



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

January 28, 2011

**SEIKO EPSON CORPORATION**

©SEIKO EPSON CORPORATION 2010. All rights reserved.

## ■ 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 based on new management approach

From FY2010

---

- 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.

2

- 
- **This fiscal year we adopted the management approach to reporting the financial performance of operating segments in compliance with new accounting standards.**

1) FY2010 Q3 Financial Results

2) FY2010 Business Outlook

## Financial Highlights (Through Third Quarter)



Thru Q3 (Billions of yen)	FY2009		FY2010		Change	
	First 9 Months	%	First 9 Months	%	Amount	%
Net Sales	738.1	-	747.3	-	+9.2	+1.2%
Operating Income	22.1	3.0%	33.8	4.5%	+11.7	+53.0%
Ordinary Income	16.4	2.2%	32.5	4.4%	+16.0	+97.8%
Net Income Before Income Taxes	7.4	1.0%	26.1	3.5%	+18.7	+249.9%
Quarterly Net Income	-4.7	-0.6%	17.0	2.3%	+21.7	-
EPS	-¥23.82		¥85.11			
Exchange Rate	USD	¥93.56	¥86.85			
	EUR	¥132.99	¥113.31			

4

- 
- Let's start by looking at the financial results for the first nine months of the fiscal year.
- The year-over-year appreciation of the yen against both the euro and the U.S. dollar negatively impacted net sales by approximately ¥46 billion and operating income by about ¥20 billion.
- In addition to this brutal foreign exchange trend, 2010 was marked by ongoing sluggish market demand. Despite the difficult circumstances, however, Epson pursued the strategies outlined in the SE15 mid-range business plan and we succeeded in launching to market some very competitive products tailored to the wants and needs of our customers.
- We have put together lines of products that generate income, and we have steadily revived earnings and strengthened our businesses, in large part by reducing fixed and variable costs, and by improving cost efficiency.

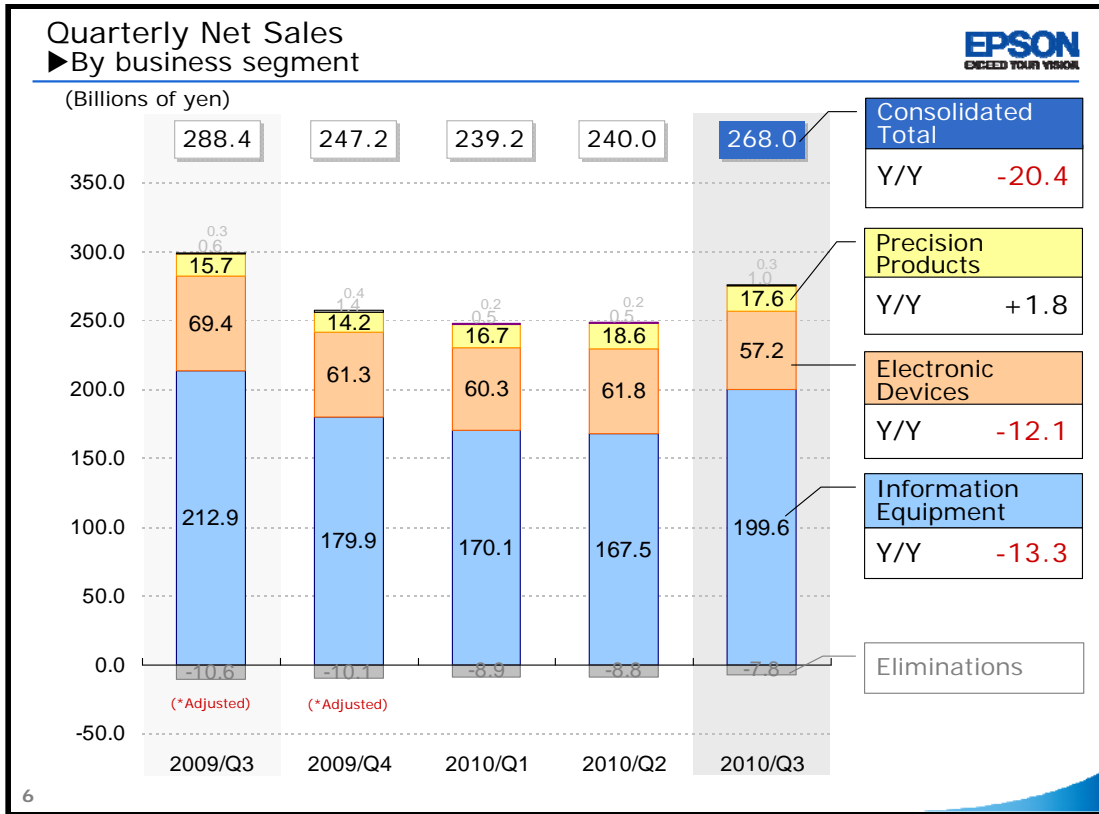
## Financial Highlights (Third Quarter)



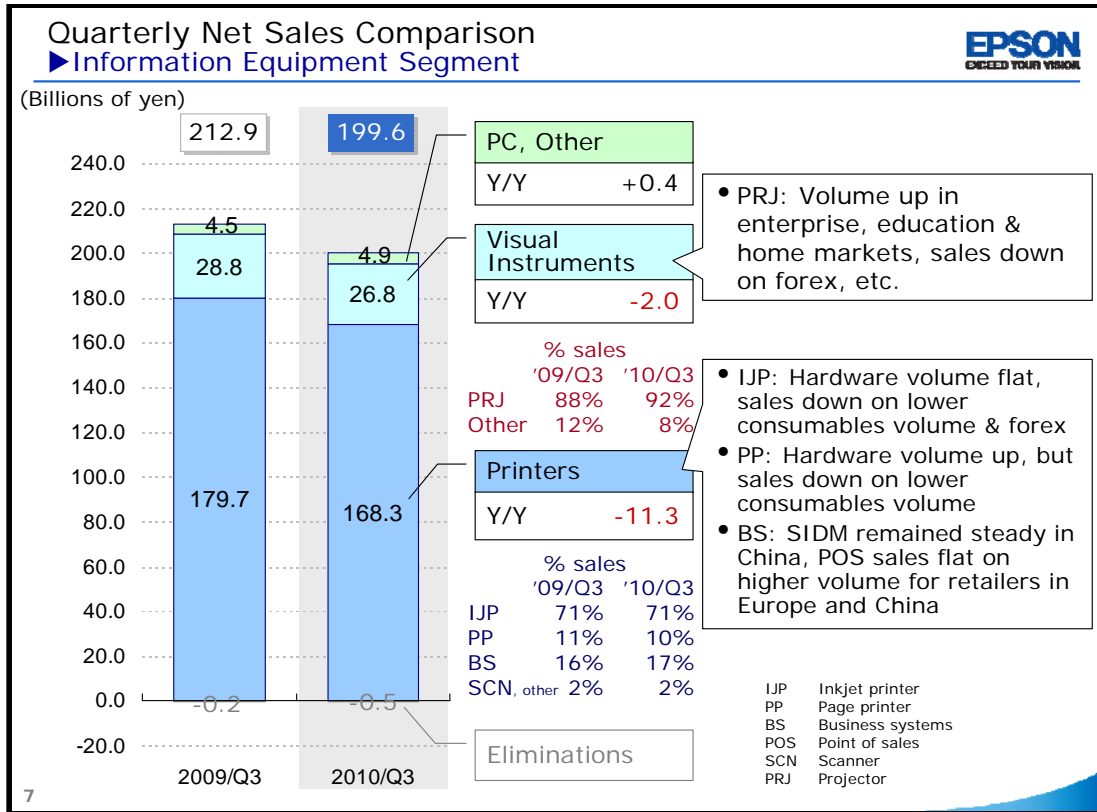
(Billions of yen)	FY2009		FY2010		Change	
	Q3 Actual	%	Q3 Actual	%	Amount	%
Net Sales	288.4	-	268.0	-	-20.4	-7.1%
Operating Income	31.4	10.9%	19.2	7.2%	-12.2	-38.9%
Ordinary Income	30.8	10.7%	17.6	6.6%	-13.2	-42.8%
Net Income Before Income Taxes	27.8	9.7%	12.7	4.8%	-15.1	-54.2%
Quarterly Net Income	24.4	8.5%	9.5	3.6%	-14.9	-61.0%
EPS	¥122.36		¥47.78			
Exchange Rate	USD	¥89.71	¥82.64			
	EUR	¥132.68	¥112.23			

