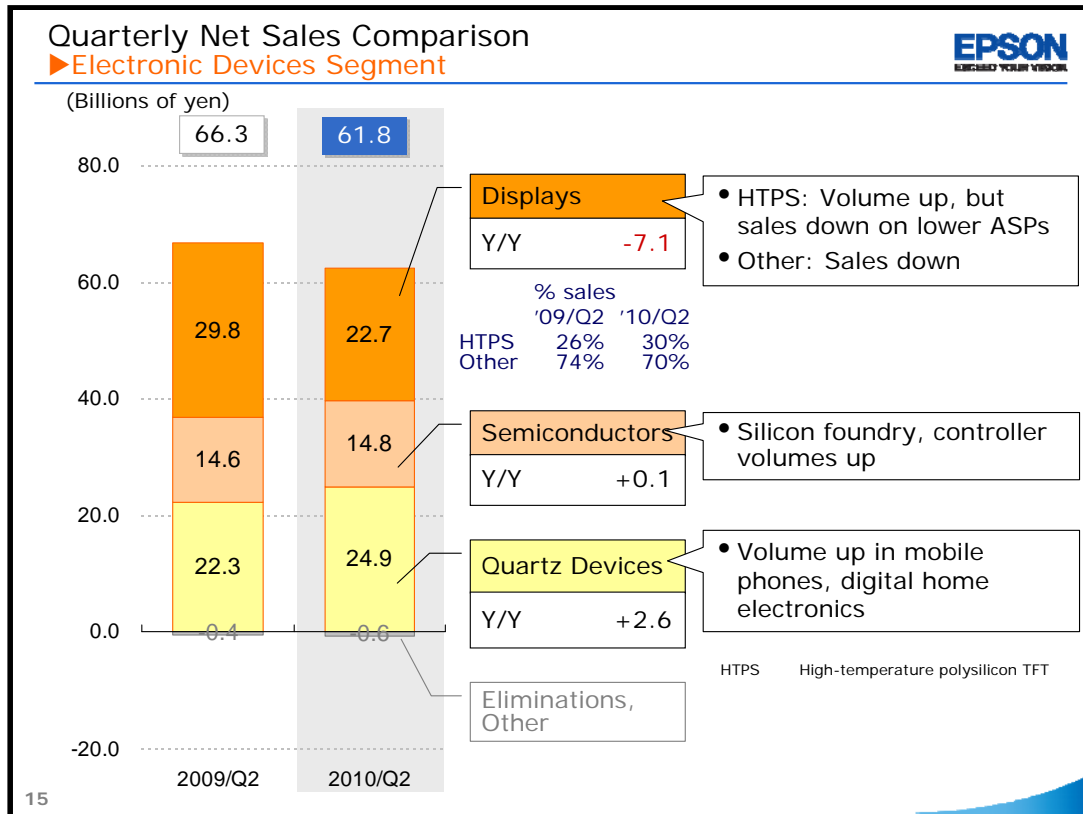
■ Quarterly net sales in the information-related equipment segment

- The printer business reported net sales of ¥136.9 billion, about the same as in the same quarter last year. Although we increased unit shipments of both inkjet printers and consumables, net sales were weighed down by the effects of yen appreciation.
- Seen by region, unit shipments in Europe were flat year-over-year while unit shipments in the U.S., Japan, and Asia grew.
- Page printer unit shipments rose in Europe and Asia, largely due to the aggressive pursuit of tender opportunities, but net sales declined due to a fall in consumables volume and foreign exchange effects.
- Business systems delivered net sales growth. Net sales were buoyed by steady SIDM printer sales in China, where demand was driven by implementation of a tax collection system. Net sales also benefited from increased unit shipments of POS-related products to retailers in Europe and America.
- Visual instruments reported a ¥4.5 billion year-over-year increase in net sales, largely due to strong sales of business and education projectors in Europe, America, and Asia.

