



Third Quarter Financial Results Fiscal Year 2011 (Ending March 2012)

January 31, 2012

SEIKO EPSON CORPORATION

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■ Disclaimer regarding forward-looking statements

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

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 have been 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 products business domain.

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

- **Changes in reporting segments.**

Financial Highlights (Through Third Quarter)



(Billions of yen)	FY2010		FY2011		Change	
	First 9 Months	%	First 9 Months	%	Amount	%
Net Sales	747.3	-	664.6	-	-82.7	-11.1%
Operating Income	33.8	4.5%	21.1	3.2%	-12.7	-37.7%
Ordinary Income	32.5	4.4%	21.4	3.2%	-11.0	-34.0%
Net Income Before Income Taxes	26.1	3.5%	8.6	1.3%	-17.5	-67.1%
Quarterly Net Income	17.0	2.3%	0.3	0.1%	-16.6	-97.7%
EPS	¥85.11		¥2.04			
Exchange Rate	USD	¥86.85	¥79.01			
	EUR	¥113.31	¥110.64			

■ Cumulative operating results for the first three quarters

- Net sales were ¥664.6 billion, operating income was ¥21.1 billion, and net income was ¥300 million.
- Compared to the previous year, net sales declined by 84 billion yen and operating income by 18 billion yen due to special factors such as the termination of the small- and medium-sized display business, the Japanese earthquake, the flooding in Thailand, and the effects of foreign exchange.

Financial Highlights (Third Quarter)



(Billions of yen)	FY2010		FY2011		Change	
	Q3 Actual	%	Q3 Actual	%	Amount	%
Net Sales	268.0	-	239.1	-	-28.9	-10.8%
Operating Income	19.2	7.2%	14.3	6.0%	-4.9	-25.5%
Ordinary Income	17.6	6.6%	15.3	6.4%	-2.3	-13.4%
Net Income Before Income Taxes	12.7	4.8%	8.5	3.6%	-4.2	-33.2%
Quarterly Net Income	9.5	3.6%	4.7	2.0%	-4.7	-50.0%
EPS	¥47.78		¥25.21			
Exchange Rate	USD	¥82.64	¥77.41			
	EUR	¥112.23	¥104.33			

■ Fiscal 2011 third-quarter results

- Net sales were ¥239.1 billion, down ¥28.9 billion. Operating income was ¥14.3 billion, down ¥4.9 billion. Net income was ¥4.7 billion, down ¥4.7 billion.
- A number of factors contributed to the deterioration in financial performance. Net sales fell following the termination of the small- and medium-sized displays business, while the economic slowdown in the U.S. and Europe, the flooding in Thailand, and the strength of the yen also took their toll.
- The results also fell below our internal projections for the third quarter. We were unable to meet our net sales expectations in information-related equipment. Factors included the economic downturn and slowing demand for SIDM printers used in tax collection systems in China.
- Operating income was also lower than internal projections. Although devices and precision products cut costs and exceeded projections, operating income in information-related equipment fell below plan due to lower than anticipated net sales and additional logistics costs associated with inkjet printers.

FY2011 Business Outlook



(Billions of yen)	FY2010		FY2011				Change (amount, %)	
	Actual	%	11/14 Outlook	%	Current Outlook	%	Y/Y	Vs. 11/14 Outlook
Net Sales	973.6	-	907.0	-	880.0	-	-93.6 -9.6%	-27.0 -3.0%
Operating Income	32.7	3.4%	31.0	3.4%	27.0	3.1%	-5.7 -17.5%	-4.0 -12.9%
Ordinary Income	31.1	3.2%	29.0	3.2%	27.0	3.1%	-4.1 -13.4%	-2.0 -6.9%
Net Income Before Income Taxes	15.3	1.6%	19.0	2.1%	15.0	1.7%	-0.3 -2.5%	-4.0 -21.1%
Net Income	10.2	1.1%	8.0	0.9%	5.0	0.6%	-5.2 -51.2%	-3.0 -37.5%
EPS	¥51.25		¥40.12		¥26.06			
Exchange Rate	USD	¥85.72	¥77.00		¥78.00		Current Outlook: Q4 exchange rate assumption USD: ¥75.00 EUR: ¥100.00	
	EUR	¥113.12	¥109.00		¥108.00			
11/14 outlook H2 exchange rate assumption USD: ¥75.00, EUR: ¥105.00								

■ Fiscal 2011 full-year financial outlook

- We revised our full-year outlook based on the situation in each segment at the end of the third quarter and in line with updated expectations with respect to foreign exchange rates. Although we expect the yen-U.S. dollar exchange rate to stay at 75 yen to the dollar, we now assume a euro-yen exchange rate of 100 yen to the euro.
- We downgraded our net sales outlook by ¥27 billion so that it now stands at ¥880 billion. Operating income is now seen in the range of ¥27.0 billion, or ¥4 billion less than previously forecast. We lowered our net income outlook to ¥5 billion.
- The ¥4 billion cut in projected operating income is primarily a result of yen appreciation, which will take an approximately ¥2.0 billion toll, and temporary factors, including the additional inkjet printer logistics costs.

SE15 Mid-Range Business Plan Progress



Strategic progress and future actions

■ Inkjet printers

- ✓ Business IJP, compact IJP and other new products well received by market
- ✓ Steady sales of high-capacity ink tank printers
- ✓ Delays in production and supply due to Japan earthquake and Thai flooding, additional logistics costs incurred due to use of air freight
- ✓ Impact of lower hardware sales and lower install base in H1 on H2 consumables sales
- Continue efforts to expand sales into Q4 and beyond

■ Business systems

- ✓ Slowing demand for SIDM used in Chinese tax collection system
- ✓ POS-related products remained steady for smaller retailers in Americas and Asia, but large orders were down in advanced economies
- Accelerate efforts to capture new orders and strengthen sales network

■ Projectors

- ✓ Volume up year over year, especially in China/Asia and South America
- Enhance lineup and expand further in emerging markets

■ Microdevices

- ✓ Made steady progress on reorganization as we look toward 2nd half of mid-range business plan, despite impact of economic downturn
- Accelerate strengthening of business and implement forward-looking product strategies

Steady progress in implementation of basic strategy. Addressing remaining issues as we head toward 2nd half of mid-range business plan.

■ Mid-range business plan progress 1/2

- **In the inkjet printer business we launched strategic new core products, including business inkjet printers, compact models, and printers equipped with a high-capacity ink tank system. These products have been extremely well received, and sales in the critical third quarter were virtually in line with our forecast despite a worsening market environment.**
- **In the first half, we experienced manufacturing delays due to the effects of the earthquake in Japan and we rushed to step up production in the second half of August to make up for this and the effects of price pressure from our competitors.**
- **However, the flooding in Thailand caused further delays in manufacturing and supply, and we incurred additional logistics costs as we used air freight to meet strong market demand. The reduced number of units sold and subsequent decline in the install base had a negative impact on second half consumables sales.**
- **In the fourth quarter we expect to see continued steady demand for our inkjet products. We are working to hit our fiscal 2011 inkjet printer sales target of 15 million units, and expect our efforts to lead to further hardware and consumables sales growth down the road.**
- **Business systems did not perform as well as anticipated in the third quarter. We sold fewer SIDM printers than planned because of slowing demand in China, where these printers have been sold for use in a tax collection system. Although demand is unlikely to return to previous levels, we expect to see stable demand for SIDM printers continuing as we capture new orders in rural communities and from banks, etc.**
Sales of POS-related products were also below projections. Although we saw firm demand from small retailers in the Americas and Asia, sales were hurt by the economic slowdown in advanced countries and because large orders have been slow to materialize.
In the fourth quarter we will look to expand in new areas, such as intelligent products that are inexpensive to install. We will also further strengthen our sales network as we seek to attain stable growth going forward.