5

- Next, let's look at our third-quarter results.
- Net sales were ¥268 billion, down 7.1% year over year.
- On the income front, operating income was ¥19.2 billion, down ¥12.2 from the same period last year, while net income was ¥9.5 billion, down ¥14.9 billion.
- Next, let's examine our performance versus the internal plan for the third quarter. Here, net sales were below expectations primarily because, in information-related equipment, we missed our ambitious target for inkjet printer unit shipments as a result of a less-robust-than-expected year-end shopping season; and, in electronic devices, the average selling prices for our crystal devices dropped.
- Operating income fell short of expectations in information-related equipment because we missed the net sales target. On the other hand, we exceeded the plan in electronic devices because the semiconductor business increased sales of high-added value models and maintained a high production capacity utilization ratio. On the whole, operating income ended essentially in line with plan, with the help of improved cost efficiency in corporate and in each business.
- We recorded an extraordinary loss of ¥5.3 billion in the third quarter due to business structure improvement expenses associated with the termination of the small- and medium-sized displays business.



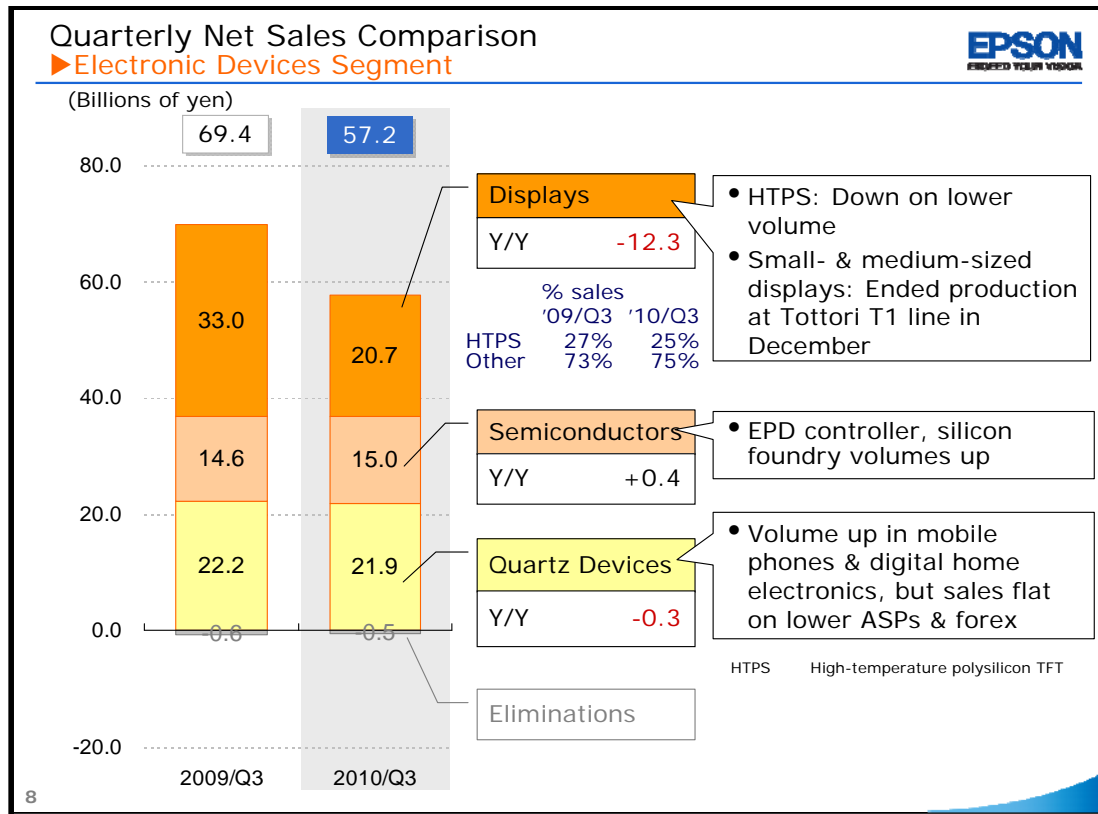
- Next, let's look at quarterly net sales by segment.
- Compared to the year-ago quarter, information-related equipment net sales decreased by ¥13.3 billion. Electronic devices net sales declined by ¥12.1 billion and precision products net sales increased ¥1.8 billion.