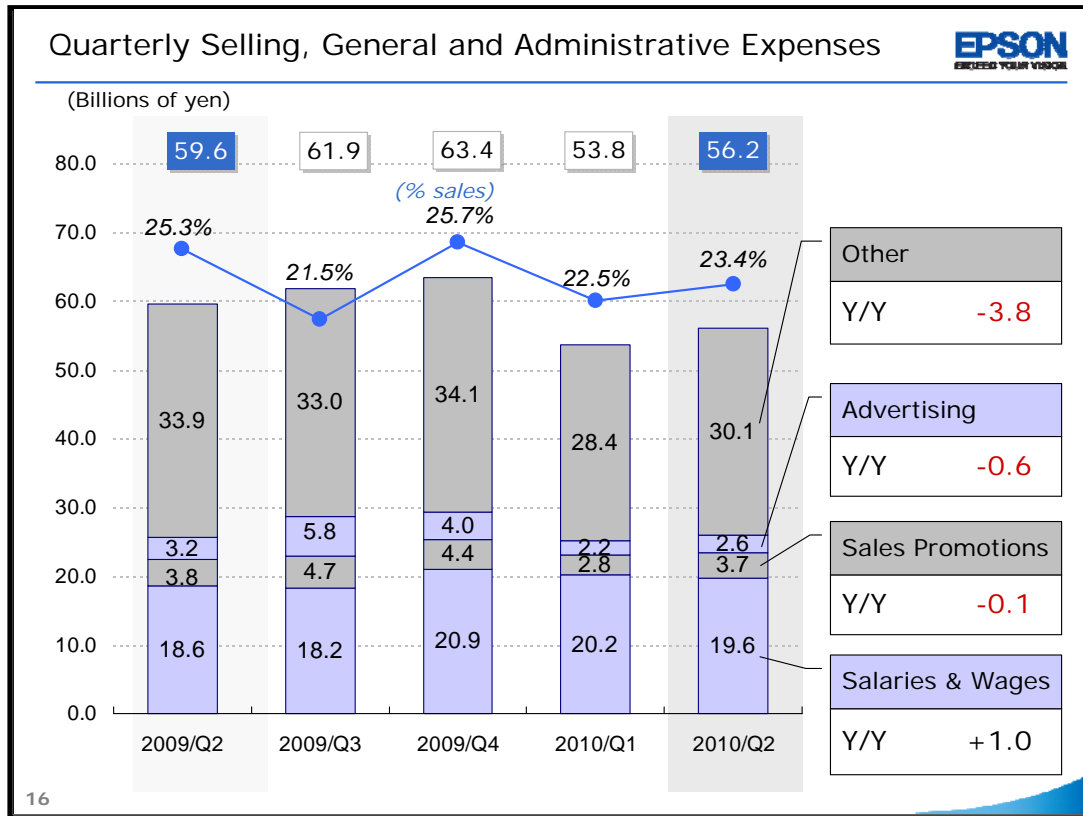


- **Against the outlook, net sales for the information-related equipment segment as a whole came in lower than forecast.**
- **The inkjet printer business posted lower than projected net sales. Although revenue from consumables ended higher than forecast, net sales still ended lower because of a shortfall in printer shipments in Europe and America.**
- **Business systems reported net sales that were basically in line with plan, owing mainly to steady sales of SIDM printers and POS products in China and other parts of Asia.**
- **Page printer net sales ended lower than projected, as we failed to meet our sales target in Europe.**
- **Visual instruments net sales were less than forecast because even though the business reported steady sales in Europe, unit shipments fell short of expectations in the Americas.**



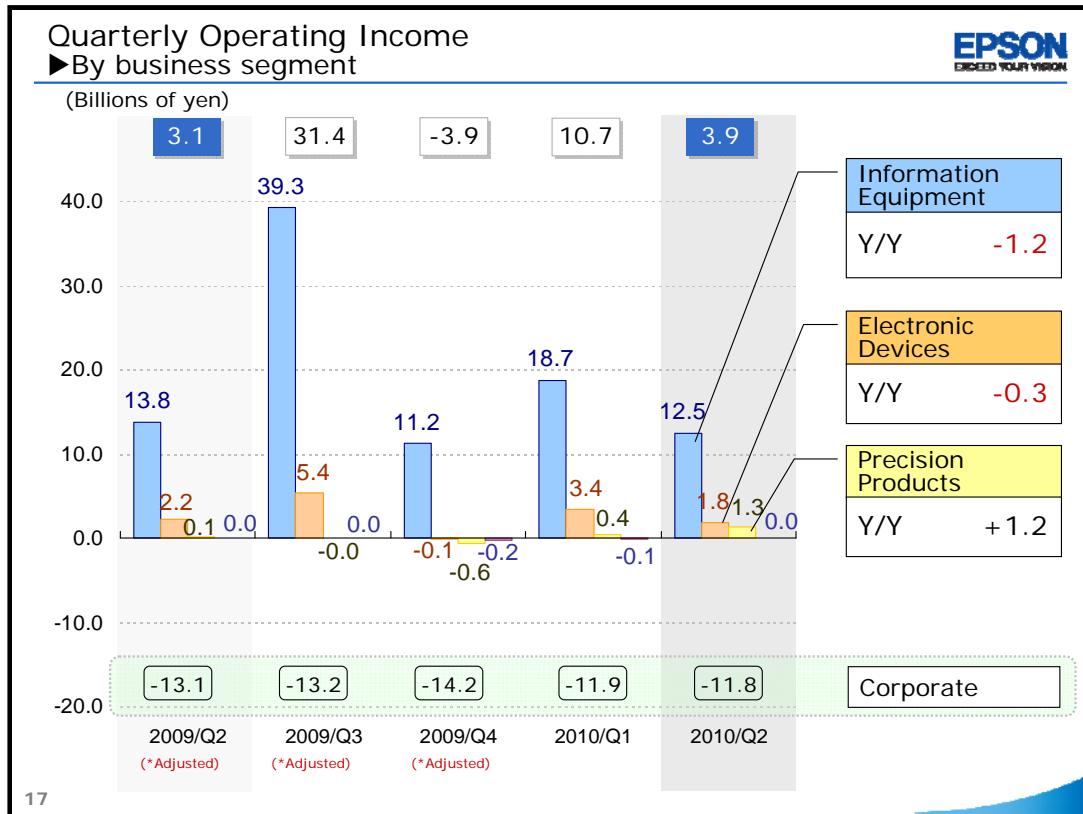


- Quarterly net sales in the electronic devices segment against the previous year results
- Quartz devices saw ASPs decline yet reported a ¥2.6 billion rise in net sales due to growth of unit shipments for mobile phones and digital home electronics.
- Semiconductor net sales were level year-over-year. Although we saw declines in unit shipments of products such as LCD controllers for mobile phones, these declines were offset by increases in silicon foundry orders and unit shipments of electronic paper display controllers.
- The display business reported a ¥7.1 billion year-over-year decline in net sales. Two primary factors are responsible for the decline. First, decreased net sales in the small- and medium-sized displays business, which is being restructured. And second, HTPS panel ASPs that fell at a pace that outstripped the increase in unit shipments.
- The electronic devices segment's net sales ended less than forecast. Results for semiconductors and displays were basically in line with the outlook, but unit shipments of crystal devices fell short of expectations in some applications.