■ **Mid-range business plan progress 2/2**

- **We posted record unit shipments of 3LCD projectors in the third quarter. Although unit shipments did not meet expectations in advanced countries, where government spending cutbacks hurt demand from the educational sector, unit shipments soared in China, other Asian countries, and South America.**

We will continue to enhance our lineup as the projector market share leader and will aim to expand unit shipments in growing emerging markets.

- **The microdevices business has been hurt by the economic slowdown, but we are making steady progress in reorganizing the business for a rebound next fiscal year and beyond.**

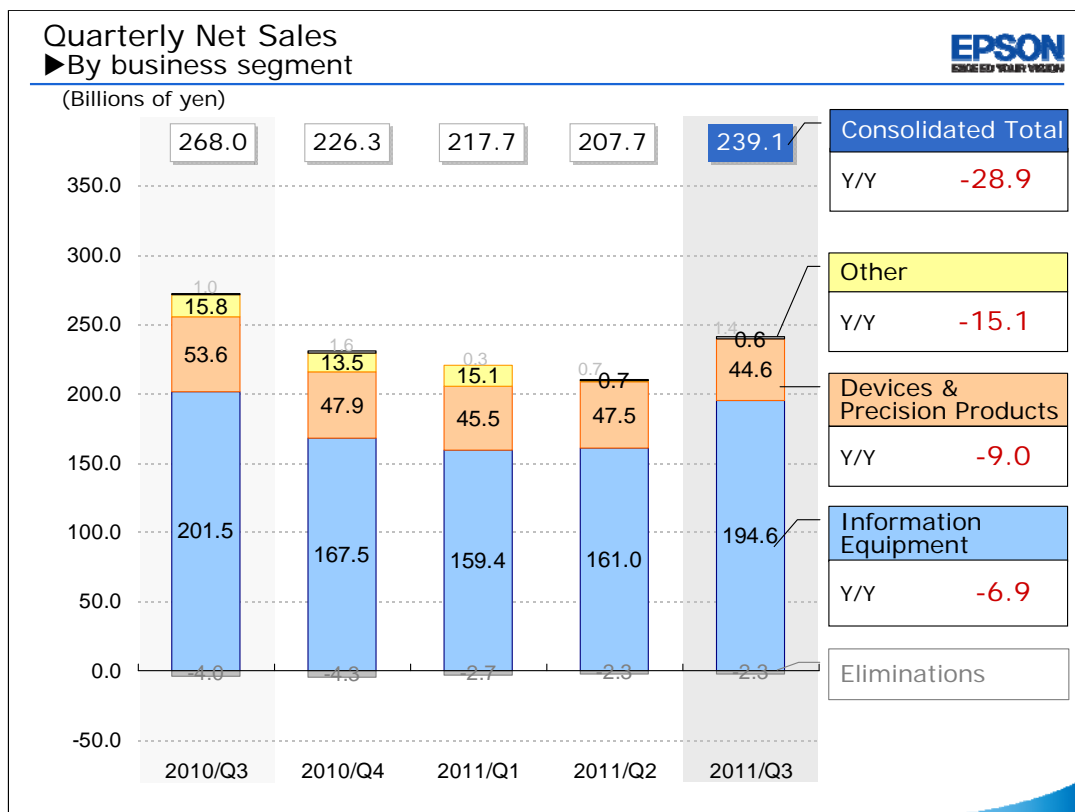
We are building a stronger sales and marketing organization by transferring Epson Toyocom's quartz device sales and marketing function to Seiko Epson, where it will be integrated with the semiconductor sales and marketing function.

On the product front, we will continue efforts to reduce costs. We will do this by, for example, manufacturing semiconductors for quartz devices in-house and by taking full advantage of our assembly and packaging technologies. At the same time, we will work to realign the business by pursuing forward-looking product strategies that enable us to leverage our QMEMS, sensing, and other technologies and advantages.

- **So, we are making steady progress on the basic strategies of the SE15 & Mid-Range Business Plan, and we believe we are heading in the right direction. We will continue to address the remaining issues and keep a close eye on the macro-environment, the economy, and the business environment, including the strong yen to ensure that we achieve our goals for the second half of SE15, which will start in fiscal 2012.**

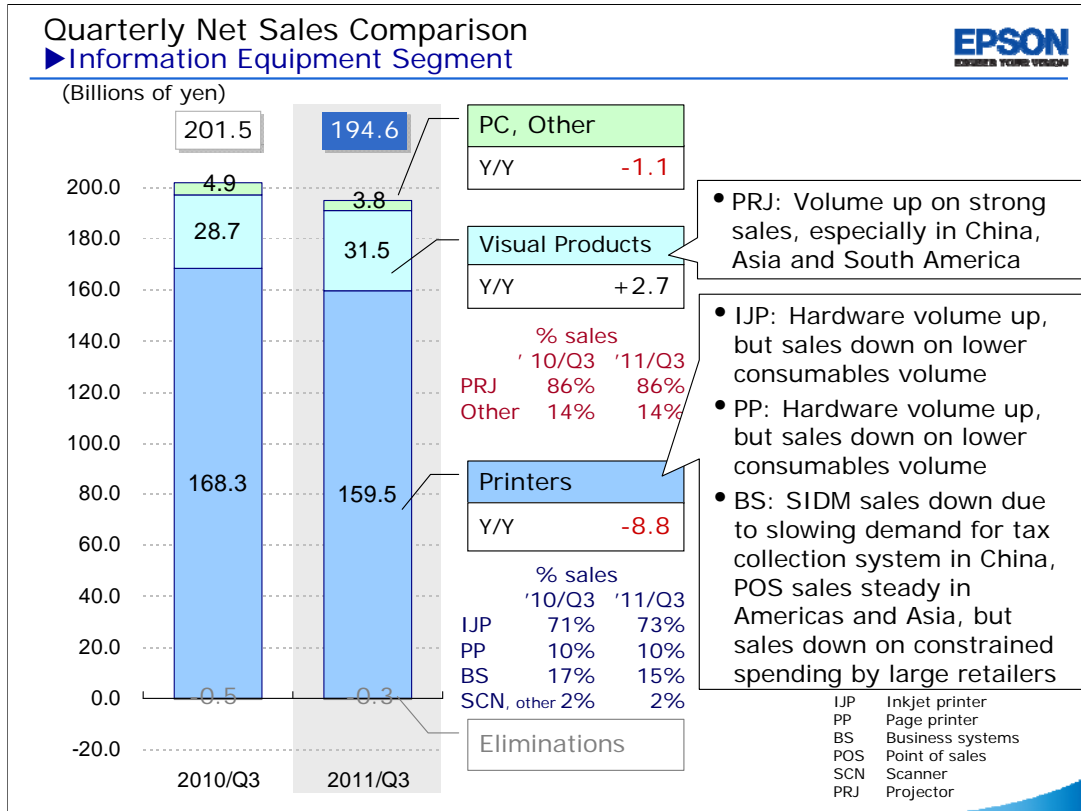
1) FY2011 Q3 Financial Results

2) FY2011 Financial Outlook



■ Quarterly net sales in each segment

- In the information-related equipment segment, net sales declined by ¥6.9 billion. Devices and precision products net sales declined by ¥9.0 billion.
- The drop in net sales in the Other segment is due to the termination of the small- and medium-sized displays business.
- Foreign exchange effects resulted in an approximately ¥9 billion decrease in net sales for the quarter, mostly in the information-related equipment segment.