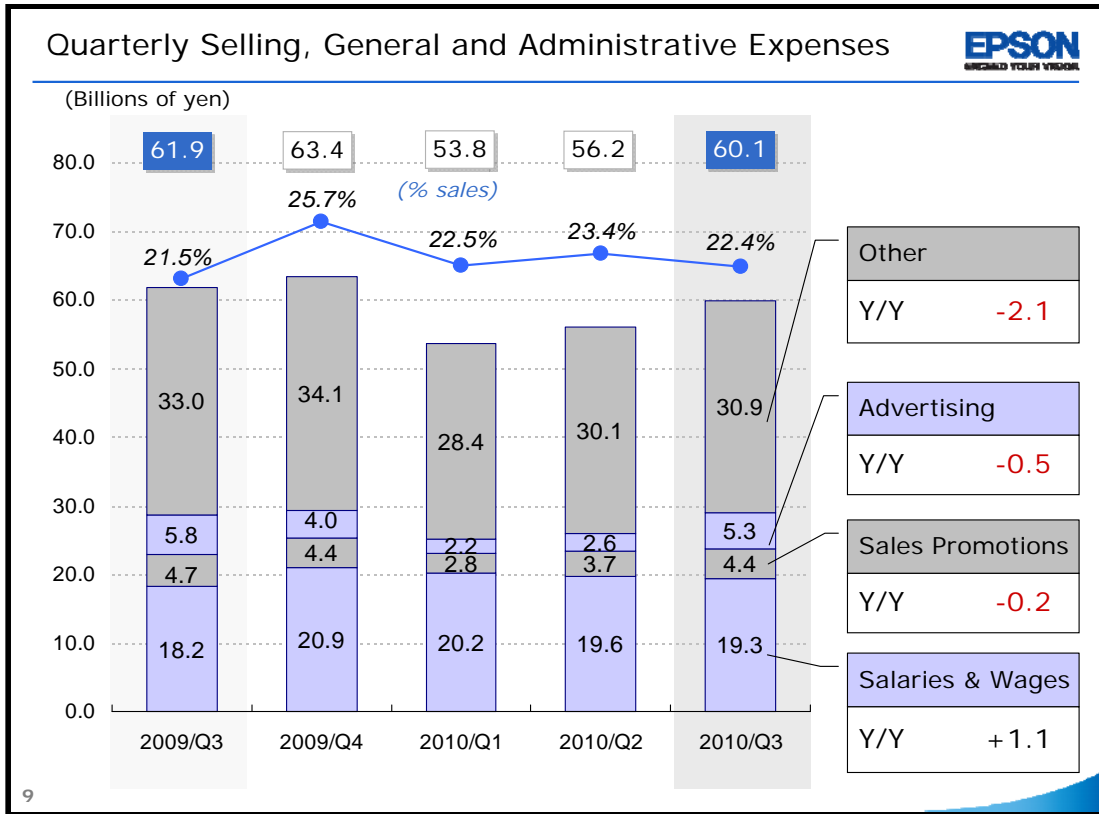
- Let's see how quarterly net sales in the businesses that make up the information-related equipment segment compare with last year's results. The businesses in this segment were all hit hard by the effects of yen appreciation.
- Printer business net sales were ¥168.3 billion, down ¥11.3 billion from a year ago.
- Inkjet printer unit shipments were flat year-over-year, but net sales fell due to a decline in consumables. Seen by region, the American printer market contracted and the European market was flat amid a somewhat lackluster year-end shopping season. However, Epson managed to increase inkjet unit shipments and extend its market share in the U.S. and Europe. We also saw unit shipments rise in Japan. In Asia unit shipments of inkjet printers declined, in part because we are in the midst of deploying a new business model in this region. Against the background of a sluggish market, unit shipments of consumables declined year-over-year.
- Page printer unit shipments rose in Europe and Japan, largely due to the aggressive pursuit of tender opportunities, but net sales declined due to a drop in consumables volume.
- Business systems net sales hovered near the level of the year-ago quarter. China generated steady demand for SIDM printers because of the introduction of a new tax collection system, while retailers in Europe and China were behind an increase in unit shipments of POS-related products.
- Visual instruments reported a ¥2 billion decline in net sales compared to the year-ago quarter. On the other hand, the business was able to increase unit shipments of business and education projectors in Europe and America, as well as of home projectors.



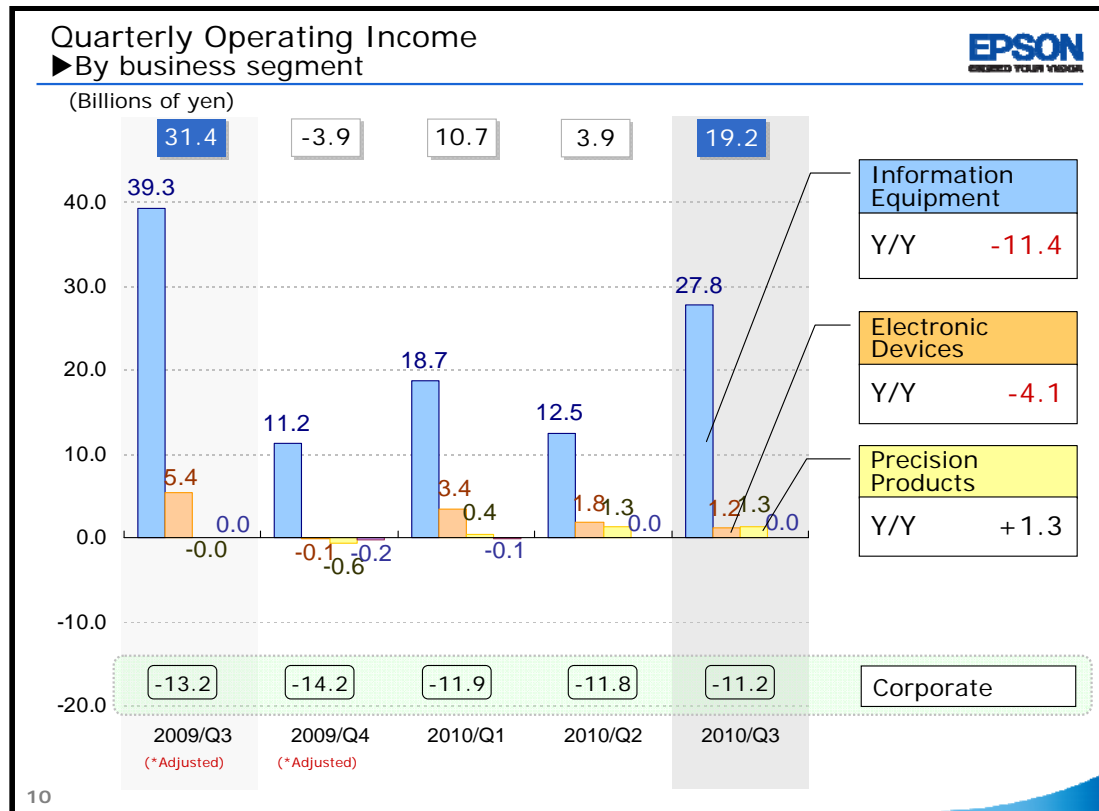
- 
- **Now, let's see how we performed against the outlook.**
- **Net sales of inkjet printers ended below expectations, as we failed to achieve our unit shipment targets for both printers and consumables. We were somewhat bullish going into the year-end shopping season. We anticipated a stronger bounce and stronger growth in consumer inkjet printers, but unit shipments fell below expectations due to the lackluster European and American markets and because we refused to follow competitors' aggressive price cutting. The launch of new large-format printers enabled us to slightly exceed the plan in this category. Consumables net sales were below the outlook, largely due to the effects of a shortfall in hardware shipments.**
- **In business systems, total net sales were below expectations because, although SIDM printer sales were steady in China and other parts of Asia, large-scale POS-related product sales opportunities failed to emerge to the extent expected in Europe and America.**
- **Page printer net sales ended below expectations, 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 Asia and the Americas.**



- Here, net sales for the quarter in the electronic devices segment are shown against the results from the year-ago period.
- In crystal devices, net sales were flat year-over-year. Though net sales were hurt by declining ASPs and foreign exchange effects, they were helped by an increase in unit shipments to mobile phone and digital home electronics manufacturers.
- Semiconductor net sales were also flat year-over-year, owing mainly to increased e-paper display controller and silicon foundry orders.
- The displays business reported a ¥12.3 billion year-over-year decline in net sales. The decline is mainly attributable to lower net sales in the small- and medium-sized displays business, where restructuring is ongoing, and to fewer orders for projector HTPS panels, mainly from outside customers. Note, too, that production of our small- and medium-sized displays in Tottori ended in December.
- If you compare net sales in the electronic devices segment against the net sales forecast in the previous outlook, you will see that they ended below expectations. Although the semiconductor business exceeded forecasts largely due to stronger than projected e-paper display controller and silicon foundry demand, the display and crystal device businesses reported net sales below the outlook due to a shortfall in unit shipments.



