



# Second Quarter Financial Results Fiscal Year 2011 (Ending March 2012)

October 28, 2011

**SEIKO EPSON CORPORATION**

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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.

## Changes to segment reporting

### FY2011

- With the aim of rapidly rebuilding and strengthening the manufacturing platform, the "Electronic Devices Segment" and "Precision Products Segment" have been consolidated under the new "Devices & Precision Products Segment."
- With the termination of operations in small- and medium-sized displays, profit and loss figures in this business will be consolidated under the "Other" segment from fiscal 2011 onward.

### Visual Products Operations Division (October 1 Organizational Change)

- The "Visual Instruments Operations Division" (projectors) of the information equipment segment and the "TFT (HTPS) business" of the devices and precision products segment were consolidated into the new "Visual Products Operations Division" under the information equipment segment to help ensure growth and expansion in the visual instruments domain.

\* In this presentation, FY2010 financial results and FY2011 financial results and forecasts have been restated to reflect the changes above

## ■ Changes to reporting segments

## Financial Highlights (First Half)



(Billions of yen)	FY2010		FY2011				Change (amount, %)	
	Actual	%	7/29 Outlook	%	Actual	%	Y/Y	Vs. 7/29 Outlook
Net Sales	479.2	-	452.0	-	425.5	-	-53.7 -11.2%	-26.4 -5.9%
Operating Income	14.6	3.1%	7.0	1.5%	6.7	1.6%	-7.8 -53.8%	-0.2 -3.2%
Ordinary Income	14.8	3.1%	5.0	1.1%	6.1	1.4%	-8.7 -58.6%	+1.1 +22.9%
Net Income Before Income Taxes	13.4	2.8%	-2.0	-0.4%	0.0	0.0%	-13.3 -99.3%	+2.0 -
Net Income	7.4	1.6%	-11.0	-2.4%	-4.3	-1.0%	-11.8 -	+6.6 -
EPS	¥37.33		-¥55.06		-¥21.89			
Exchange Rate	USD	¥88.95	¥81.00		¥79.82			
	EUR	¥113.85	¥114.00		¥113.80			

Previous outlook exchange rate assumptions from Q2 onward  
USD: ¥80.00, EUR: ¥110.00

4

### ■ Fiscal 2011 first half overview

- **First-half net sales were ¥425.5 billion, down ¥53.7 billion year over year. Operating income was ¥6.7 billion, down ¥7.8 billion. Net loss was ¥4.3 billion.**
- **Net sales were mainly impacted by the termination of the small- and medium-sized display business, the effects of the March earthquake and the weak dollar.**
- **Net sales were lower than in the outlook presented on July 29. They were hurt by an economic slowdown in Europe and the U.S., as well as by fierce competition. Operating income, however, was basically in line with expectations thanks to actions taken across the Epson Group to improve earnings.**

## FY2011 Business Outlook



(Billions of yen)	FY2010		FY2011				Change (amount, %)	
	Actual	%	7/29 Outlook	%	Current Outlook	%	Y/Y	Vs. 7/29 Outlook
Net Sales	973.6	-	970.0	-	910.0	-	-63.6 -6.5%	-60.0 -6.2%
Operating Income	32.7	3.4%	43.0	4.4%	33.0	3.6%	+0.2 +0.9%	-10.0 -23.3%
Ordinary Income	31.1	3.2%	40.0	4.1%	31.0	3.4%	-0.1 -0.6%	-9.0 -22.5%
Net Income Before Income Taxes	15.3	1.6%	30.0	3.1%	21.0	2.3%	+5.6 +36.5%	-9.0 -30.0%
Net Income	10.2	1.1%	17.0	1.8%	10.0	1.1%	-0.2 -2.3%	-7.0 -41.2%
EPS	¥51.25		¥85.09		¥50.15			
Exchange Rate	USD	¥85.72	¥80.00		¥77.00		<b>Current outlook exchange rate assumptions for FY2011/H2</b> USD: ¥75.00 EUR: ¥105.00	
	EUR	¥113.12	¥112.00		¥109.00			

Previous outlook exchange rate assumptions from Q2 onward  
 USD: ¥80.00, EUR: ¥110.00

5

### ■ Fiscal 2011 full-year financial outlook

- Given the first-half results and assuming an economic slowdown, further climbs in the yen, and heavier competition in the second half, we revised the full-year outlook.
- We downgraded our net sales outlook by ¥60 billion so that it now stands at ¥910 billion. Operating income is now seen in the range of ¥33 billion, or ¥10 billion less than previously forecast. We lowered our net income outlook to ¥10 billion.
- These figures are based on revised second-half foreign exchange rates of 75 yen to the U.S. dollar and 105 yen to the euro.
- Please note that the effects of the flooding in Thailand have not been factored into the latest outlook. Although Epson's quartz device manufacturing plant in Thailand has not suffered direct damage from the flooding, the disaster could cause supply chain problems affecting all businesses, so we continue to monitor the situation closely and will take such action as needed.

## Key Points of FY2011 Financials



### Launch Competitive New Products On Schedule

- 18 business inkjet printer models
- Compact inkjet printers (Small-in-One)
- Expand sales region for high-capacity inkjet printers
- Expand lineup of business & home projectors
- Expand lineup of business systems (SIDM & TM)

### Progress & Actions

- Competing with strong lineup in competitive Europe and America markets
  - Invest in sales as needed to ensure planned quantities
- Took care of disaster-related procurement problems by August
  - Ship by air to ensure quantities of new products for year-end shopping season

Reflected impacts and countermeasures in financial outlook, made steady progress on our basic strategy, and acquired a strong foothold for the second half onward

6

### ■ Key points of fiscal 2011 financials

- We have launched competitive new products on schedule for the year-end shopping season.
  - ✓ We have launched 18 new business inkjet printers around the world.
  - ✓ We have our new “small-in-one” inkjet printers with significantly reduced size.
  - ✓ We have expanded sales of our high-capacity ink tank printers to 29 countries and regions.
  - ✓ We have expanded our projector lineup.
  - ✓ We have also expanded our business systems lineup.
- We have also made progress in other areas.
  - ✓ We have assembled a strong lineup that will enable us to compete in the fiercely competitive European and American markets. We are investing as needed in sales and marketing to ensure we ship the planned quantities.
  - ✓ We took care of disaster-related inkjet printer component procurement problems by August, and we shipped products by air to ensure that we had sufficient quantities for the year-end shopping season.
- We have factored these actions and progress into our forecast.
- We are making steady progress in all our fundamental initiatives, and these will give us a solid foothold for next year.

## Information Equipment

### ■ Inkjet Printer Business

- This year's new products are receiving positive reviews
- Meet initial sales targets, and tie into further sales growth from FY2012 onward



Business Inkjet Printer



Compact Inkjet Printer

### ■ Projector Business

- Demand is slowing in European & U.S. education markets but is picking up in emerging markets
- Greatly enhance lineup by launching new products
- Leverage our No. 1 position to meet initial sales targets and increase our share



Standard Office Projector



3D Home Projector

7

### ■ Second-half initiatives

#### ➤ In inkjet printers:

- ✓ The market is responding very positively to this year's new business and "small-in-one" models.
- ✓ The actions we are taking will enable us to hit the 15-million unit sales target we set at the start of the fiscal year and will lead to further expansion in unit shipments beyond this year.

#### ➤ In projectors:

- ✓ Demand is slowing in European and American education markets due to cutbacks in government funding. On the other hand, demand is picking up in emerging markets.
- ✓ This year's products are more cost competitive than ever, and we fully expect to be able to go head to head against the DLP projector camp not only in Europe and the U.S., but also in emerging economies.
- ✓ We also introduced a 3D home projector.
- ✓ Our goal is to be the No. 1 projector company across the board. Toward this end, we have built up a lineup that spans every product category, we are pricing our projectors competitively, and we are providing world-class service and support. These strategic steps have us on track to meeting the unit sales target we set at the start of the year.