■ **Quarterly net sales in the information-related equipment segment**

- **The printer business as a whole posted an ¥8.8 billion decline in net sales.**
- **Inkjet printer unit shipments increased, but consumables volume decreased, resulting in lower net sales.**
- **Inkjet printer demand varied by region. In Japan, the market grew compared to the same period last year, in part due to recovery demand that followed in the wake of the earthquake and tsunami. In Europe the market was flat, however, and in America it declined. Against this background, we prioritized in Japan sales of high-value added, high print volume products as demand for our products rose as a result of supply issues faced by our competitor. In Europe and America we introduced a series of competitive new products, and in Asia we concentrated on high-capacity ink tank models.**
As a result, we boosted unit shipments in Japan, Europe, and Asia, although unit shipments declined in the Americas due to short product supply.
- **Consumables unit volume grew in Japan. In overseas markets, however, consumables unit volume dropped because weak first-half printer shipments resulted in a smaller printer install base.**
- **Page printer unit shipments grew on the popularity of new products, but net sales shrank mainly due to a combination of lower consumables volume and the effects of yen appreciation.**
- **Business systems net sales receded. In addition to slowing demand of Chinese orders for SIDM printers used in tax collection systems, net sales were hurt by constrained spending on POS-related equipment by major retailers in advanced countries, though sales to smaller retailers in the Americas and China grew steadily.**
- **Visual products reported an increase in net sales, as unit shipments of Epson's 3LCD projectors grew in every region, especially China, other Asian countries and South America.**

■ **Performance against our internal plans**

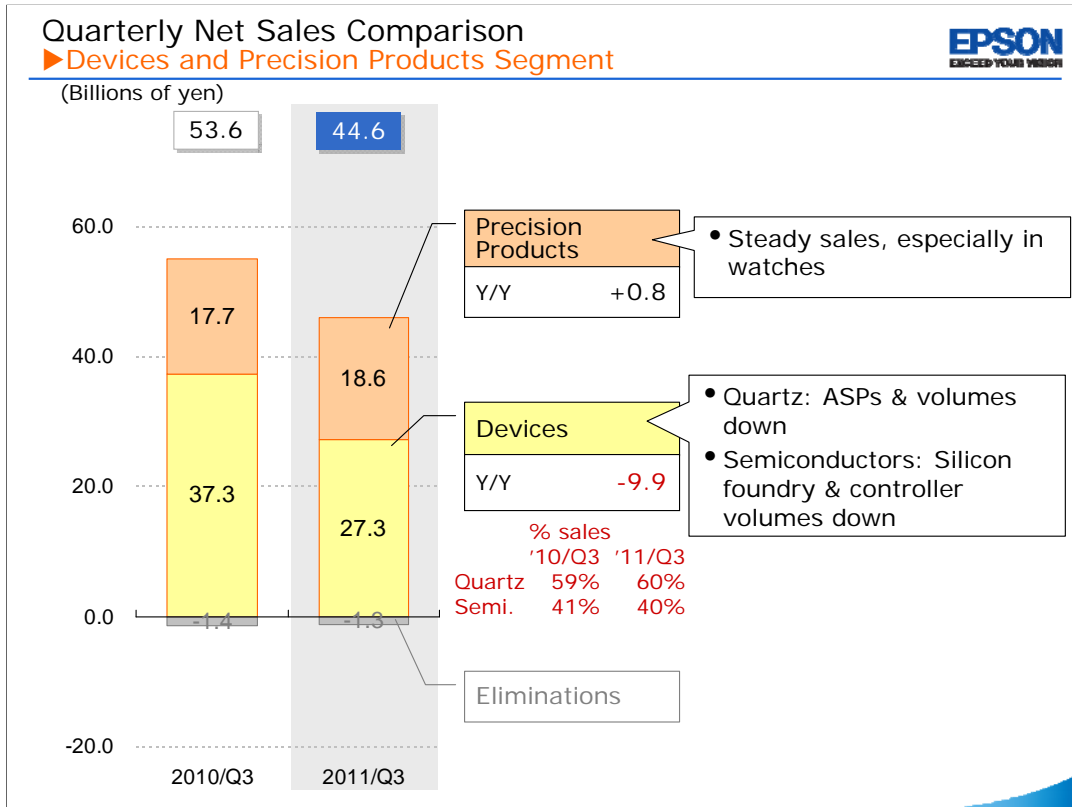
➤ **Inkjet printer net sales ended lower than our plan.**

Although the new products we launched for the year-end shopping season were extremely well received and printer shipments were in line with forecasts, net sales were hurt by a decline in demand for consumables due to the economic slowdown. The smaller printer install base also had more of an impact than anticipated.

➤ **In business systems, we missed our net sales forecasts for both SIDM printers and POS-related products.**

➤ **We also failed to hit our net sales forecast for visual products, largely because of a bigger than expected decrease in demand for education projectors in the advanced countries of Europe and America.**

➤ **Net sales for the information-related equipment segment as a whole came in lower than the plan.**



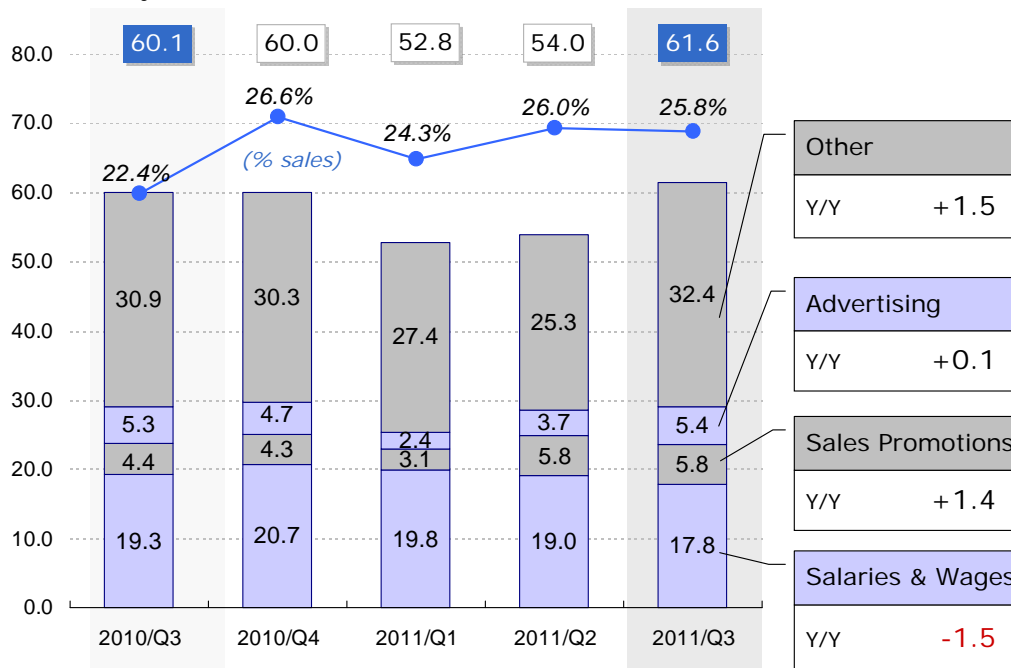
■ Quarterly net sales in devices and precision products

- Net sales in quartz devices declined due to a drop in average selling prices and a slump in demand related to the economic slowdown.
- Semiconductor net sales declined because, in addition to a dip in silicon foundry volume, controller unit shipments fell.
- Precision products net sales increased, led by steady sales by the watch division.
- Net sales in this segment were also lower than projected in our internal plan, especially because demand for quartz devices failed to rebound to the levels anticipated, resulting in a decline in unit shipments.
- Net sales in precision products exceeded our plan, largely due to strong results in watches.