- Quarterly selling, general and administrative expenses were as shown here.
- SGA expenses changed little year-over-year. This is partly due to the effects of yen appreciation and other factors, as well as our ongoing efforts to improve cost efficiency.



- This slide provides a breakdown of quarterly operating income by segment. Information-related equipment and quartz devices were especially hard hit by the strong yen.
- Information-related equipment posted operating income of ¥27.8 billion, a decline of ¥11.4 billion year-over-year.
- In inkjet printers we standardized platforms to reduce costs, but operating income fell due to a combination of factors, including a decline in ink cartridge revenue.
- In business systems and projectors, unit shipments increased, but operating income decreased, mainly as a result of eroding ASPs due to deterioration of the model mix.
- The electronic devices segment reported ¥1.2 billion in operating income, down ¥4.1 billion year-over-year.
- Semiconductor operating income increased, mainly as a result of an improved model mix that led to higher ASPs, and cost-cutting.
- The quartz device business saw operating income decline on lower ASPs.
- Displays business operating income was down on lower net sales.

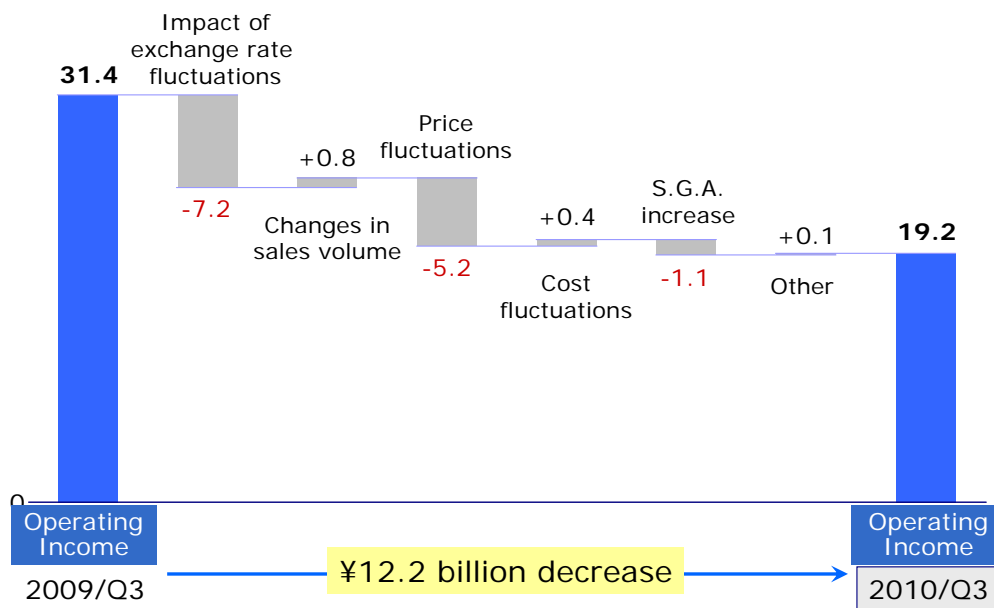


- **Now let's see how we did compared to the outlook.**
  
- **In information-related equipment, projector net sales fell short of the outlook, yet income still exceeded expectations thanks largely to improved cost efficiency. Business system and page printer operating income ended lower than projected due to a shortfall in net sales. Inkjet printer operating income also ended below expectations, mainly because, in addition to disappointing sales of consumables, we did not ship as many printer units as expected, causing inventory to temporarily swell at the end of the third quarter.**
  
- **The electronic devices segment benefited from better than expected results in the semiconductor business, which saw an increase in sales of high-margin products, and lower fixed and variable costs as a result of a high capacity utilization ratio. Operating income from displays also exceeded the outlook, as fixed cost reductions made up for the effects of a shortfall in net sales, while operating income from crystal devices was in line with the outlook.**

## Operating Income Fluctuation Cause Analysis



(Billions of yen)



\*FY2009 income is based on previous standard

11

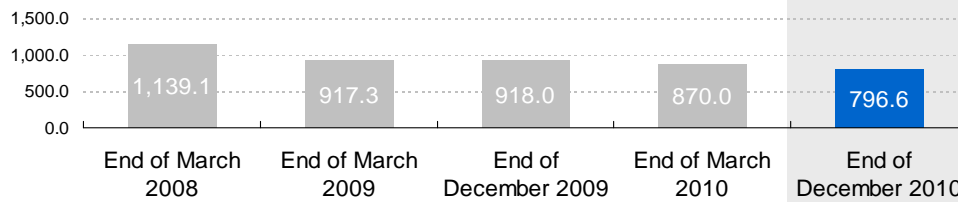


- This slide shows a cause analysis of the ¥12.2 billion decrease in operating income compared to the same period last year.
- Whereas fiscal 2009 third-quarter operating income was ¥31.4 billion, this year the figure fell to ¥19.2 billion due to foreign exchange effects and price fluctuations.

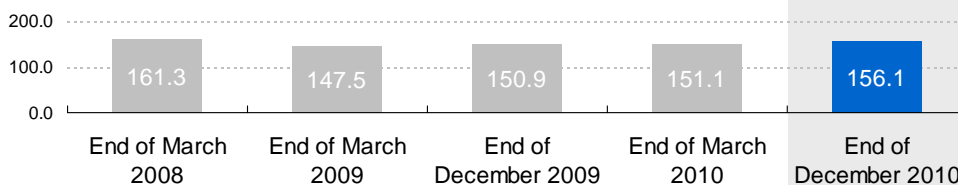
## Statistics of Balance Sheet Items



(Billions of yen)  
Total assets



Inventories



12



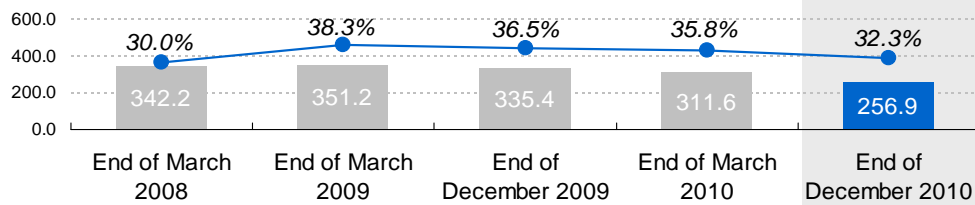
- **Next, let's look at some of the major items on the balance sheet.**
- **Total assets declined ¥73.3 billion compared to the end of the previous fiscal year. Line items such as notes and accounts receivable-trade and inventory increased. Among the factors accounting for the decline, therefore, were a decrease in cash and deposits accompanying the repayment of loans and a decrease in property, plant, and equipment due to a rigorous approach to the screening and selection of capital investments.**