## Devices & Precision Products

### ■ Microdevices Business

#### (Quartz Devices, Semiconductors)

- Delayed recovery due to earthquake, economic slowdown, and strengthening yen
- Accelerate efforts to improve earnings
  1. Transfer quartz component assembly from Japan to overseas sites
  2. Shift workers to key areas in information equipment
  3. Consolidate semiconductor fabs at Sakata Plant
  4. Leverage semiconductor technology in quartz devices
    - Promote in-house production of semiconductors for quartz devices
    - Fully leverage assembly & packaging technologies

8

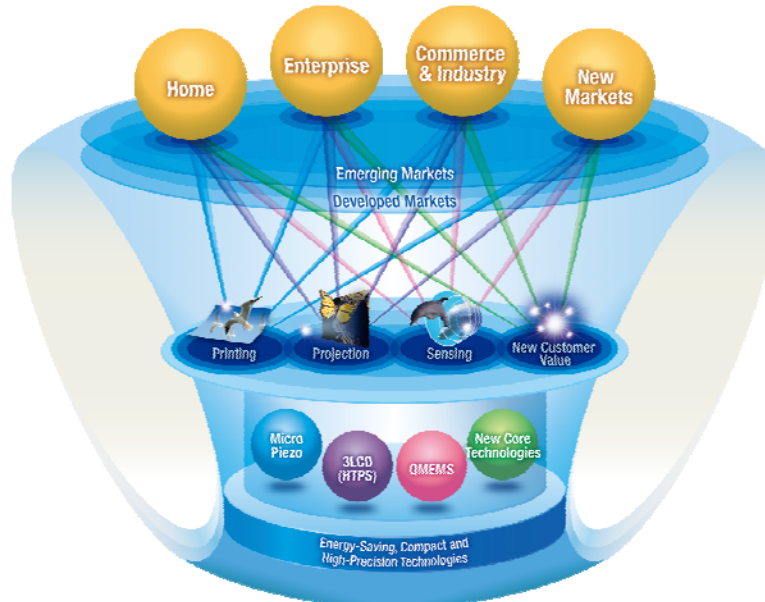
### ■ Second-half initiatives

#### ➢ In the Microdevices Operations Division:

- ✓ **The recovery in sales has been slower than expected. The earthquake and economic slowdown put a dent in unit shipments, while the strong yen has also taken its toll.**
- ✓ **In the second half we will accelerate our efforts to improve earnings and put us in a solid position to rebuild our business from next year by**
  - **transferring crystal device assembly offshore;**
  - **shifting personnel in Japan to key areas in information equipment;**
  - **consolidating semiconductor operations at the Sakata fab before the end of the current fiscal year;**
  - **and increasing internal production of semiconductors for use in crystal devices and deploying our semiconductor assembly and packaging technologies in our crystal devices.**



Focus on our core strengths and expand our customer base



■ Our SE15 long-range corporate vision

- ✓ **Micro Piezo, 3LCD, and QMEMS are core platform technologies for saving space, energy, and increasing precision. We will focus on these technologies to gain leverage in the printing, projection, and sensing domains, and will achieve sustained business growth by expanding our customer base in the home, enterprise, and commercial and industrial segments, in both advanced and emerging economies.**
- **This strategy is beginning to bear fruit.**
- **We are confident that we are on the right strategic direction, and will continue to stay the course.**
- **We are currently formulating the next three-year plan under the SE15 vision. We plan to present this plan in March 2012.**

1) FY2011 Q2 Financial Results

2) FY2011 Financial Outlook

## Financial Highlights (Second Quarter)

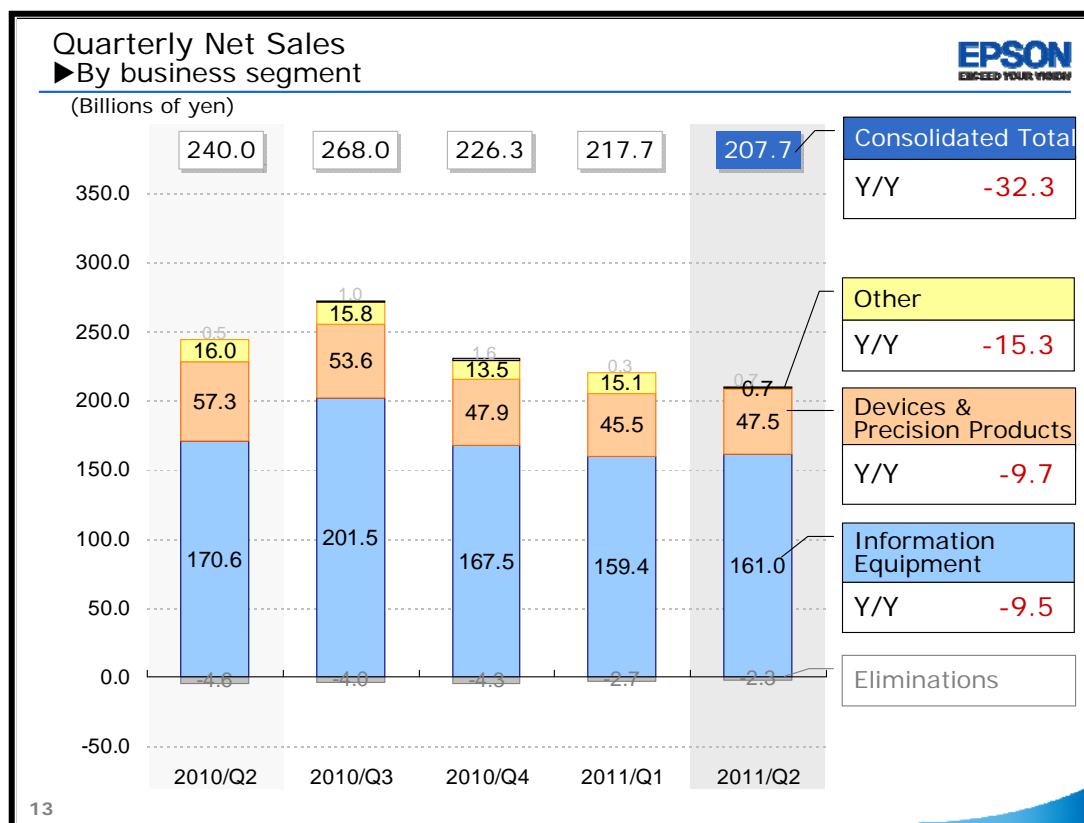


(Billions of yen)	FY2010		FY2011		Change	
	Q2 Actual	%	Q2 Actual	%	Amount	%
Net Sales	240.0	-	207.7	-	-32.3	-13.5%
Operating Income	3.9	1.6%	3.1	1.5%	-0.7	-19.9%
Ordinary Income	3.6	1.5%	3.7	1.8%	+0.1	+3.1%
Net Income Before Income Taxes	2.7	1.1%	-0.4	-0.2%	-3.1	-
Quarterly Net Income	-0.4	-0.2%	-1.1	-0.6%	-0.6	-
EPS	-¥2.43		-¥5.75			
Exchange Rate	USD	¥85.90	¥77.89			
	EUR	¥110.70	¥110.19			