Quarterly Selling, General and Administrative Expenses

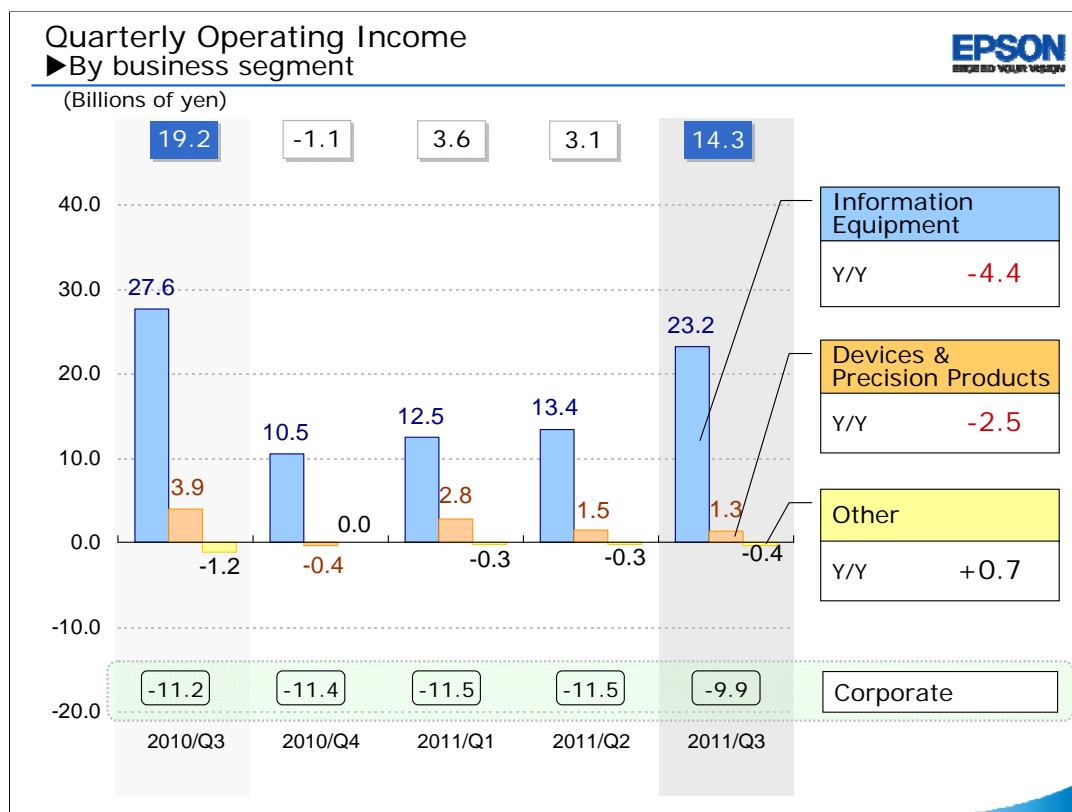


(Billions of yen)



■ Quarterly selling, general and administrative expenses

- We tried to minimize SGA expenses, but we also needed to aggressively spend on promotions to expand sales of the highly competitive products we launched for the year-end shopping season. Moreover, our logistics costs increased due to the effects of the earthquake in Japan and the flooding in Thailand.



■ Quarterly operating income by segment

- For the company as a whole, foreign exchange had an approximately ¥1.7 billion negative impact on operating income.
- Information-related equipment posted operating income of ¥23.2 billion, a decline of ¥4.4 billion, year over year.
- Inkjet printer hardware profitability improved following the launch of new products based on a smaller platform. Nevertheless, operating income decreased due to additional logistics costs, as well as to a decline in consumables volume.
- Visual products operating income was buoyed by increased net sales, while cost reductions translated into higher page printer operating income.
- Business systems operating income decreased due to a downturn in SIDM printer revenue.
- The devices and precision products segment reported ¥1.3 billion in operating income, a year over year decline of ¥2.5 billion, due to lower net sales in the semiconductor and quartz device businesses.

■ **Operating income in each segment against our internal plan**

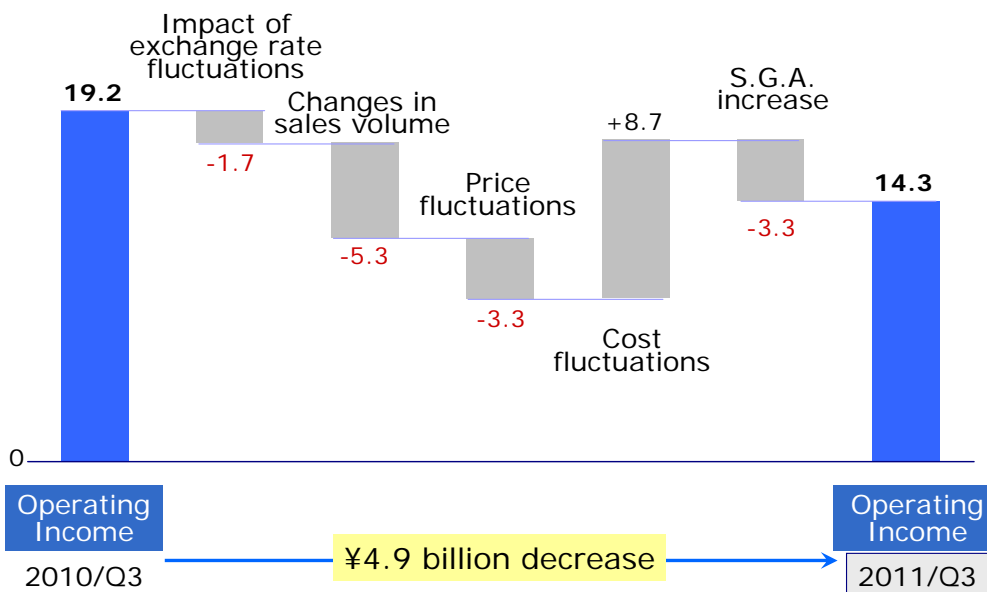
- **Operating income in the information-related equipment segment was less than in our plan. While the visual products business recorded operating income that was pretty much in line with the outlook, segment operating income was hurt by lower than expected sales of inkjet printer consumables and the missed net sales forecast for business systems.**

- **In the devices and precision products segment, better than expected results in precision products and initiatives to reduce both variable and fixed costs enabled us to exceed the plan even though quartz device net sales did not meet expectations.**

Operating Income Fluctuation Cause Analysis



(Billions of yen)