## Statistics of Balance Sheet Items

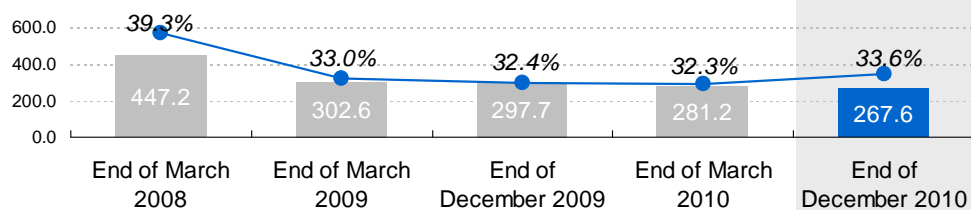


(Billions of yen)

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



### Shareholders' equity & equity ratio



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

13

- **Interest-bearing liabilities decreased by ¥54.7 billion from the end of the previous fiscal year due to the paying down of loans. The ratio of interest-bearing liabilities to total assets was 32.3%.**
- **Net interest-bearing liabilities were ¥81.9 billion.**
- **Shareholders' equity decreased ¥13.6 billion due to the effect of the strong yen and foreign currency translations. As a result, the equity ratio was 33.6%.**



1) FY2010 Q3 Financial Results

2) FY2010 Business Outlook

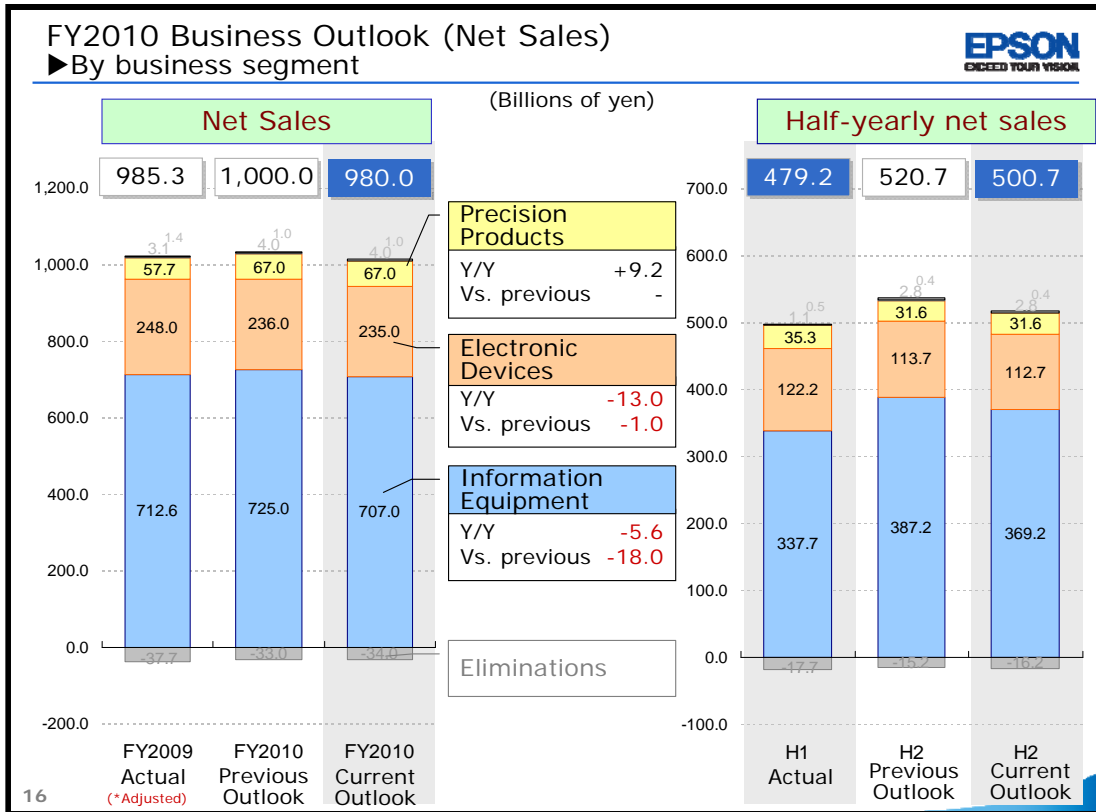
## FY2010 Business Outlook



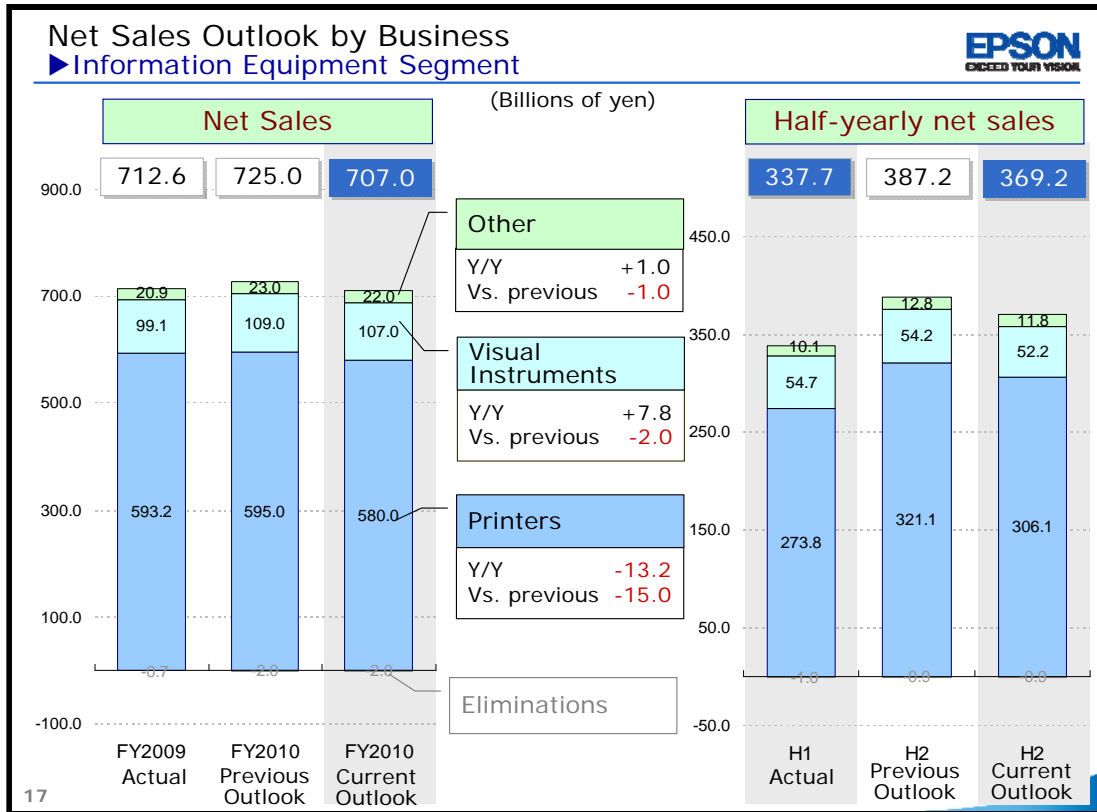
(Billions of yen)	FY2009		FY2010				Change (amount, %)	
	Actual	%	10/29 Outlook	%	Current Outlook	%	Y/Y	Vs. Previous
Net Sales	985.3	-	1,000.0	-	980.0	-	-5.3 -0.5%	-20.0 -2.0%
Operating Income	18.2	1.8%	35.0	3.5%	35.0	3.6%	+16.7 +92.0%	- -
Ordinary Income	13.8	1.4%	34.0	3.4%	34.0	3.5%	+20.1 +145.0%	- -
Net Income Before Income Taxes	-0.7	-0.1%	22.0	2.2%	22.0	2.2%	+22.7 -	- -
Net Income	-19.7	-2.0%	10.0	1.0%	10.0	1.0%	+29.7 -	- -
EPS	-¥99.34		¥50.05		¥50.05		Current Outlook: FY2010 H2 exchange rate assumption USD: ¥81.00 EUR: ¥110.00 Q4 exchange rate assumption USD: ¥80.00 EUR: ¥110.00	
Exchange Rate	USD	¥92.85	¥84.00	¥85.00				
	EUR	¥131.15	¥112.00	¥112.00				
		Previous outlook H2 exchange rate assumption USD: ¥80.00, EUR: ¥110.00						