■ Quarterly selling, general and administrative expenses

- Compared to the same period last year, SGA expenses declined by ¥3.4 billion, partly as a result of efforts to improve cost efficiency.

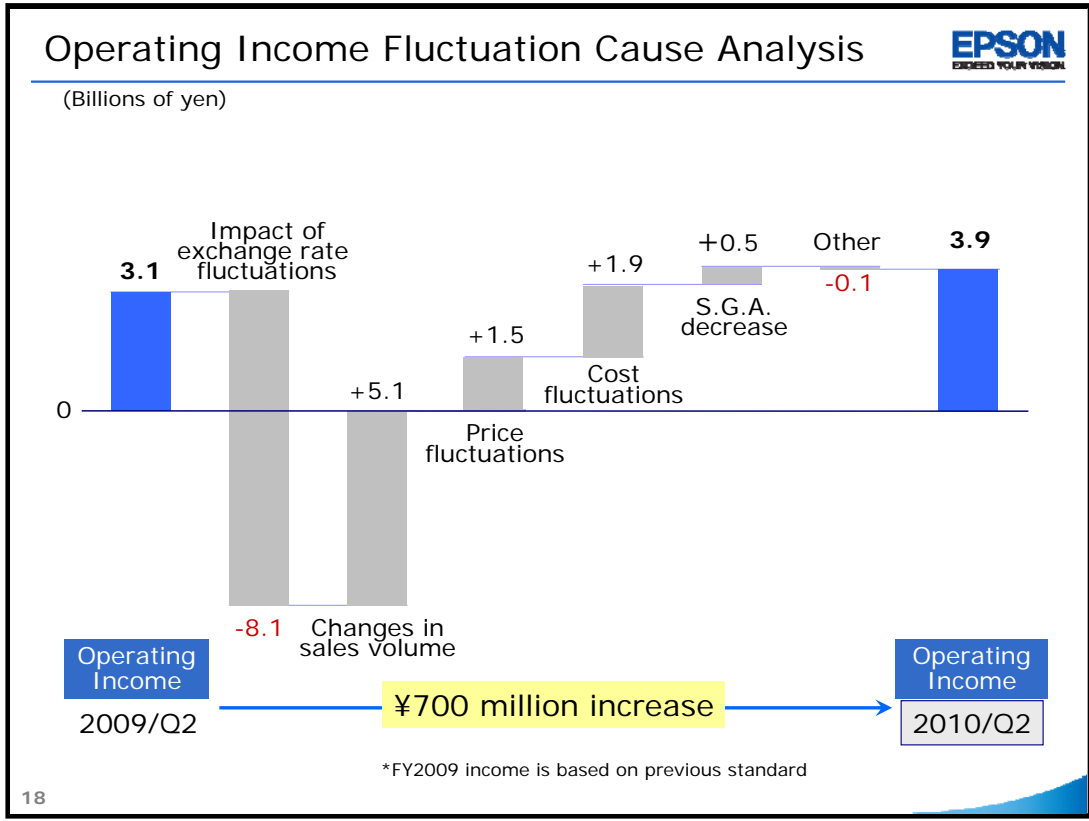


■ Breakdown of quarterly operating income by segment.

- Information-related equipment posted operating income of ¥12.5 billion, a decline of ¥1.2 billion year-over-year. Projector and business systems operating income was up on higher net sales. Meanwhile, inkjet printer operating income declined. Although we have been reducing costs by standardizing printer platforms, we began manufacturing more products during the second quarter than we did last year in preparation for the year-end shopping season, and this, combined with the effects of yen appreciation, led to the decline.
- Electronic devices operating income, at ¥1.8 billion, was basically flat year-over-year. Semiconductor operating income increased, mainly as a result of an improved model mix that led to higher ASPs, and cost-cutting. Quartz devices reported lower operating income despite higher net sales, as income was hurt by the effects of yen appreciation and a decline in ASPs. Displays business operating income was down on lower net sales.



- **Information-related equipment segment's operating income exceeded the outlook, while the electronic devices segment reported operating income fell slightly short of expectations.**
- **Operating income was higher than forecast in the information-related equipment for a couple of main reasons. One was that we improved the variable cost ratio and reduced costs across the board in the business systems and inkjet printer businesses. The other was that we continued to be extremely selective about expenditure to ensure that we invest in well-timed, more effective sales promotions in the upcoming year-end shopping season.**
- **The electronic devices segment's operating income was slightly less than forecast. Although income was boosted by high utilization rates and initiatives to reduce variable and fixed costs in the semiconductor business, the improvement was not enough to make up for the quartz device business, which missed its income target due to a decline in unit shipments.**