12

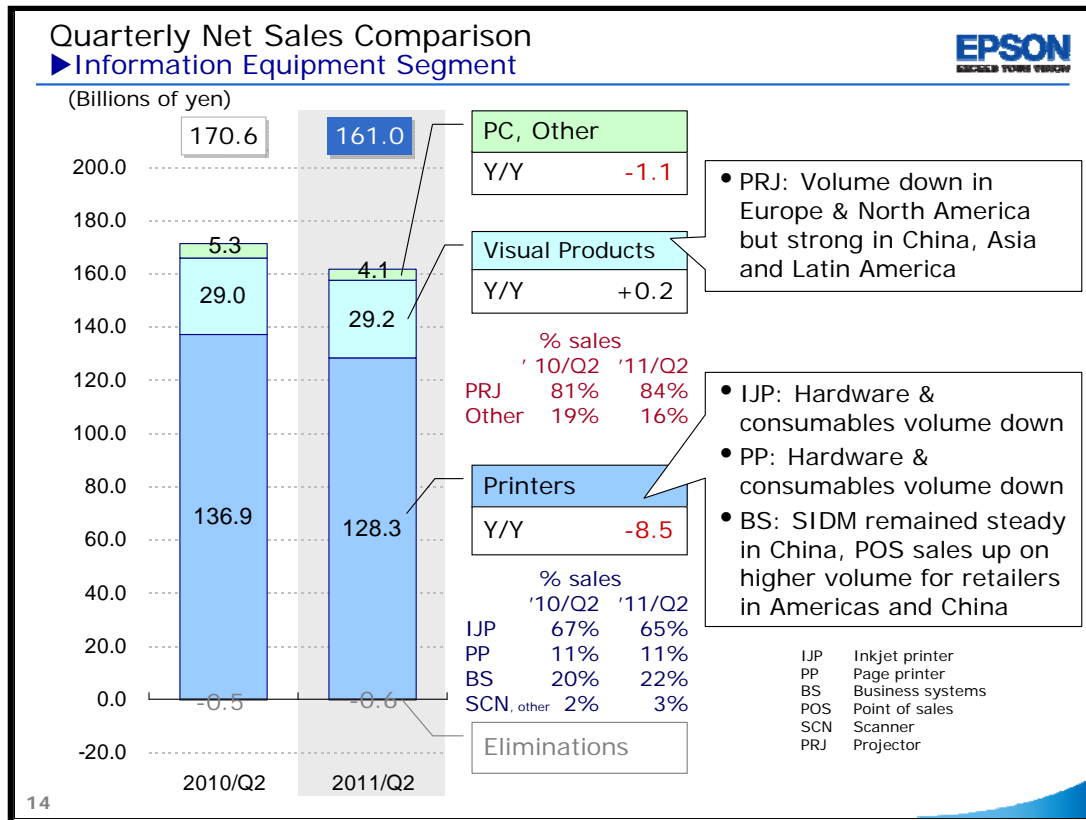
### ■ FY2011 Q2 financial highlights

- Net sales were ¥207.7 billion, down ¥32.3 billion year over year. Operating income was basically flat year-over-year, at ¥3.1 billion. Net loss was ¥1.1 billion.
- The March 11 earthquake and tsunami had an estimated ¥11.6 billion negative impact on net sales and a ¥4.5 billion negative impact on operating income in the second quarter. The yen's rise cost us approximately ¥6.7 billion in net sales and ¥1.5 billion in operating income.



■ **Net sales for consecutive quarters in each segment**

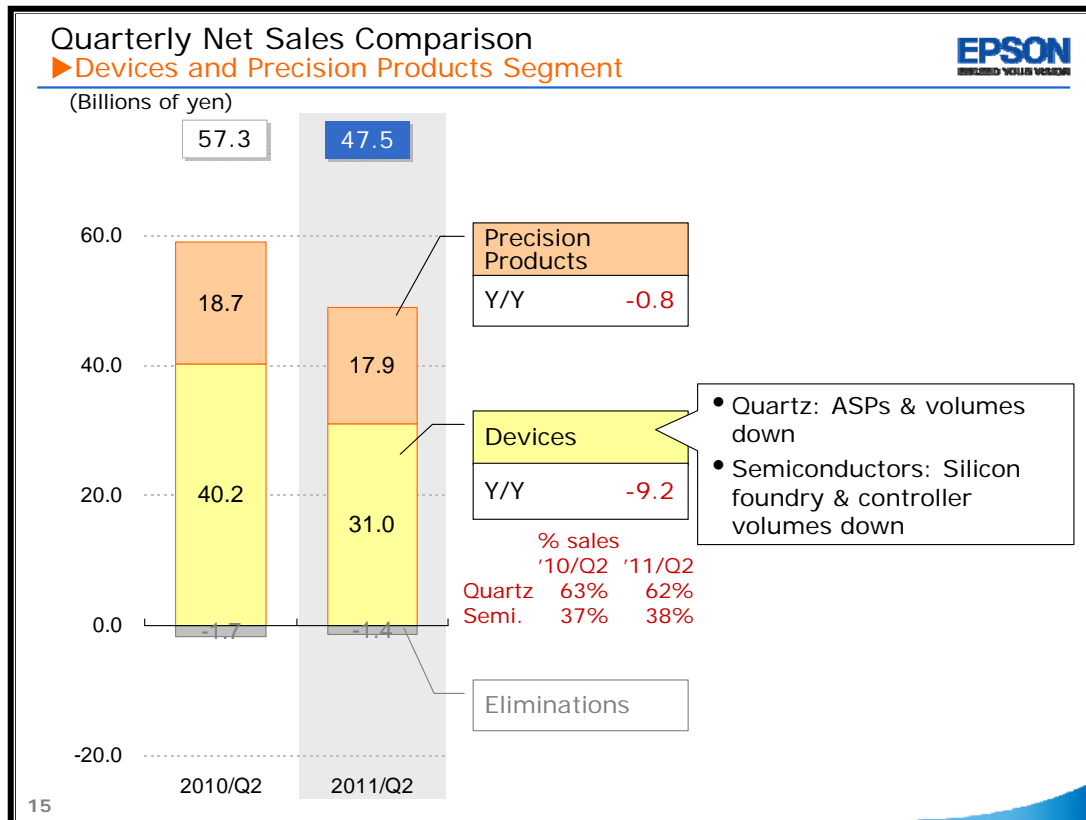
- **Information equipment net sales declined by ¥9.5 billion, and devices and precision products net sales declined by ¥9.7 billion year over year.**
- **The evaporation of net sales in the Other segment is due to the termination of the small- and medium-sized displays business.**