15

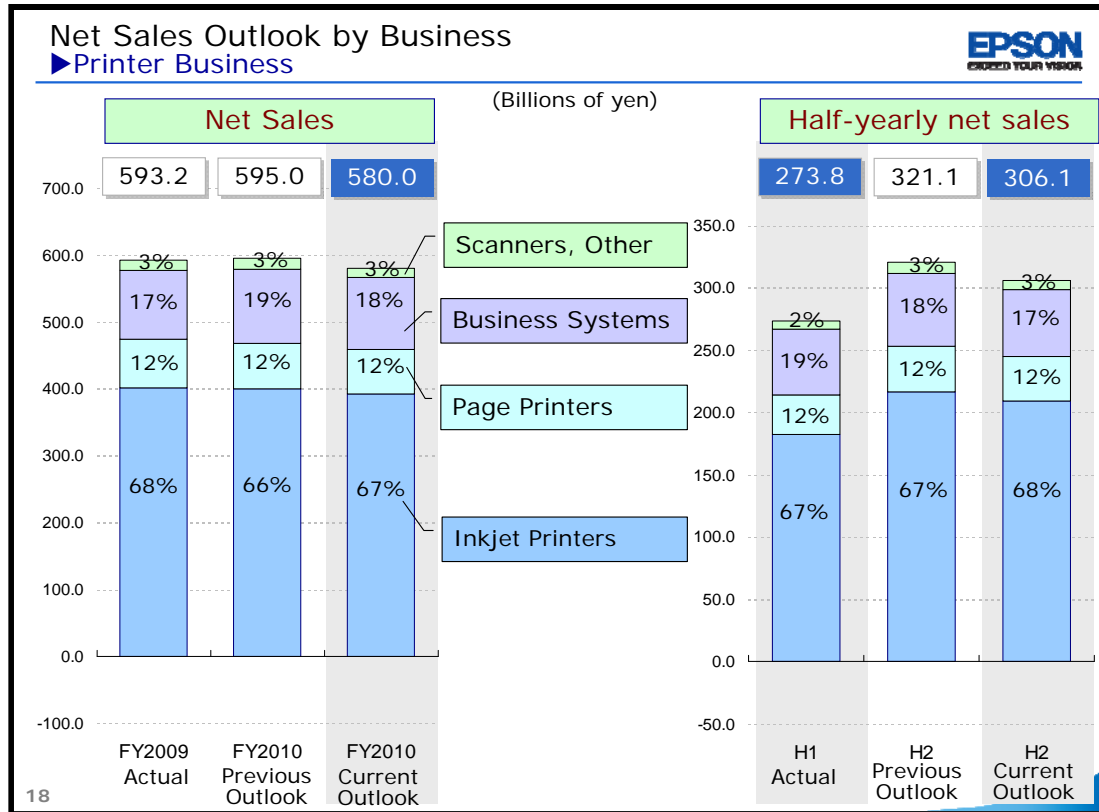
- We revised our fiscal 2010 financial outlook. Based on our third quarter performance and segment forecasts, we lowered our net sales outlook by ¥20 billion to ¥980 billion. We left the forecast for each category of income the same as in the previous outlook. Operating income is seen coming in at ¥35 billion, net income before taxes at ¥22 billion, and net income at ¥10 billion.
- We will be wrapping up our business reorganization this year, and our assumptions regarding extraordinary loss and tax charges still stand.



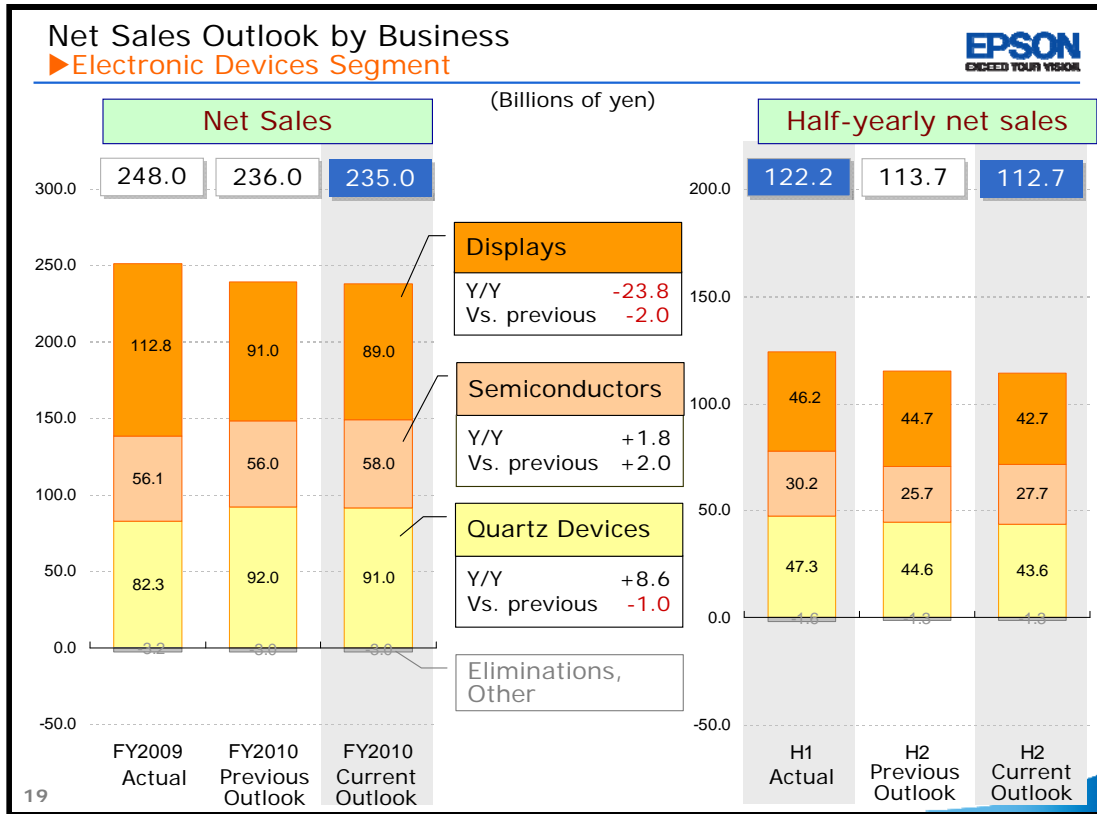
- This slide shows the net sales outlook for fiscal 2010. The figures are broken down by segment and by first half and second half.
- We now expect full-year net sales of ¥707 billion in information-related equipment, ¥235 billion in electronic devices, and ¥67 billion in precision products.