■ Cause analysis of the change in operating income

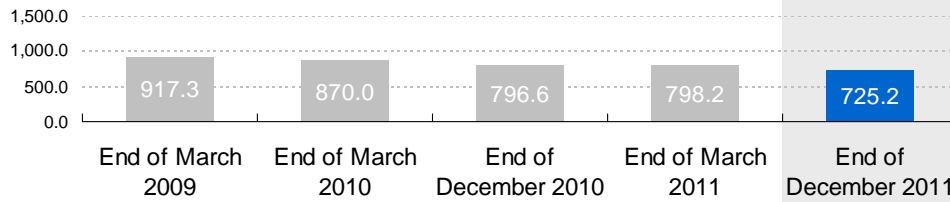
- **Third-quarter operating income was ¥14.3 billion compared to ¥19.2 billion in the same period last year. While cost fluctuations contributed positively to operating income, volume fluctuations, price fluctuations, and increased SGA expenses were all negative factors.**

Statistics of Balance Sheet Items

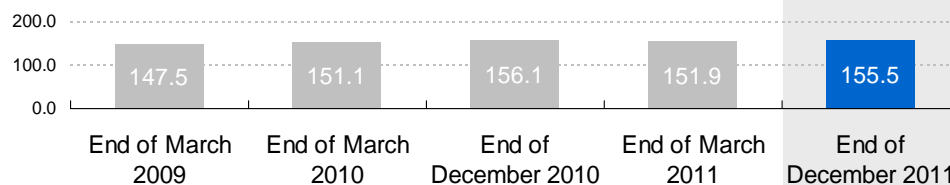


(Billions of yen)

Total assets



Inventories



■ Major items on the balance sheet

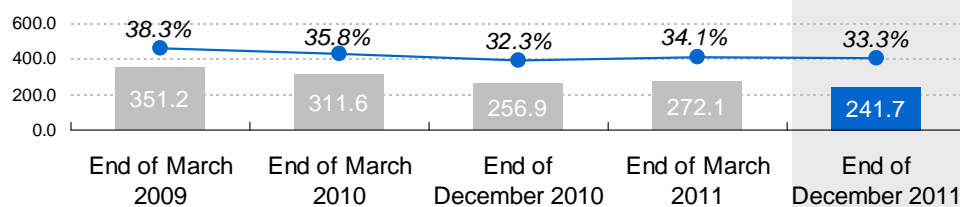
- **Total assets decreased by ¥72.9 billion in the three quarters since the end of March 2011. In addition to a decrease in cash and deposits and a decrease in securities, total assets shrank because of a decline in property, plant, and equipment as a result of continued rigorous screening and selection of capital investments.**

Statistics of Balance Sheet Items

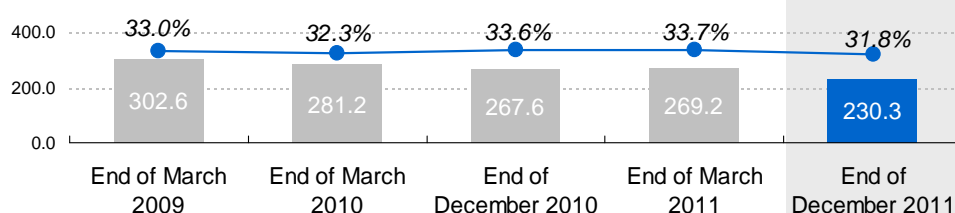


(Billions of yen)

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

■ Major items on the balance sheet

- **Interest-bearing liabilities decreased by ¥30.4 billion from the end of the previous fiscal year due to the repayment of loans. The ratio of interest-bearing liabilities to total assets was 33.3%.**

Net interest-bearing liabilities were ¥100.7 billion.

- **Shareholders' equity decreased by ¥38.9 billion, primarily due to an acquisition of Epson treasury stock executed last November and the effects of foreign currency translations. This brought the equity ratio to 31.8%.**

1) FY2011 Q3 Financial Results

2) FY2011 Financial Outlook

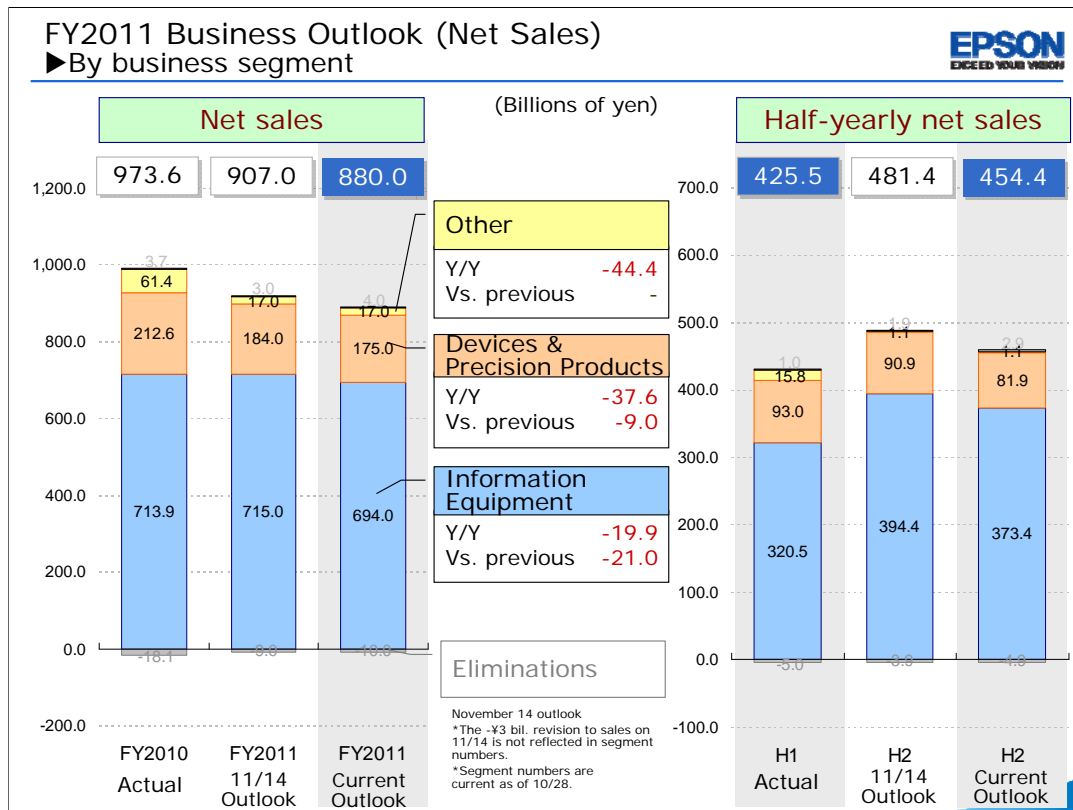
November 14 outlook

✓Please note that the -3.0 billion yen revision to net sales and – 2.0 billion yen revision to operating income in the November 14 outlook have not been reflected in the figures for each segment or business.

➤The segment and business outlooks are based on the figures issued on October 28.