■ Quarterly net sales in the information-related equipment segment

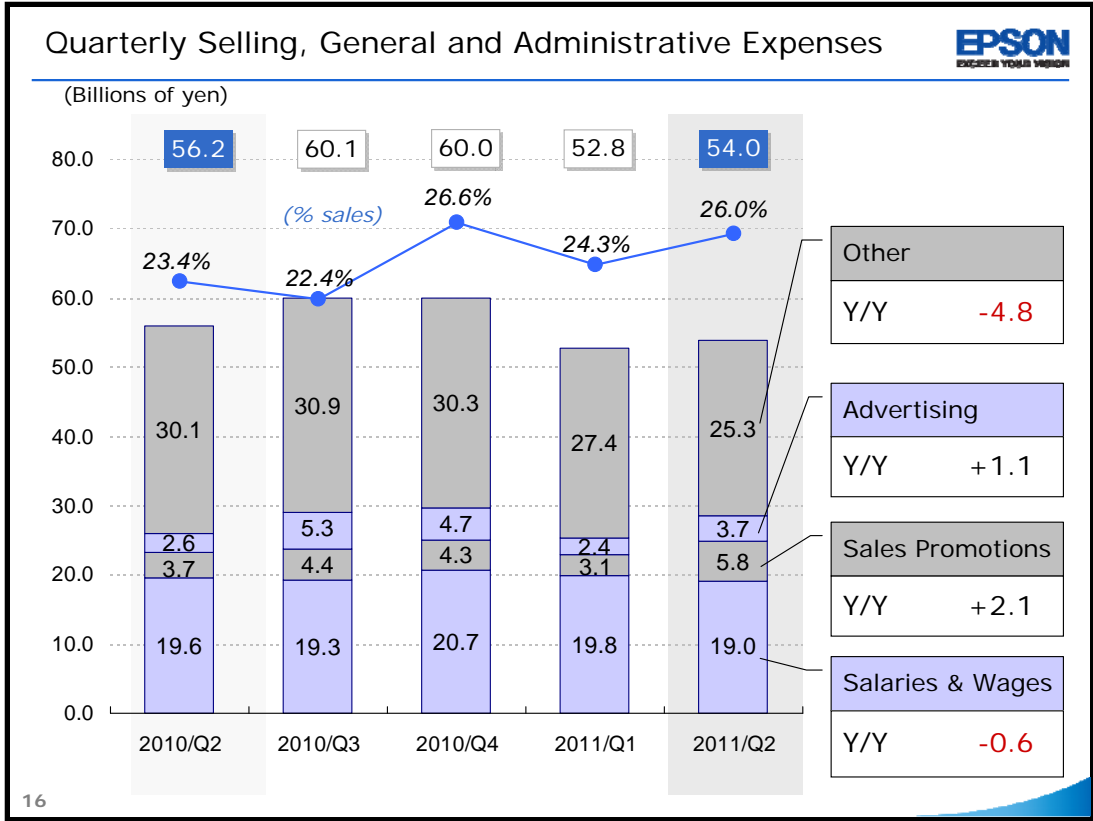
- The printer business as a whole posted an ¥8.5 billion decline in net sales.
- Inkjet printer net sales declined due to lower unit shipments of both printers and consumables.
- The printer market expanded in Europe and Japan, but trended sideways in the Americas. Although Epson increased the number of shipments to the Japanese market compared to last year, unit shipments shrank in the Americas, Europe, and Asia. This was due to competitive pricing by rivals, as well as to the effects of the earthquake, which disrupted parts procurement and constrained our production and supply operations. Inkjet consumables volume declined as a result of the fall in printer sales, but has started to rebound gradually in Japan and the Americas.
- Page printer net sales declined due to a drop-off in hardware and consumables volume, in part because of insufficient product supply in the aftermath of the earthquake.
- 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 the Americas and China.
- In Visual Products we saw net sales growth, as 3LCD projector sales in Latin America, China, and other Asian markets more than made up for a drop in HTPS unit shipments to external customers and a decline in unit shipments of 3LCD projectors to the education markets in America and Western Europe.

- **Against the outlook guidance**
- **Inkjet printer net sales ended lower than forecast. Hardware unit shipments fell short, especially in Europe, but we did see benefits emerge from promotions to counter our rivals' pricing offensives and from the launch of some very competitive new products for the year-end shopping season. Consumables net sales also ended below guidance because of lower than expected printer unit sales.**
- **In Business Systems, net sales were slightly less than forecast even though SIDM printer sales in China and POS product sales in the Americas and China were steady. The shortfall in net sales was a result of lower than expected volume in Europe.**
- **Page printer net sales were essentially in line with our forecast.**
- **Visual Products net sales were lower than forecast. The reason for this is that, even though projector unit shipments grew in China and other parts of Asia, we did not ship as many units as expected in Europe and America, where cutbacks in government spending on education hurt demand.**
- **Net sales for the information equipment segment as a whole came in lower than forecast.**



■ Quarterly net sales in the Devices and Precision Products Segment

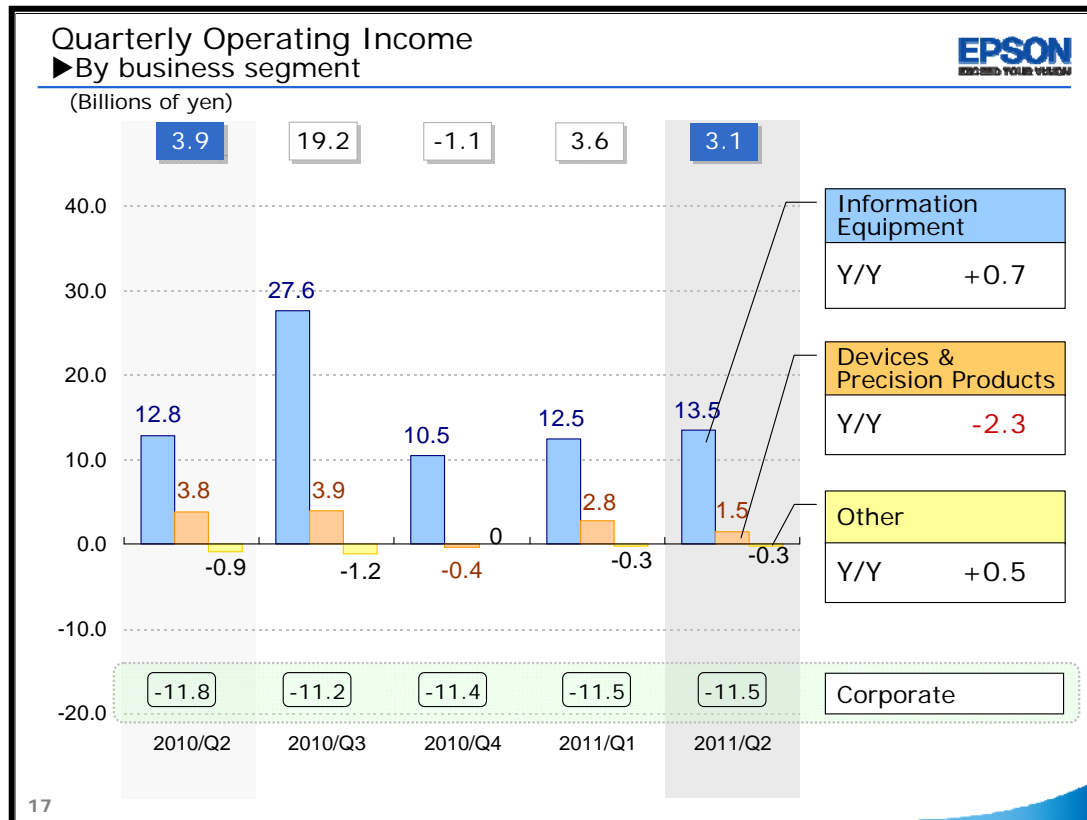
- Net sales in quartz devices declined because of a drop in average selling prices and because of lower demand in the aftermath of the earthquake.
- Semiconductor net sales fell because, in addition to a dip in silicon foundry volume, controller unit shipments fell.
- Against the outlook guidance
- Net sales in this segment were lower than forecast, as demand for semiconductors and other devices did not rebound to the levels anticipated, resulting in a decline in unit shipments.



■ Quarterly selling, general and administrative expenses

- Sales promotion and advertising expenses increased in conjunction with an aggressive campaign to expand sales in the year-end shopping season. Total SGA expenses, however, declined thanks to ongoing efforts to improve spending efficiency.





■ Breakdown of quarterly operating income by segment

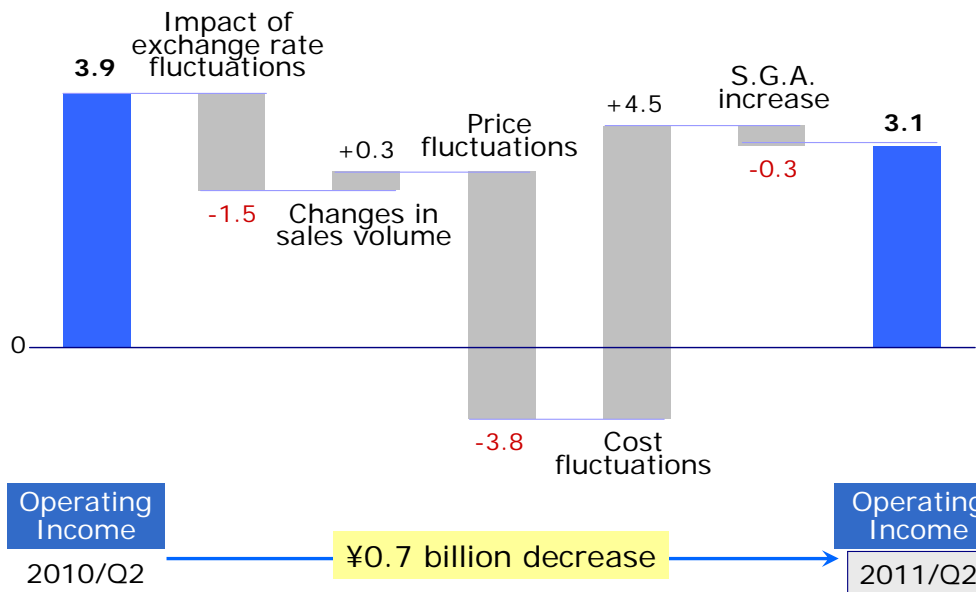
- Information equipment operating income was basically flat year-over-year, at ¥13.5 billion.
- Inkjet printers posted higher operating income compared to last year. A decline in shipments of consumables was offset by the effects of cost cutting and fixed cost reductions.
- Operating income from business systems, page printers, and visual products showed flat year-over-year growth.
- Devices and precision products reported ¥1.5 billion in operating income, down ¥2.3 billion year over year.
- Semiconductor operating income decreased as a result of a drop in net sales and a lower production capacity utilization rate.
- In quartz devices, selective, efficient investment kept operating income at about the same level as last year despite a decline in net sales.