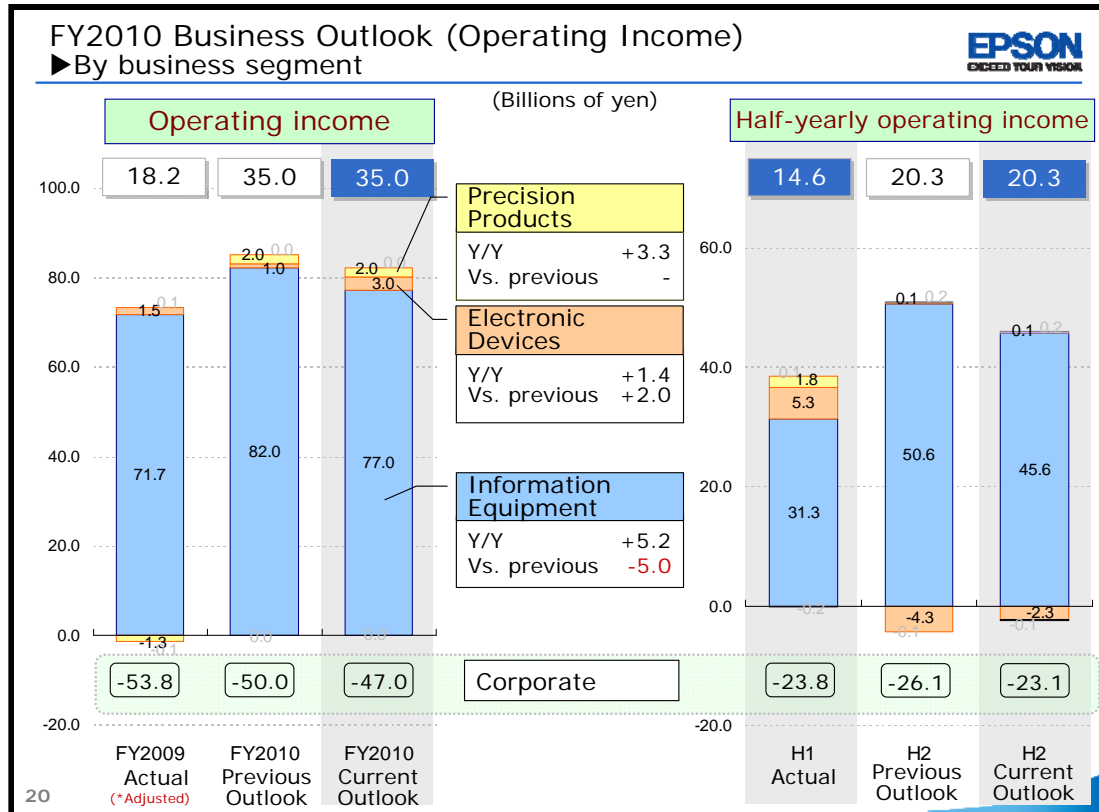
- 
- The breakdown of estimated net sales in each business of the information-related equipment segment looks like this.
- I will discuss the printer business when we turn to the next slide.
- The visual instruments business lowered its full-year net sales forecast to ¥107 billion based on recent market trends and moves by competitors. Nevertheless, in the projector market we expect continued firm demand for business and education models. We will keep an eye on the moves of our competitors as we look to expand our share by capturing demand with a well-stocked lineup of products.



- The breakdown of net sales outlook in the printer business looks like this.
- We revised our net sales outlook downward based on the current market environment.
- In inkjet printers, we have not changed our strategic assumptions in any region or product category, but we see net sales coming in under the previous outlook. This is primarily a reflection of the printer and consumables sales trend in the third quarter.
- When we made the previous outlook, we expected full-year printer unit shipments to grow 10% or more, year-over-year. We have revised this downward to around 6% growth in the current outlook. Although third quarter unit shipments were lower than expected, our response to moves by our competitors has started to become apparent. We will continue to closely watch markets and sales trends, and will roll out effective sales strategies as we look to achieve our unit shipment objectives.
- Total net sales in business systems are expected to come in below the previous outlook because large-scale POS-related product business opportunities have been slow to materialize in Europe and the U.S. On the other hand, we expect continued steady demand for SIDM printers for tax collection in China. Also, to develop business in new market segments and in high added-value areas, we began in December to market POS color coupon printers in Japan as we have been doing in Europe and America. Moving forward, we will steadily increase the number of new opportunities based on existing businesses.



- 
- **This slide shows how the net sales outlook breaks down by business in the electronic devices segment.**
- **We revised our net sales expectations downward in every business to reflect recent demand.**
- **Although there will be some normal seasonal fluctuation, the semiconductor business foresees continued steady demand.**
- **The crystal device and display businesses, on the other hand, expect net sales to come in slightly under the previous outlook.**

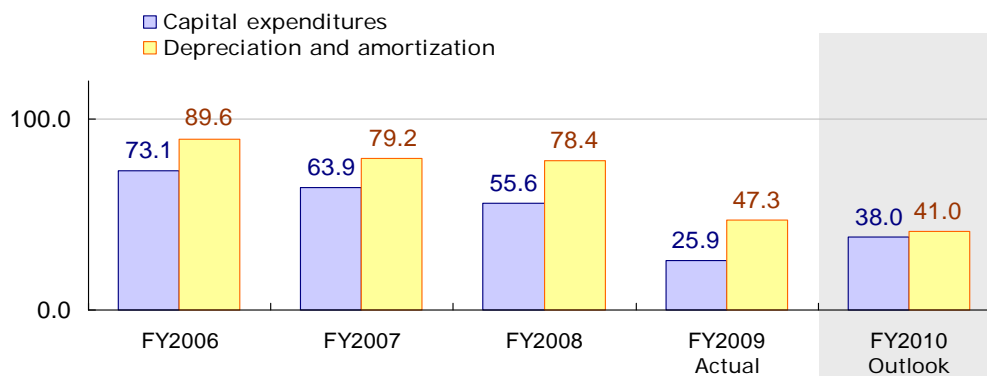


- Here is the fiscal 2010 full-year operating income outlook, with figures broken down by segment and by half.
- Based on hardware and consumables sales trends in information-related equipment, we expect this segment to post ¥77 billion in operating income, down ¥5 billion from the previous outlook. We will continue to control and optimize manufacturing and inventory according to sales trends, and to improve cost efficiency.
- In electronic devices, we see operating income coming in at ¥3 billion, or ¥2 billion over our previous outlook. Operating income in crystal devices will fall below the previous outlook, in part due to deterioration in ASPs and slippage in the cost reduction schedule. However, we expect improvement in the semiconductor and display businesses.
- We expect to see a ¥3 billion improvement in corporate expenses for the full year, mainly by being extremely selective with spending, including in research and development.