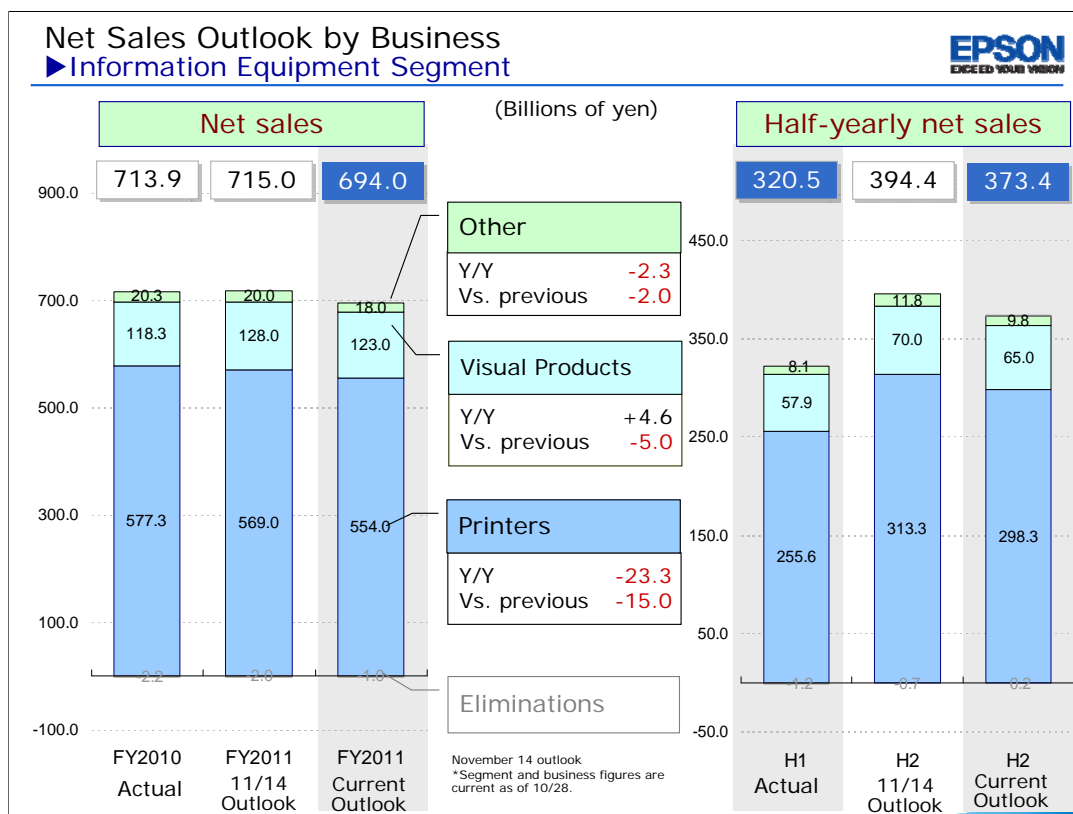
■ **Fiscal 2011 business outlook**

- **Please note that the outlook revision issued on November 14 only covered the overall impact of the Thai flooding, and that we have not issued a breakdown by segment or business.**
- **The segment and business outlooks are therefore based on the figures issued on October 28.**

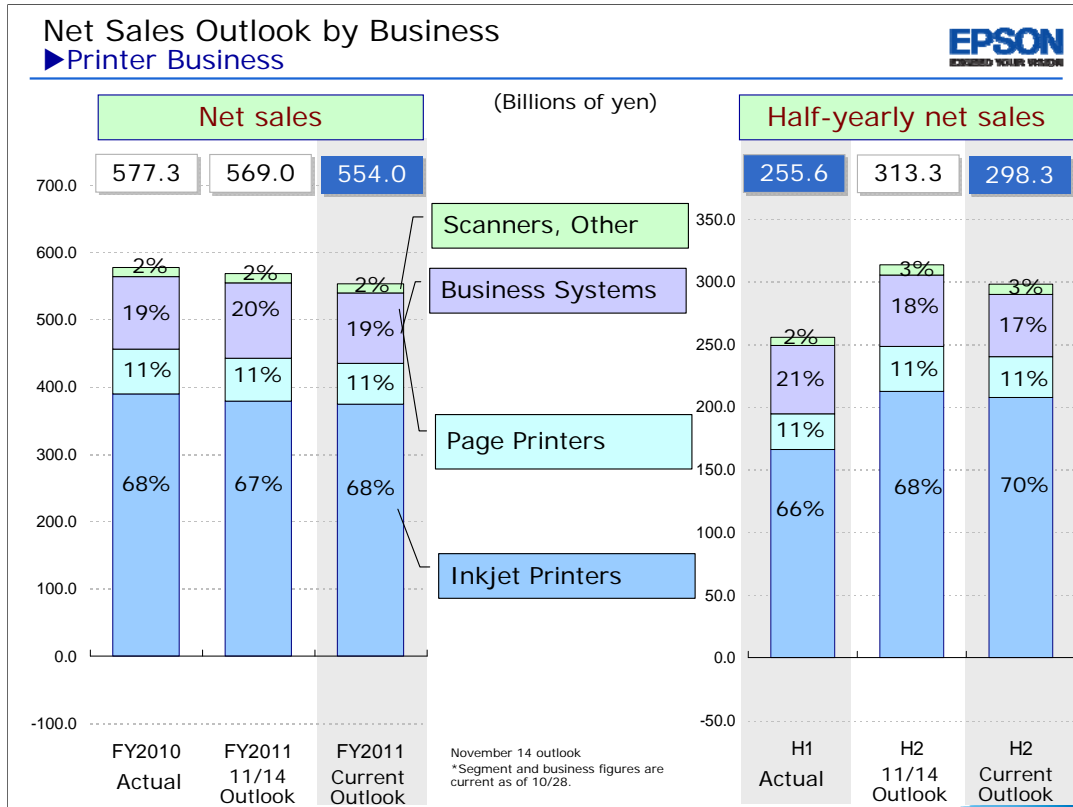


■ Net sales outlook for fiscal 2011 broken down by segment and by first half and second half

➤ We revised our full-year net sales forecasts downward to ¥694 billion in information-related equipment and ¥175 billion in devices and precision products.