- **Against the outlook guidance**
- **The information equipment segment and the devices and precision products segment underperformed versus the outlook, but, by spending our budgets effectively across the board, we managed to post total consolidated operating income that was very close to our forecast.**
- **In the information equipment segment, operating income in business systems, page printers, and visual products was in line with expectations, but inkjet printer operating income fell below plan despite spending constraints, as sales of consumables were lower than anticipated.**
- **Devices and precision products recorded lower operating income than was forecast, mainly because semiconductor revenue was below expectations.**

## Operating Income Fluctuation Cause Analysis



(Billions of yen)



18

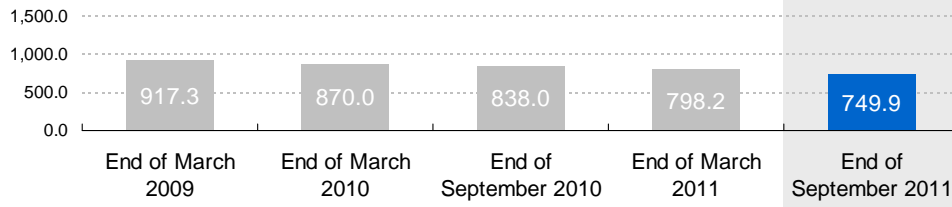
- Cause analysis comparing operating income to the same period last year
- Quarterly operating income was ¥3.1 billion versus ¥3.9 billion in the second quarter of fiscal 2010. Downward cost fluctuations contributed positively to operating income, but prices fluctuated downward, hurting income.

## Statistics of Balance Sheet Items

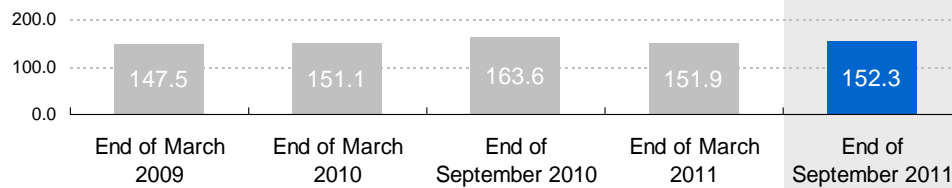


(Billions of yen)

### Total assets



### Inventories



19

#### ■ Major balance sheet items

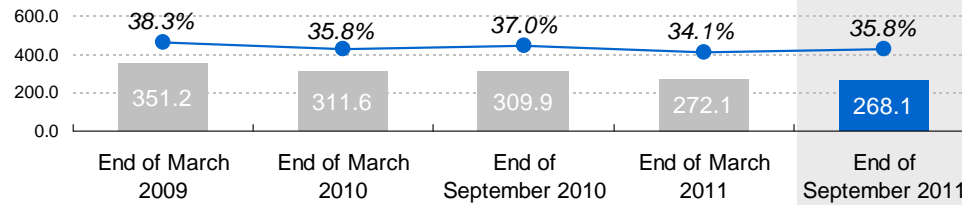
- **Total assets decreased by ¥48.2 billion. In addition to a decrease in cash and deposits and a decrease in notes and accounts receivable, total assets shrank because of a decline in property, plant, and equipment as a result of continued rigorous screening and selection of capital investments.**

## Statistics of Balance Sheet Items

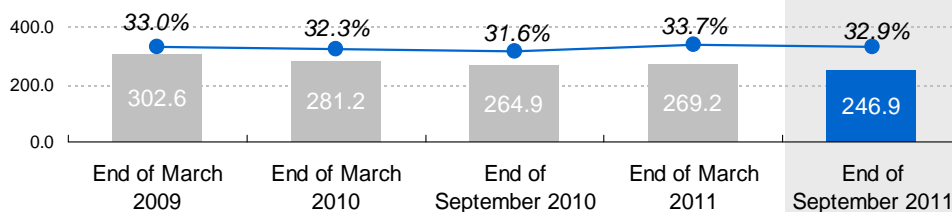


(Billions of yen)

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



### Shareholders' equity & equity ratio



\*Lease obligations are included in interest-bearing liabilities

\*Shareholder equity = total net assets - minority interests in subsidiaries

20

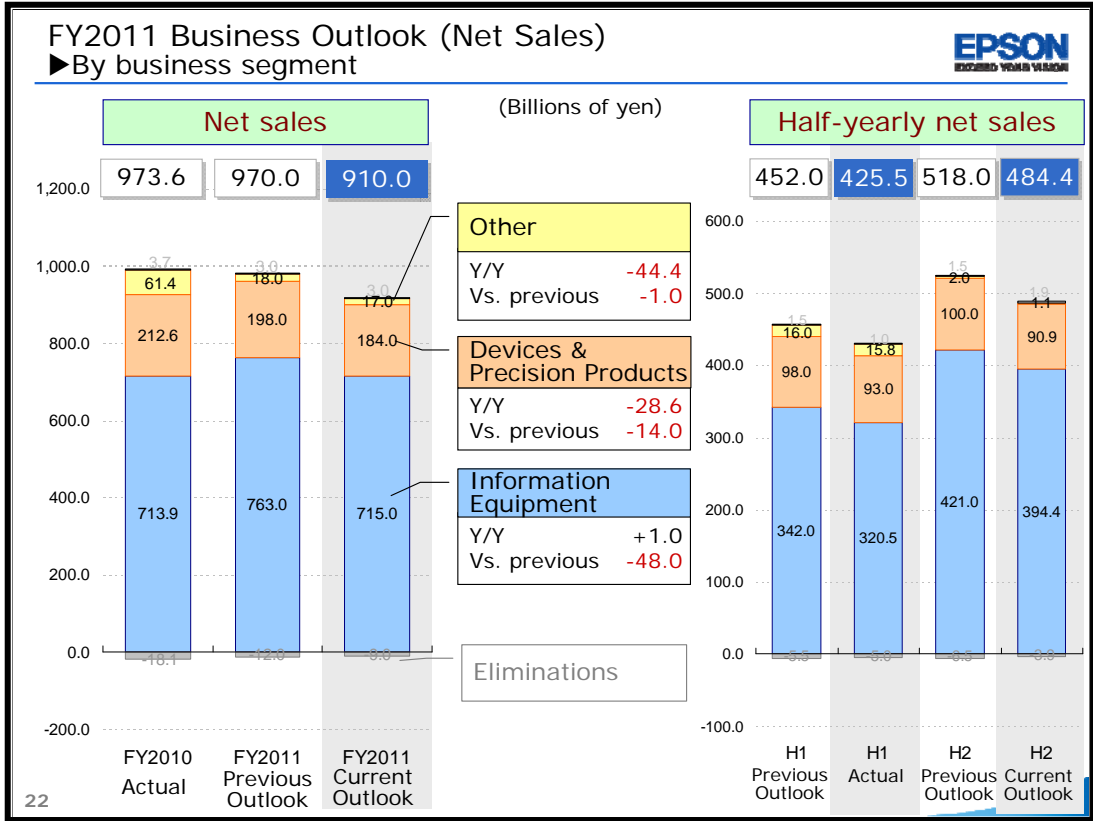
### ■ Major balance sheet items

- **Interest-bearing liabilities decreased by ¥4.0 billion from the end of the previous fiscal year. This was the result of a corporate bond issue and the repayment of loans. The ratio of interest-bearing liabilities to total assets was 35.8%. Net interest-bearing liabilities were ¥83.1 billion.**
- **Shareholders' equity, hurt by the effects of the strong yen on foreign currency translations, fell by ¥22.3 billion. As a result, the equity ratio was 32.9%.**