## Outlook for Capital Expenditure and Depreciation & Amortization Expenses



(Billions of yen)



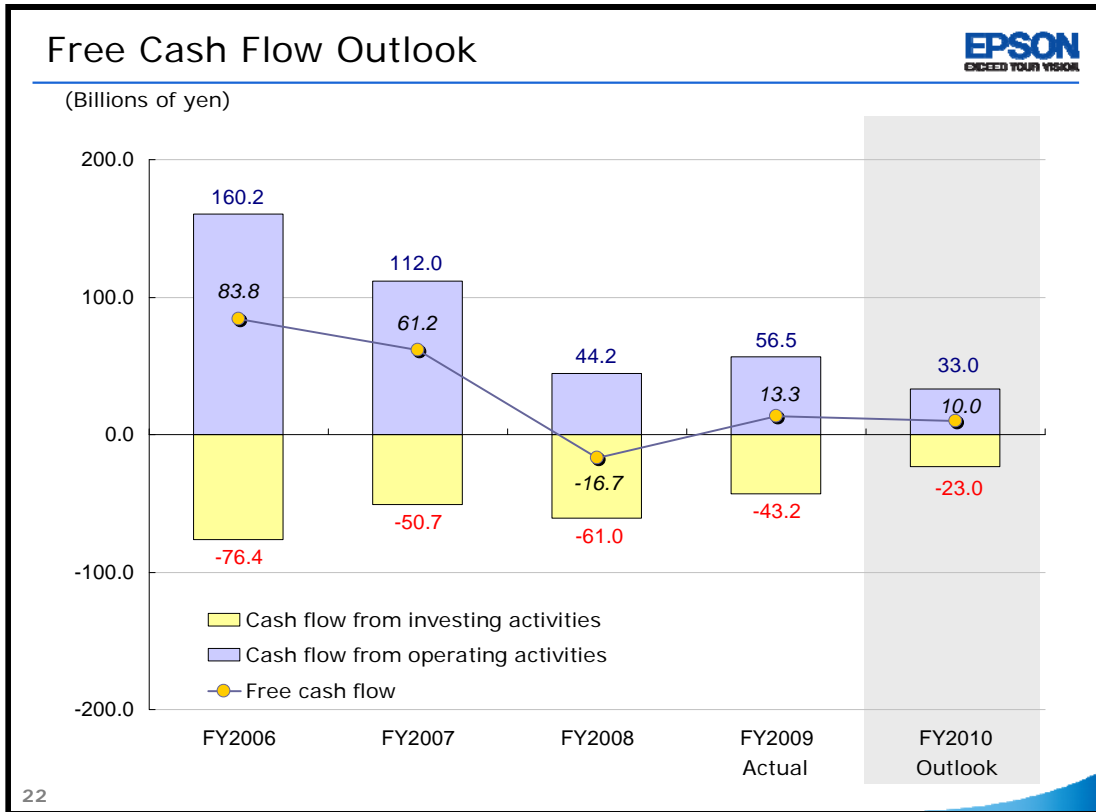
Breakdown by segment	FY2009 Actual		FY2010 Outlook	
	Cap. Ex.	D&A	Cap. Ex.	D&A
Information Equipment	12.5	24.4	20.0	22.0
Electronic Devices	9.8	10.4	12.0	10.0
Precision Products	1.8	3.9	3.0	3.0
Corporate/Other	1.6	8.5	3.0	6.0

21



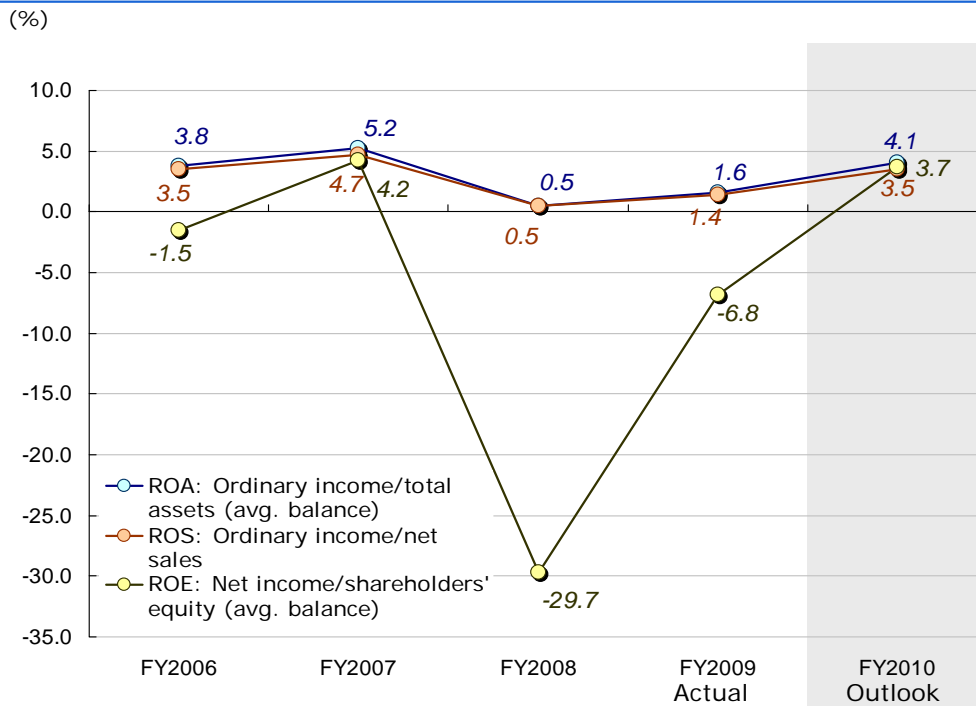
- **This slide shows the outlook for capital expenditures and depreciation and amortization expenses.**
- **Capital expenditures were revised to ¥38 billion. Depreciation and amortization were revised to ¥41 billion.**





- **Projected cash flows look like this.**
  
- **As a result of having revised estimated cash flows from investment and operating activities, we have left estimated free cash flows at ¥10 billion, the same as in the previous outlook.**

## Main Management Indicators



- 
- The major management performance indicators derived from the business outlook are ROS of 3.5%, ROA of 4.1%, and ROE of 3.7%.
- This concludes the presentation of Epson's fiscal 2010 third-quarter financial results and the fiscal 2010 full-year business outlook.

**EPSON**  
EXCEED YOUR VISION