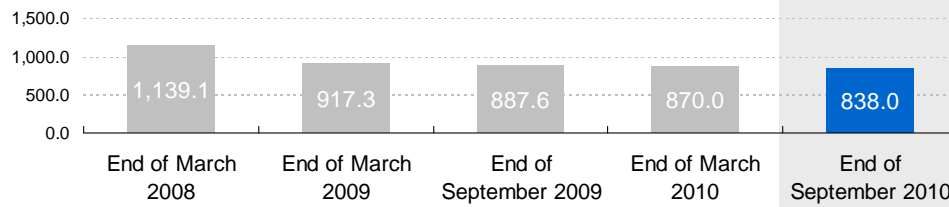
- Cause analysis of the ¥700 million increase in operating income compared to the same period last year.
- Operating income for the second quarter of the current fiscal year was ¥3.9 billion compared to ¥3.1 billion in the second quarter of fiscal 2009. The ¥8.1 billion negative effect of currency exchange on operating income was more than offset by positive contributions from volume fluctuations, cost fluctuations, and price fluctuations, which resulted mainly from successful efforts to tie demand to orders, improve earnings, and improve the model mix.

## Statistics of Balance Sheet Items

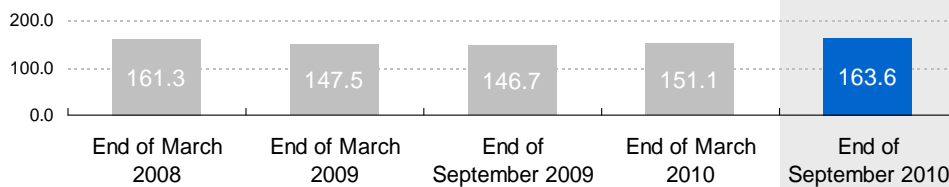


(Billions of yen)

### Total assets



### Inventories



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### ■ Statistics of balance sheet items

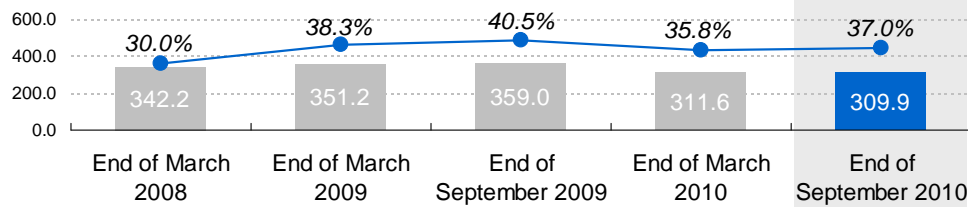
- **Total assets declined by ¥32 billion despite an increase in inventory as we prepared for the year-end shopping season, because we saw decreases in cash and deposits and, as we reined in capital expenditures, plant, property and equipment.**

## Statistics of Balance Sheet Items

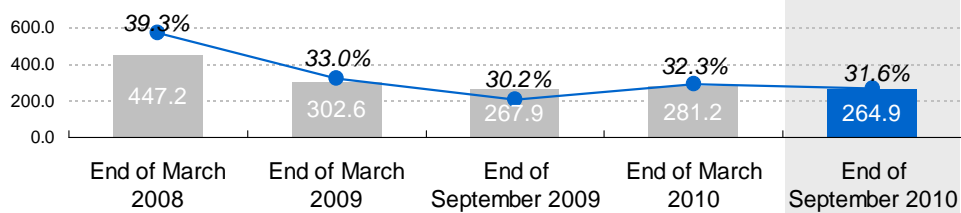


(Billions of yen)

### Interest-bearing liabilities & ratio of interest-bearing liabilities



### Shareholders' equity & equity ratio



\* Starting from FY2008, lease obligations were included in interest-bearing liabilities  
 \* Shareholder equity = total net assets - minority interests in subsidiaries

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### ■ Statistics of balance sheet items

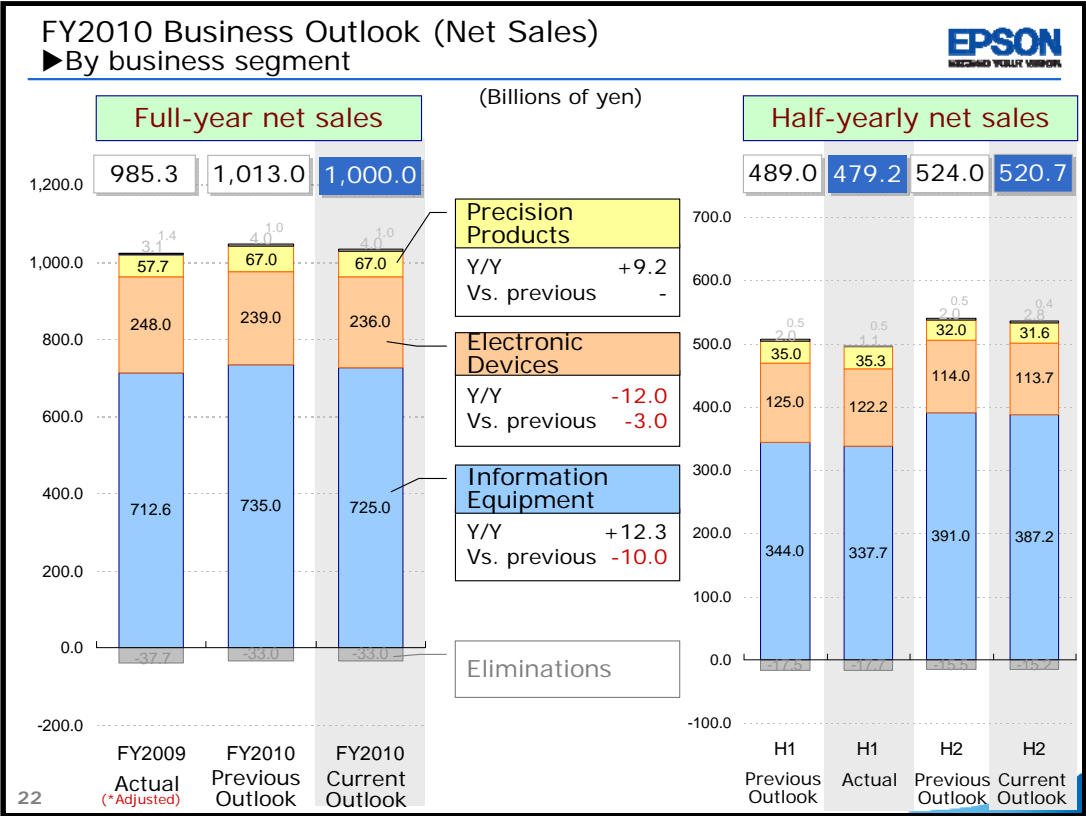
- **Even though we issued ¥20 billion in corporate bonds in September, interest-bearing liabilities declined by ¥1.7 billion compared to the end of previous fiscal year due to the repayment of loans.**  
**The ratio of interest-bearing liabilities to total assets was 37.0% and net interest-bearing liabilities were ¥85.1 billion.**
- **Shareholders' equity decreased by ¥16.3 billion. The equity ratio was 31.6%.**