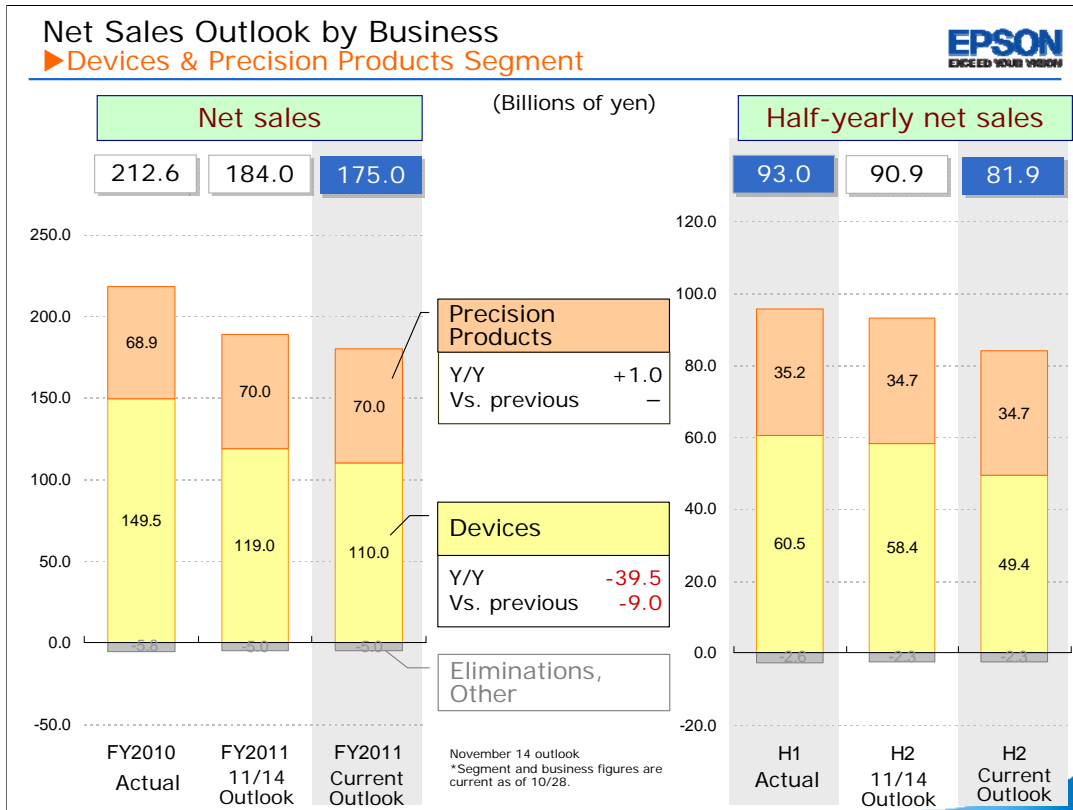


- **Breakdown of net sales outlook in each business of the information-related equipment segment**
- **The visual products business lowered its full-year net sales forecast to ¥123 billion based on recent market trends and moves by competitors, but we still expect continued firm projector demand especially in China and other parts of Asia. We will keep an eye on the moves of our competitors as we look to achieve our forecast by capturing demand with a well-stocked lineup of products.**



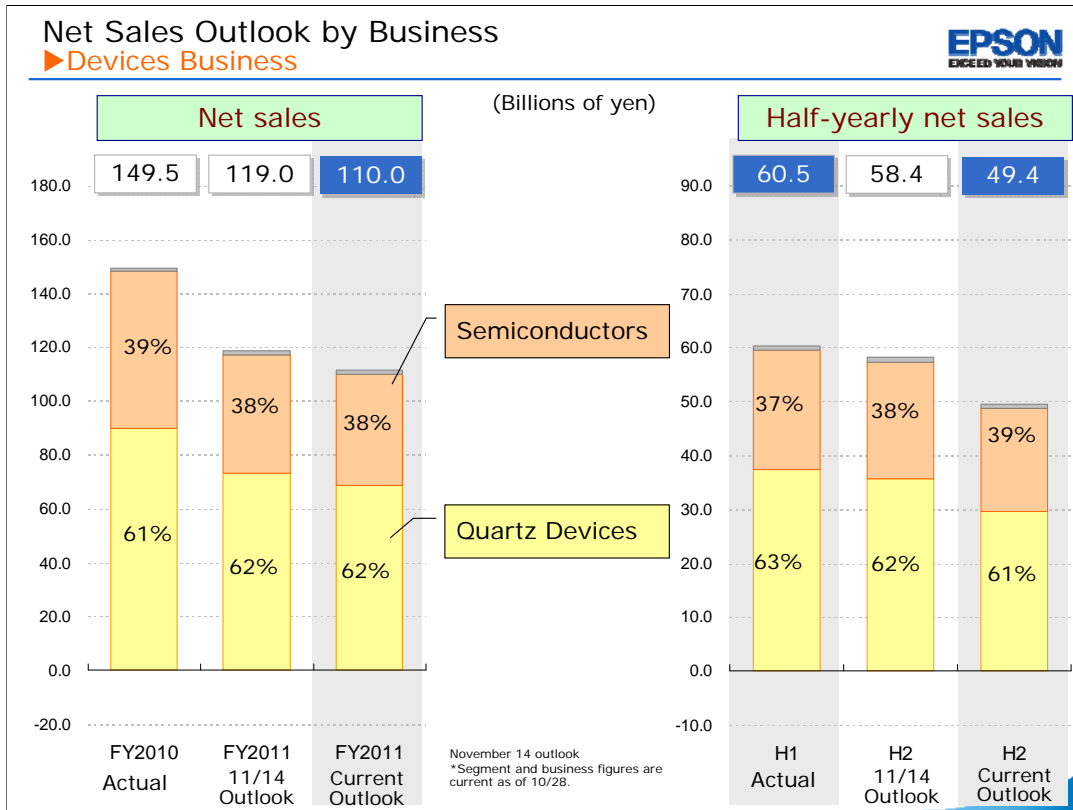
■ **Breakdown of net sales outlook in the printer business**

- **We revised our net sales outlook based on the current market environment.**
- **However, the assumptions underlying our basic strategy in the inkjet printer business have not changed. At the start of the year we set a target of selling 15 million printers. We are edging closer to that target. Printer sales remain brisk, and we forecast year over year growth in unit shipments for the fourth quarter. We aim to achieve our unit shipment target for the year by keeping an eye on market trends and competitor moves and by adapting our sales and marketing programs as needed. A sudden turnaround in consumables, meanwhile, is unlikely to occur, but we will look to ensure consumables growth starting next fiscal year by steadily expanding sales of printers.**
- **We also revised the net sales outlook in business systems based on third quarter trends. In the fourth quarter we will look to capture new orders and capitalize on other new business opportunities. At the same time, we will position ourselves to win orders for SIDM printers for tax collection systems and capture other new business in the next fiscal year.**



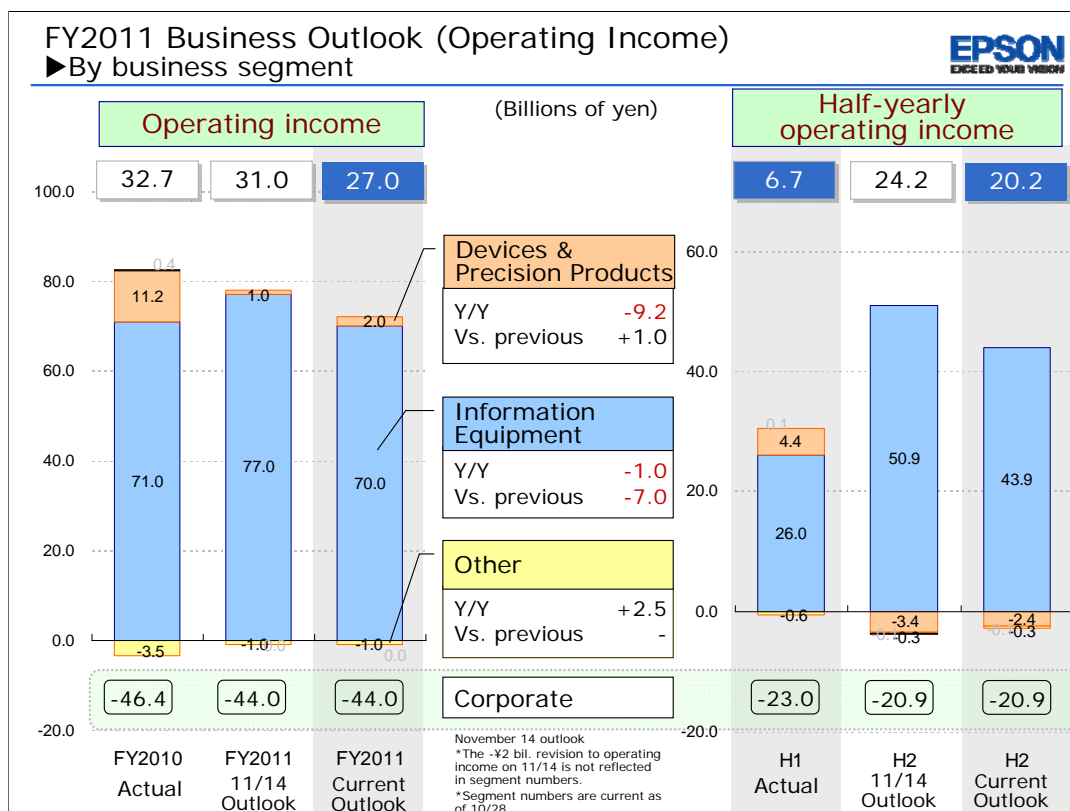
■ **Breakdown of net sales outlook in the devices and precision products segment**