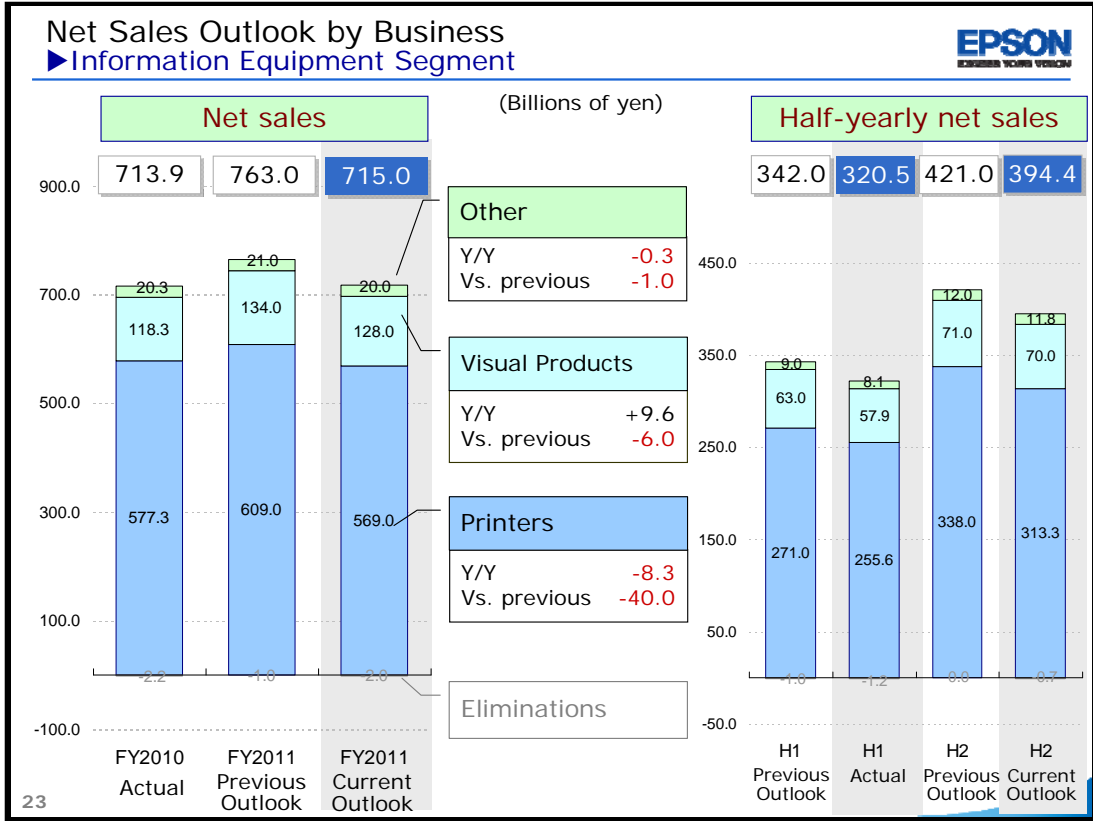
1) FY2011 Q2 Financial Results

2) FY2011 Financial Outlook

■ Fiscal 2011 business outlook

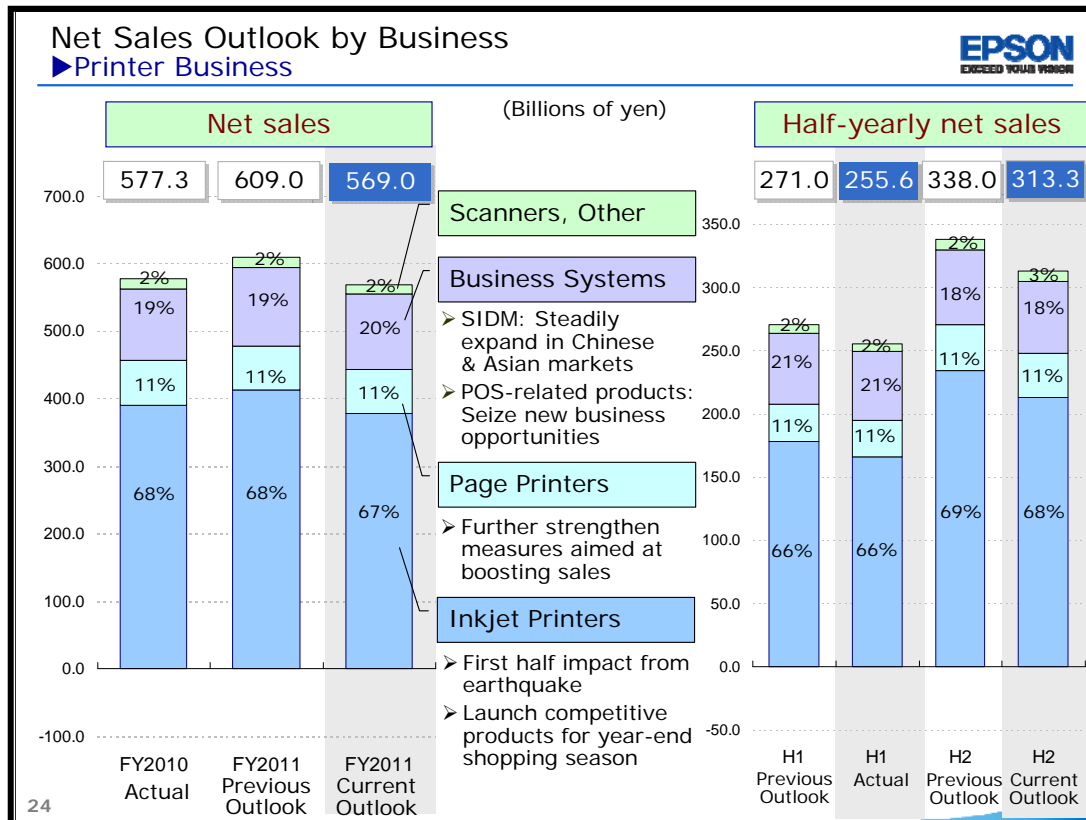


- Net sales outlook for fiscal 2011 broken down by segment and by first half and second half
- We revised the second-half net sales forecasts for both information equipment and devices and precision products.



- Breakdown of net sales in the information equipment segment outlook
- We lowered our second-half net sales outlook in Visual Products. This reflects the forecast for external sales of HTPS panels, and not projector net sales, which should be in line with the previous outlook thanks to our improved product lineup.