1) FY2010 Q2 Financial Results

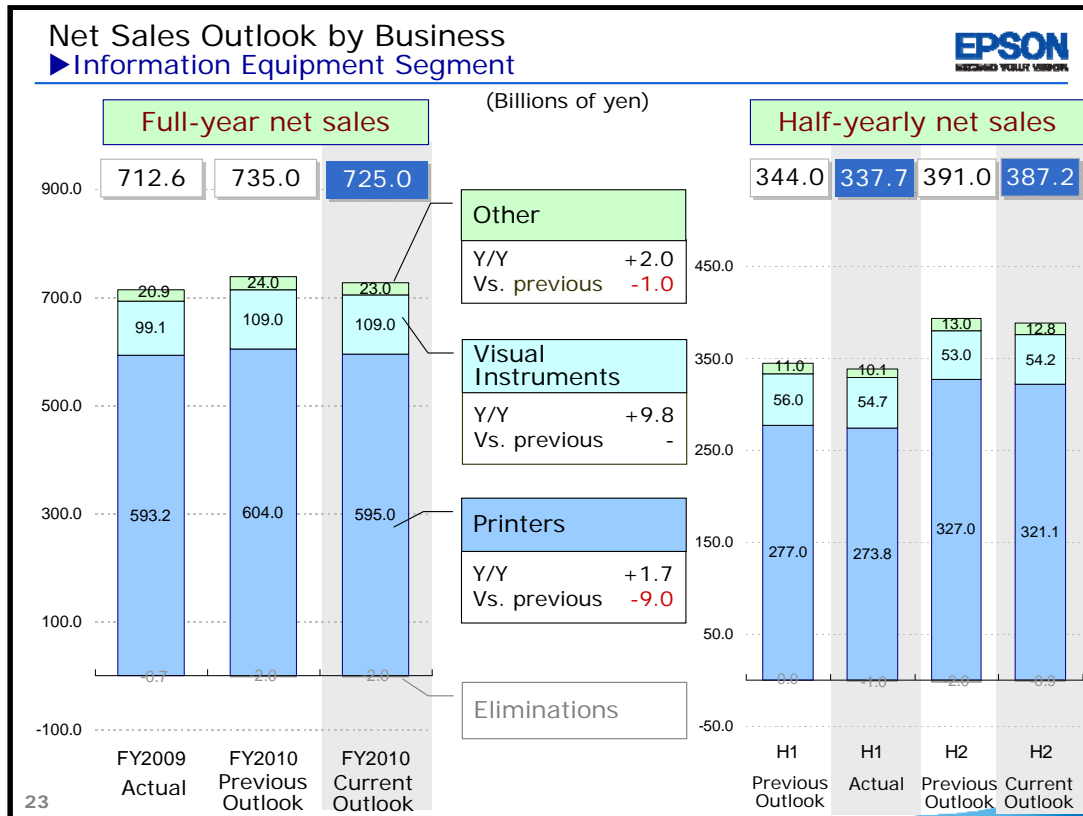
2) FY2010 Business Outlook

■ Fiscal 2010 business outlook



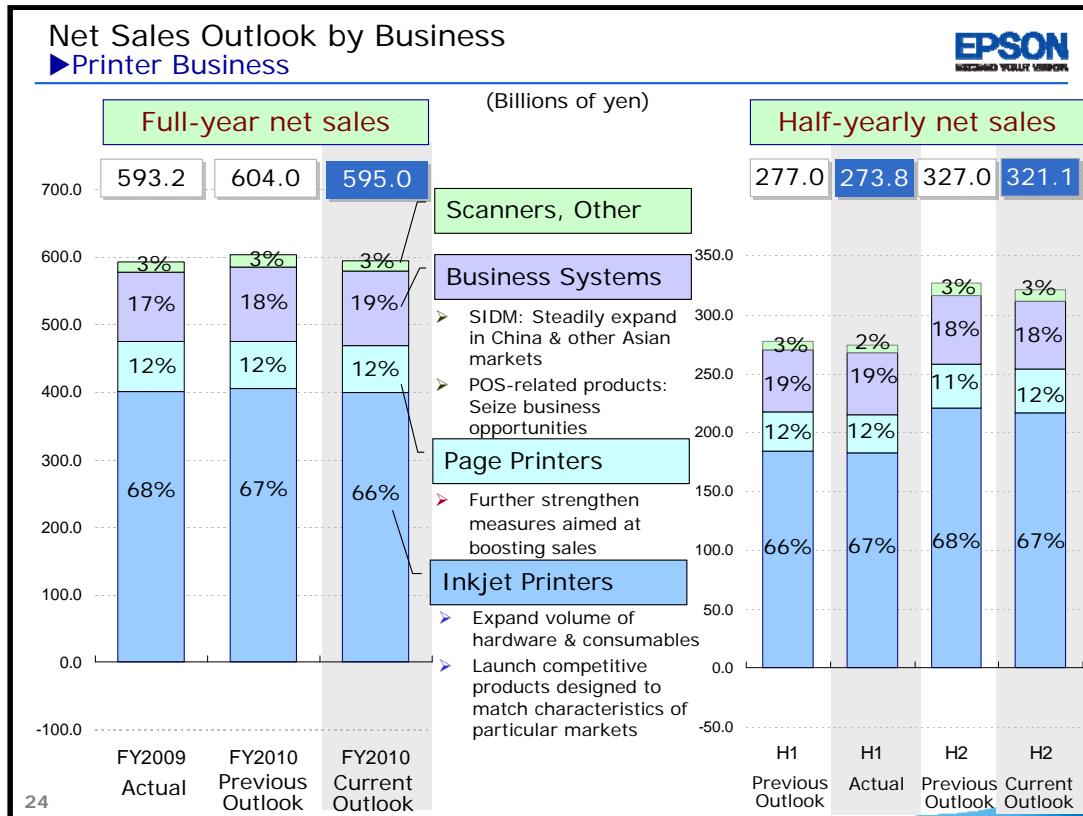


■ Net sales outlook for fiscal 2010 broken down by segment and by first half and second half



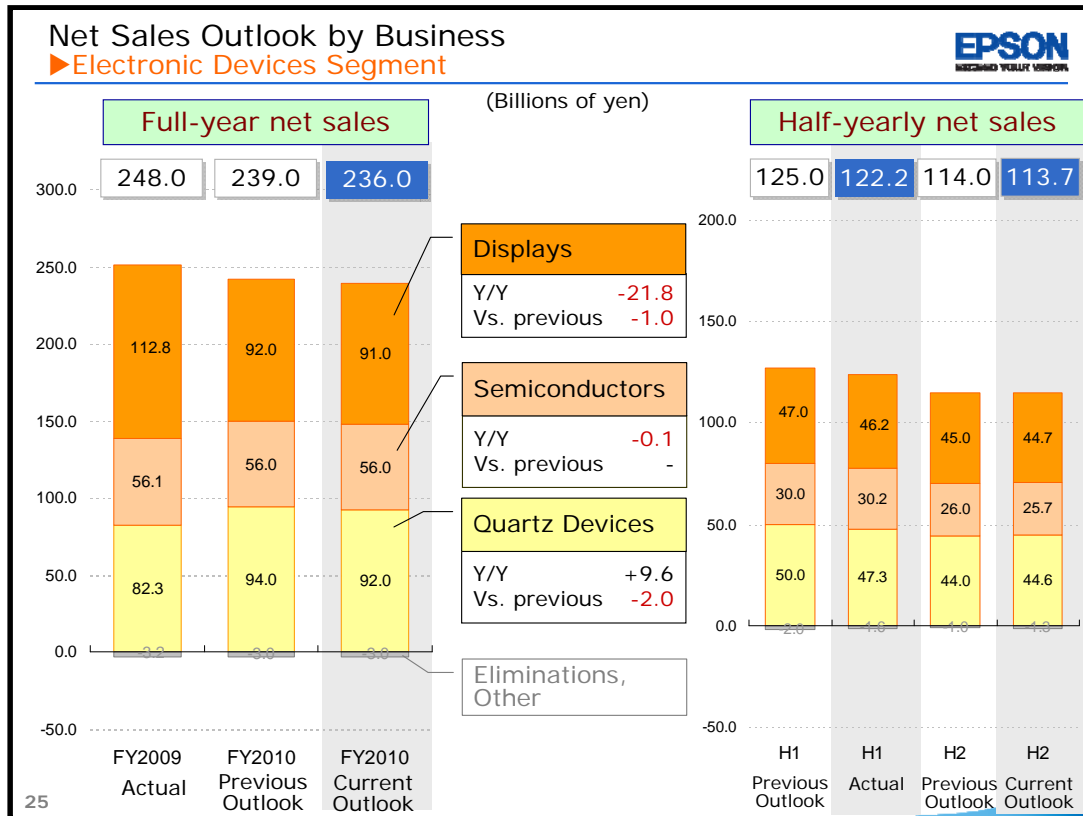
■ Breakdown of estimated net sales by business in the information-related equipment segment

- The visual instruments business expects continued steady demand in the second half in the projector market, particularly the market for business and education models. We will look to meet the full-year net sales outlook of ¥109 billion by capturing demand with a well-stocked lineup of products.