➤ **We see continued steady sales in precision products, especially in watches.**



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

- **We reduced the net sales outlook to reflect a delay in the re-emergence of demand for both quartz devices and semiconductors.**



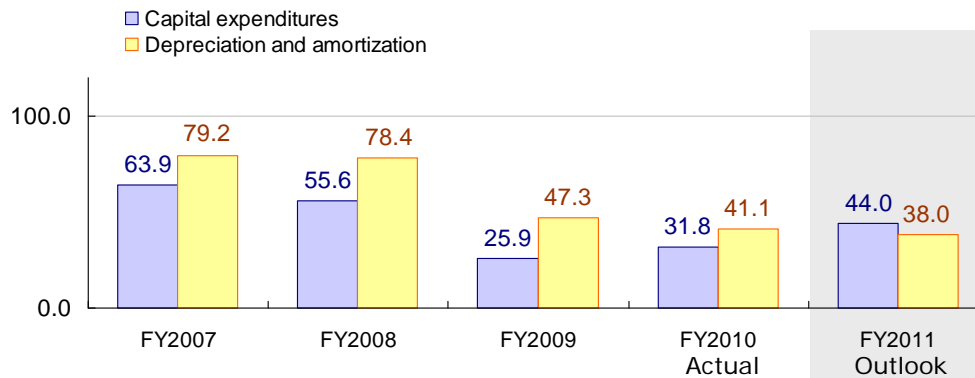
■ **Segment operating income outlook**

- **In information-related equipment we are forecasting ¥70 billion in operating income. This ¥7 billion decrease compared to the previous outlook reflects our revised assumptions about net sales. We will continue to control and optimize manufacturing and inventory according to sales, and to improve cost efficiency.**
- **In devices and precision products we revised the operating income forecast upward to ¥2 billion after factoring in items such as the effects of lower variable and fixed costs.**

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	32.0	23.0
Devices & Precision Products	10.2	10.3	8.0	10.0
Other/Adjustments	2.9	6.2	4.0	5.0

* FY2010 actual depreciation and amortization expenses used in place of figures distributed on October 28. Devices & Precision Products 10.1⇒ 10.3, Other/ Adjustments 6.3⇒ 6.2 billion yen.

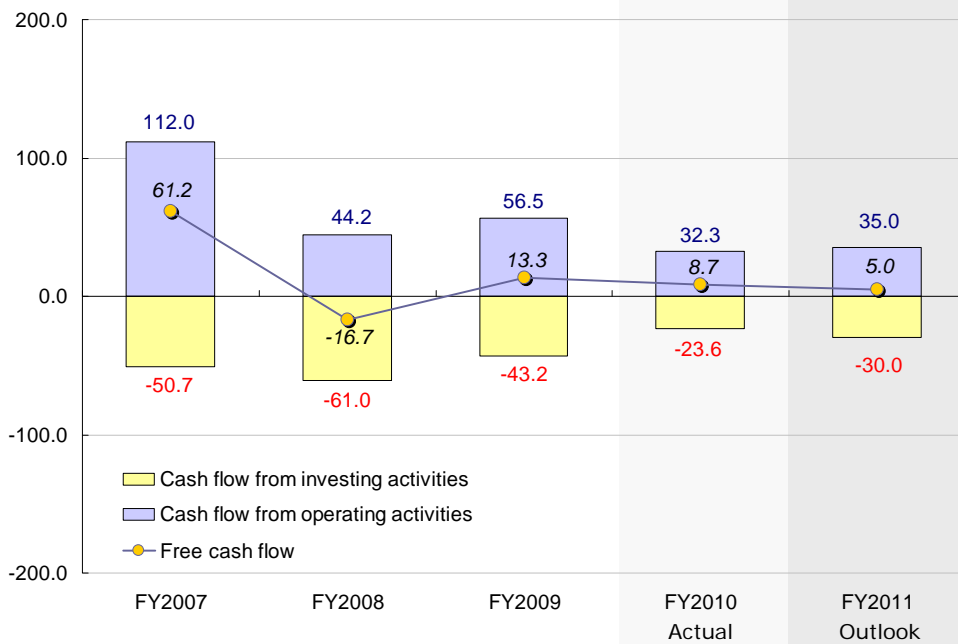
■ Outlook for capital investment and depreciation expenses

- Capital expenditures were revised to ¥44 billion. Depreciation and amortization were revised to ¥38 billion.

Free Cash Flow Outlook



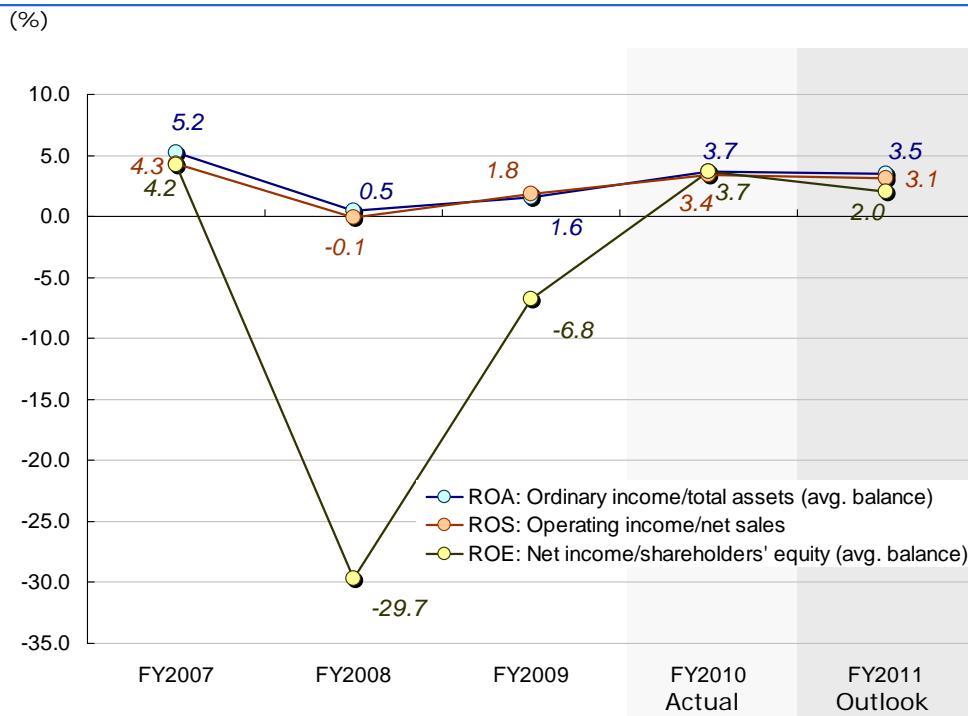
(Billions of yen)



■ Free cash flow outlook

- We revised this to ¥5 billion, down from ¥10 billion, in line with the revised financial outlook.

Main Management Indicators



■ Major management performance indicators

➤ ROS of 3.1 %, ROA of 3.5 %, and ROE of 2.0 %.

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