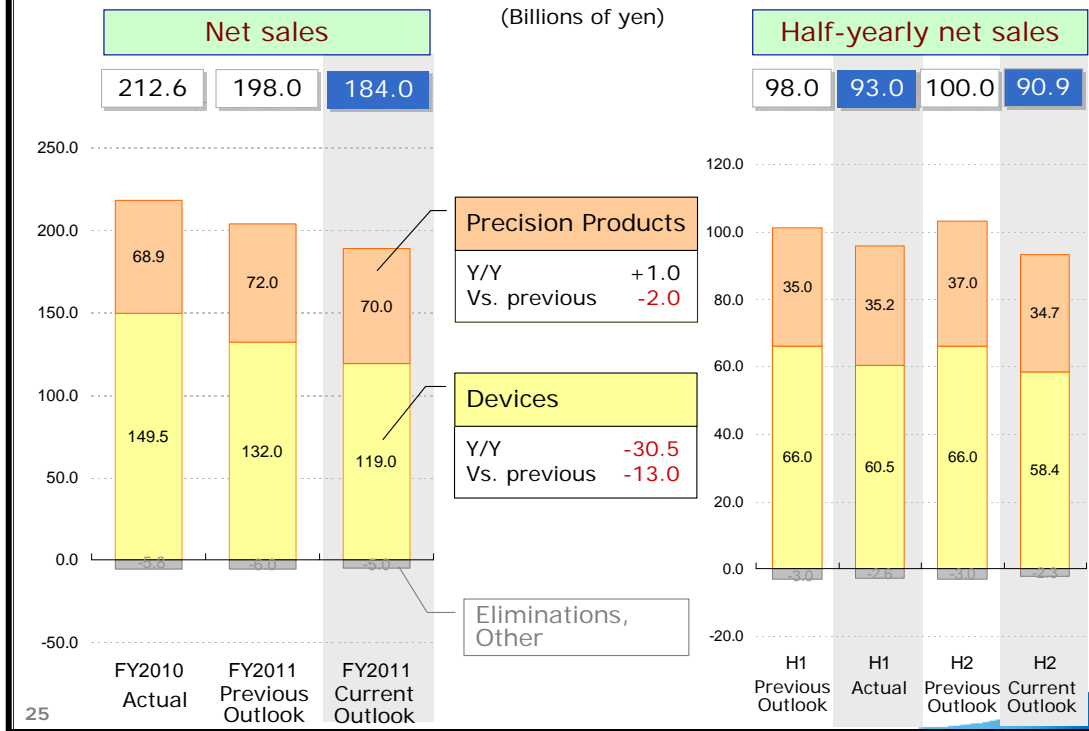


■ Breakdown of net sales outlook in the printer business

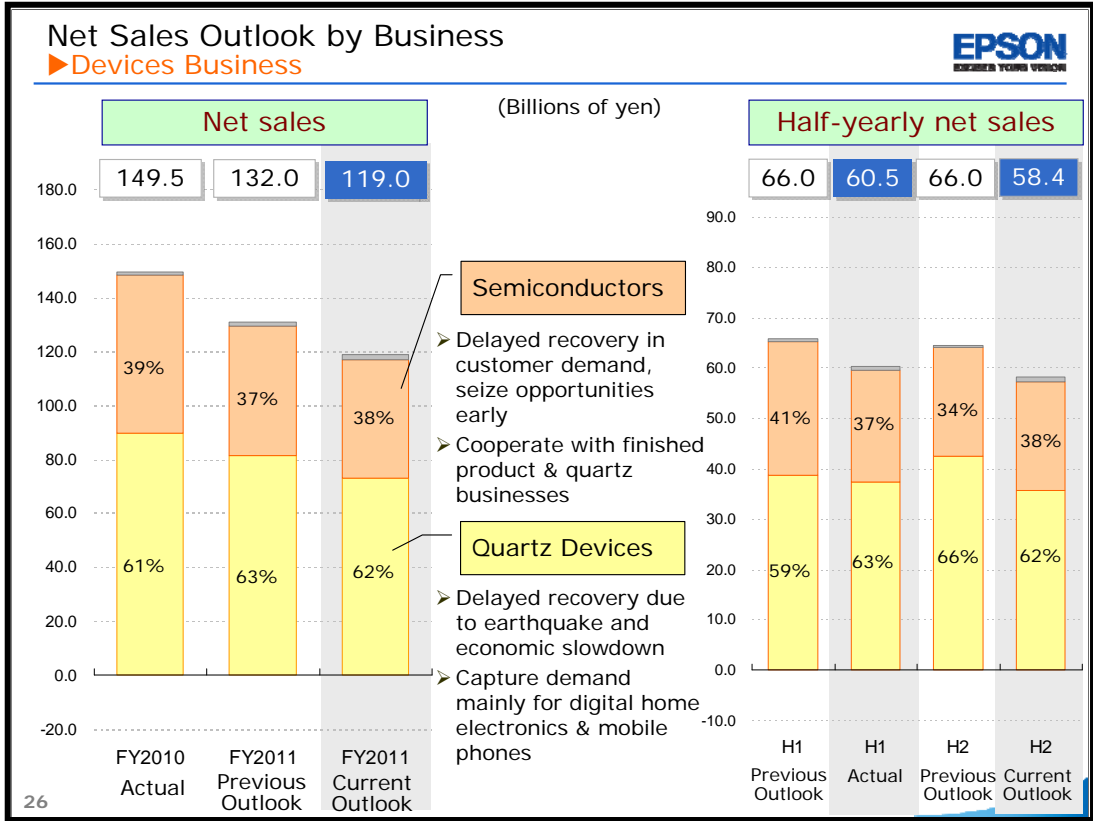
- We have cut our second-half net sales outlook for inkjet printers. Although we are aggressively selling competitive new models in an effort to hit the 15-million unit target we set at the beginning of the year, we cut the outlook to reflect the need to be flexible about reducing prices depending on the competitive landscape, and the effects of foreign exchange.
- Page printer and business system net sales are expected to remain steady across the second half.

# Net Sales Outlook by Business

## ► Devices & Precision Products Segment

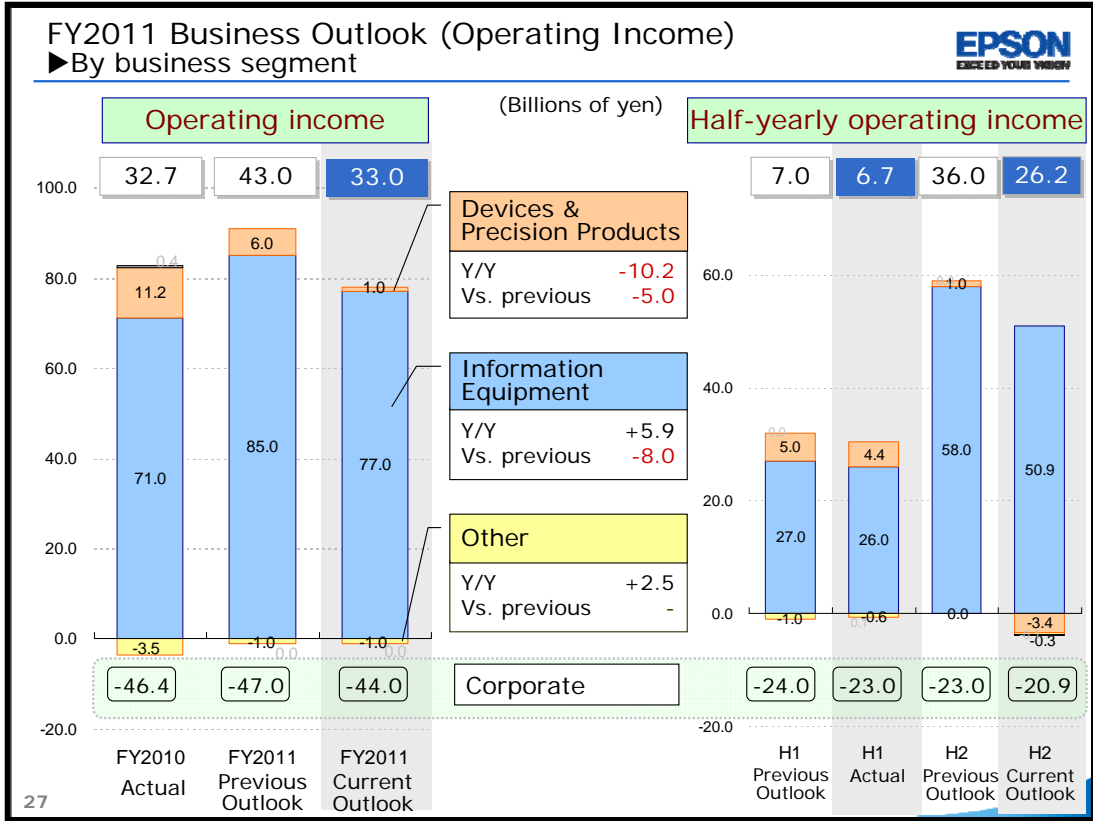


■ Breakdown of net sales outlook in the devices and precision products segment



■ **Breakdown of net sales in the devices business**

- **The second-half outlook for semiconductors has not changed, but we did lower our second-half net sales outlook for quartz devices after taking into account the slow recovery in demand due to the effects of the earthquake and economic slowdown, and because of foreign exchange effects.**