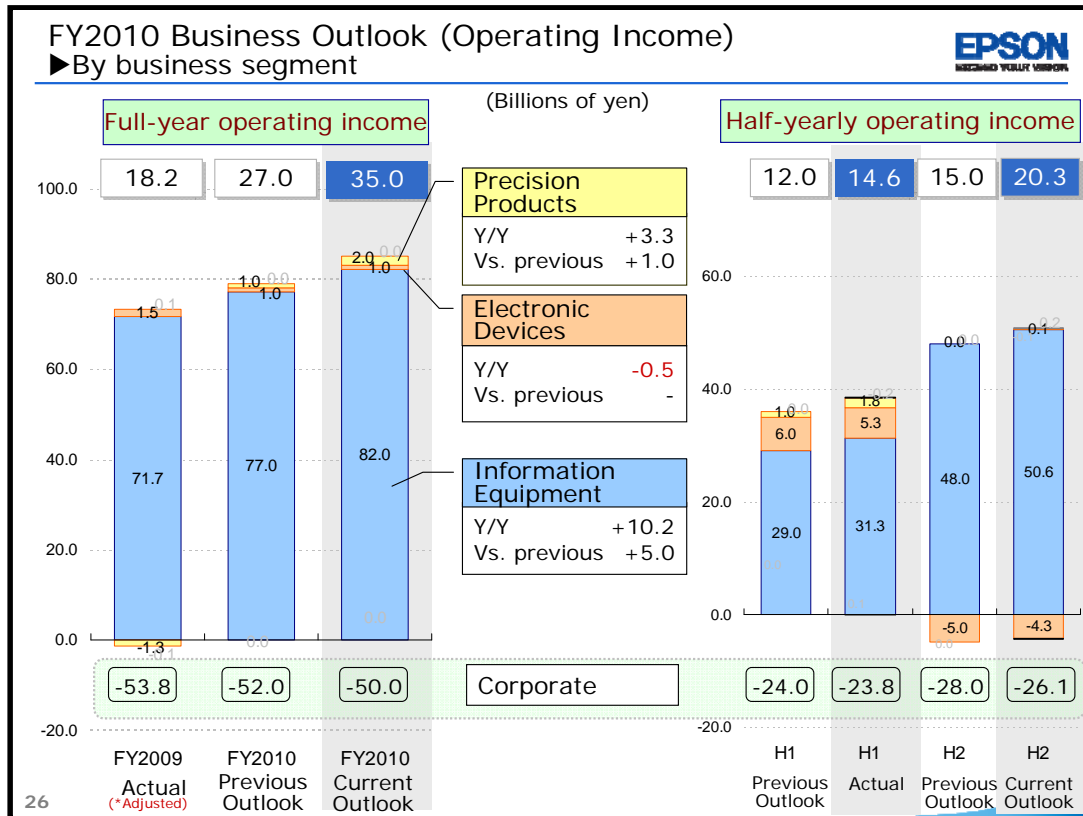


■ Breakdown of net sales in the printer business looks like this.

- **Second-half net sales will be slightly lower than previously forecast due to the adjustment of foreign exchange assumptions involving the US dollar, but there is no significant change in our strategic assumptions, either by business or by region.**



- Breakdown of estimated net sales by business in the electronic devices segment
- Every business in the segment is expected to record second-half net sales in line with the previous forecast by meeting near-term demand and by minimizing foreign exchange effects.



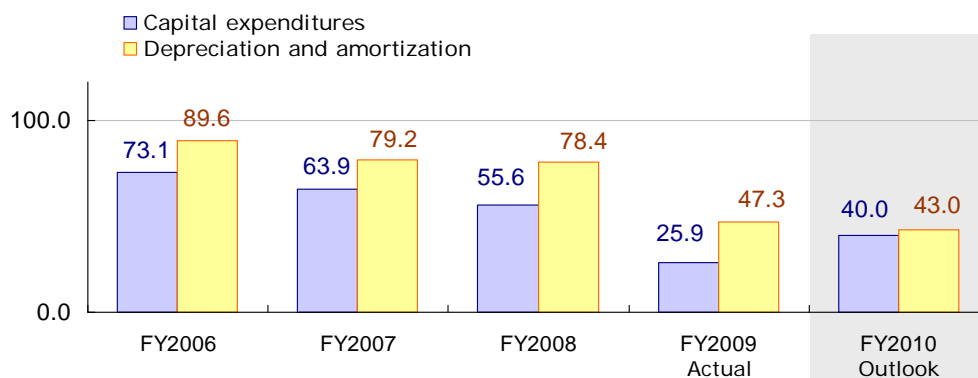
■ Fiscal 2010 full-year operating income outlook, with figures broken down by segment and by half

- In information-related equipment, we expect operating income to exceed the previous outlook, partly because demand for enterprise products remains steady but also because continued efforts to improve cost efficiency will offset the effects of yen appreciation.
- Electronic devices are expected to report operating income in line with the previous outlook.
- We are projecting a ¥2 billion improvement in corporate expenses for the full year.
- Research and development expenses and some other expenses were re-examined and, as a result, were factored into the current revised outlook.

## Outlook for Capital Expenditure and Depreciation & Amortization Expenses



(Billions of yen)



Breakdown by segment	FY2009 Actual		FY2010 Outlook	
	Cap. Ex.	D&A	Cap. Ex.	D&A
Information Equipment	12.5	24.4	20.0	23.0
Electronic Devices	9.8	10.4	13.0	10.0
Precision Products	1.8	3.9	3.0	4.0
Corporate/Other	1.6	8.5	4.0	6.0

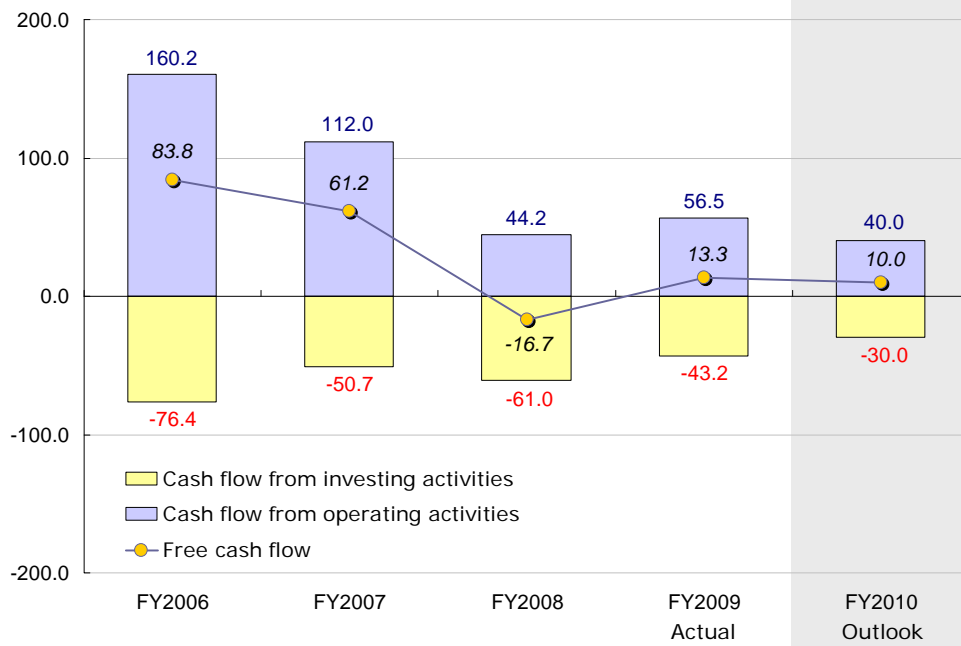
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- Outlook for capital expenditures and depreciation and amortization expenses.
- Capital expenditures were revised to ¥40 billion. Depreciation and amortization were revised to ¥43 billion.

## Free Cash Flow Outlook



(Billions of yen)

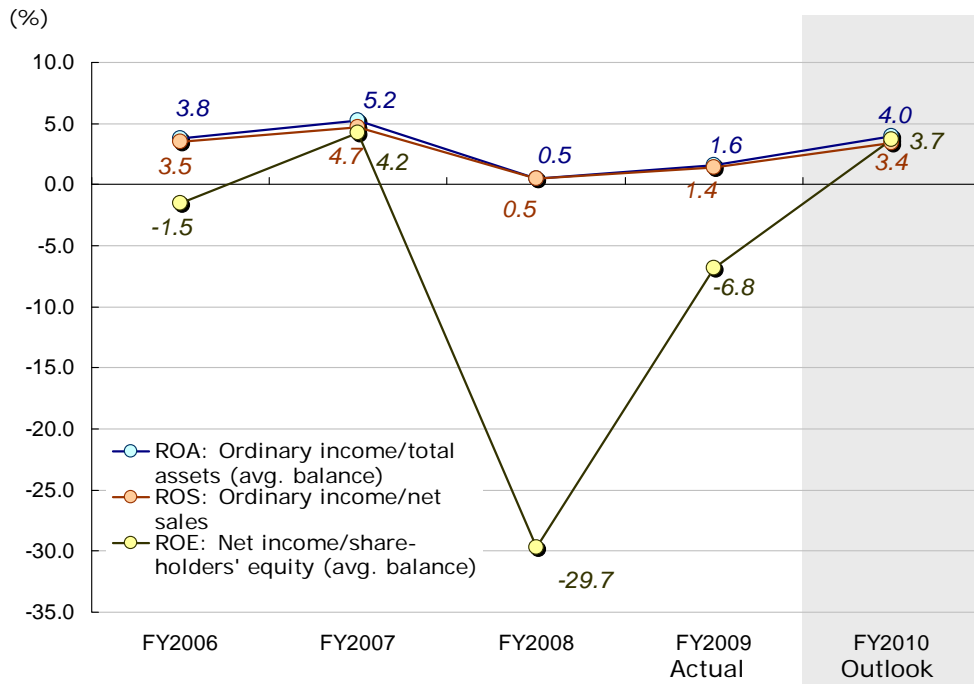


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### ■ Cash flows

- Due to the revised outlook for income and investment, the free cash flow outlook was revised from ¥5 billion to ¥10 billion.

## Main Management Indicators



### ■ Management performance indicators

- ROS was 3.4 %, ROA 4.0 %, and ROE 3.7 %.



**EPSON**  
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