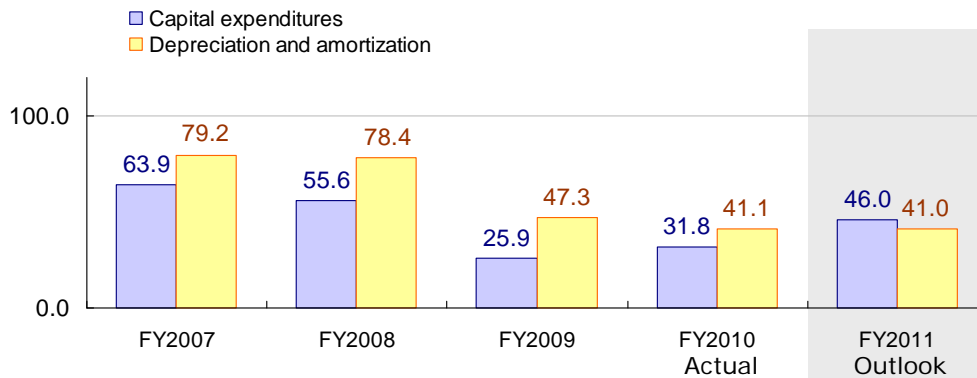
■ Forecast for operating income in each segment

- We revised the second-half income outlook downward in both segments.
- The latest outlook for information equipment factors in the impact of lowered net sales expectations on income, as well as the effects of the strong yen.
- Also factored into the outlook are an increase in logistics costs and investments in sales and marketing that we will need to make in order to counter competitors' promotional campaigns in the inkjet printer market.
- For devices and precision products we factored in the impact on income of the lowered net sales expectations in quartz devices.

## Outlook for Capital Expenditure and Depreciation & Amortization Expenses



(Billions of yen)



Breakdown by segment	FY2010 Actual		FY2011 Outlook	
	Cap. Ex.	D&A	Cap. Ex.	D&A
Information Equipment	18.6	24.5	31.0	25.0
Devices & Precision Products	10.2	10.1	9.0	11.0
Other/Adjustments	2.9	6.3	6.0	5.0

28

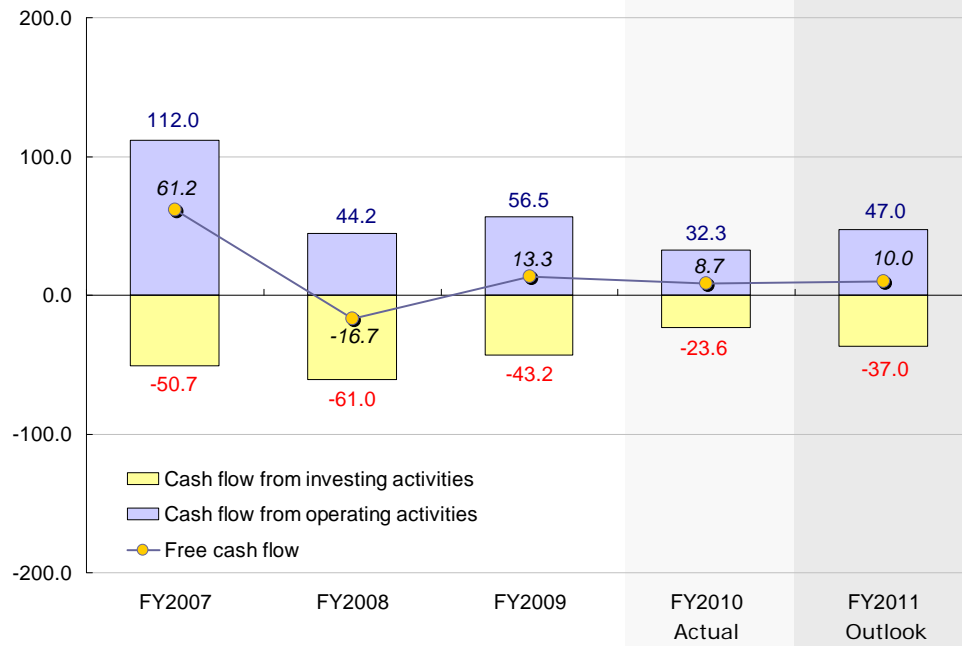
### ■ Outlook for capital expenditures and depreciation expenses

- Capital expenditures were revised to ¥46 billion. Depreciation and amortization were revised to ¥41 billion.

## Free Cash Flow Outlook



(Billions of yen)

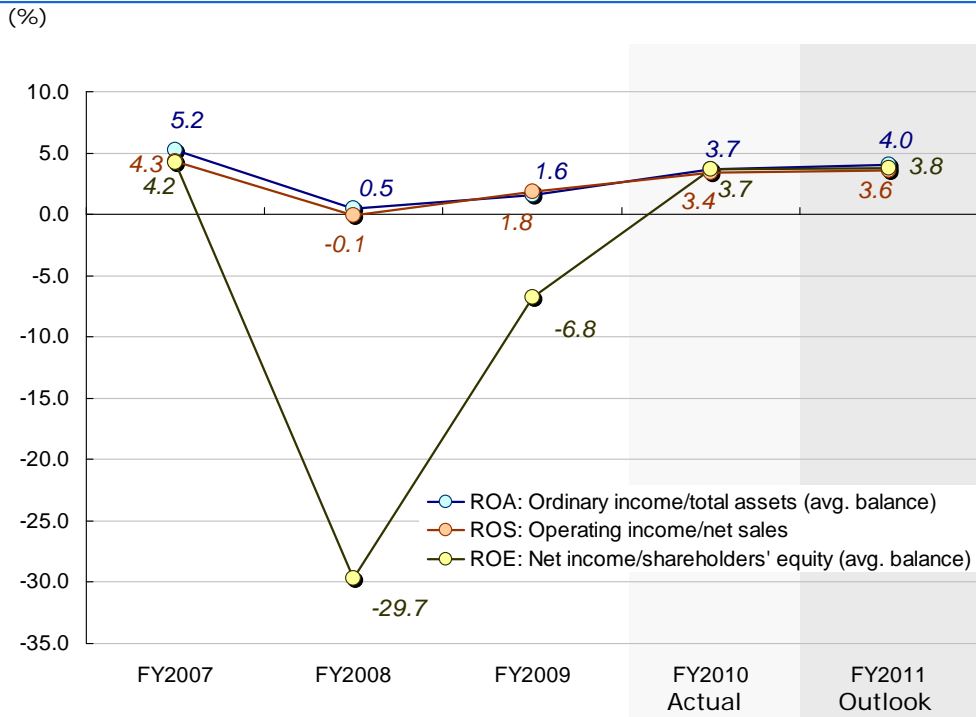


29

### ■ Cash flows

- We revised our free cash flow outlook to ¥10 billion.

## Main Management Indicators



30

### ■ Major management performance indicators

- **ROS of 3.6 %, ROA of 4.0 %, and ROE of 3.8 %.**

**EPSON**  
EXCEED YOUR VISION