

Fiscal 2005 (Ending March 31, 2006)
3Q Financial Results and
Reform Plan for Improving Earnings Potential

January 27, 2006

SEIKO EPSON CORPORATION

Disclaimer

When reviewing this information, please note that the information was created as of the date of the information, should be considered in the context of the circumstances prevailing at that time and is only correct as of that date. 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, exchange rate fluctuations and our ability to continue to introduce new products and services on a timely basis.

This report is a simple translation of the Japanese version of the explanatory presentation. No reclassification or rearrangement has been made.

Numerical values

All numbers are rounded to the nearest unit.

All percentages are rounded off to one decimal place.

1. FY2005 3Q Financial Results and Revised Business Outlook

2. Reform Plan for Improving Earnings Potential

1. FY2005 3Q Financial Results and Revised Business Outlook

(1) 3Q Financial Results

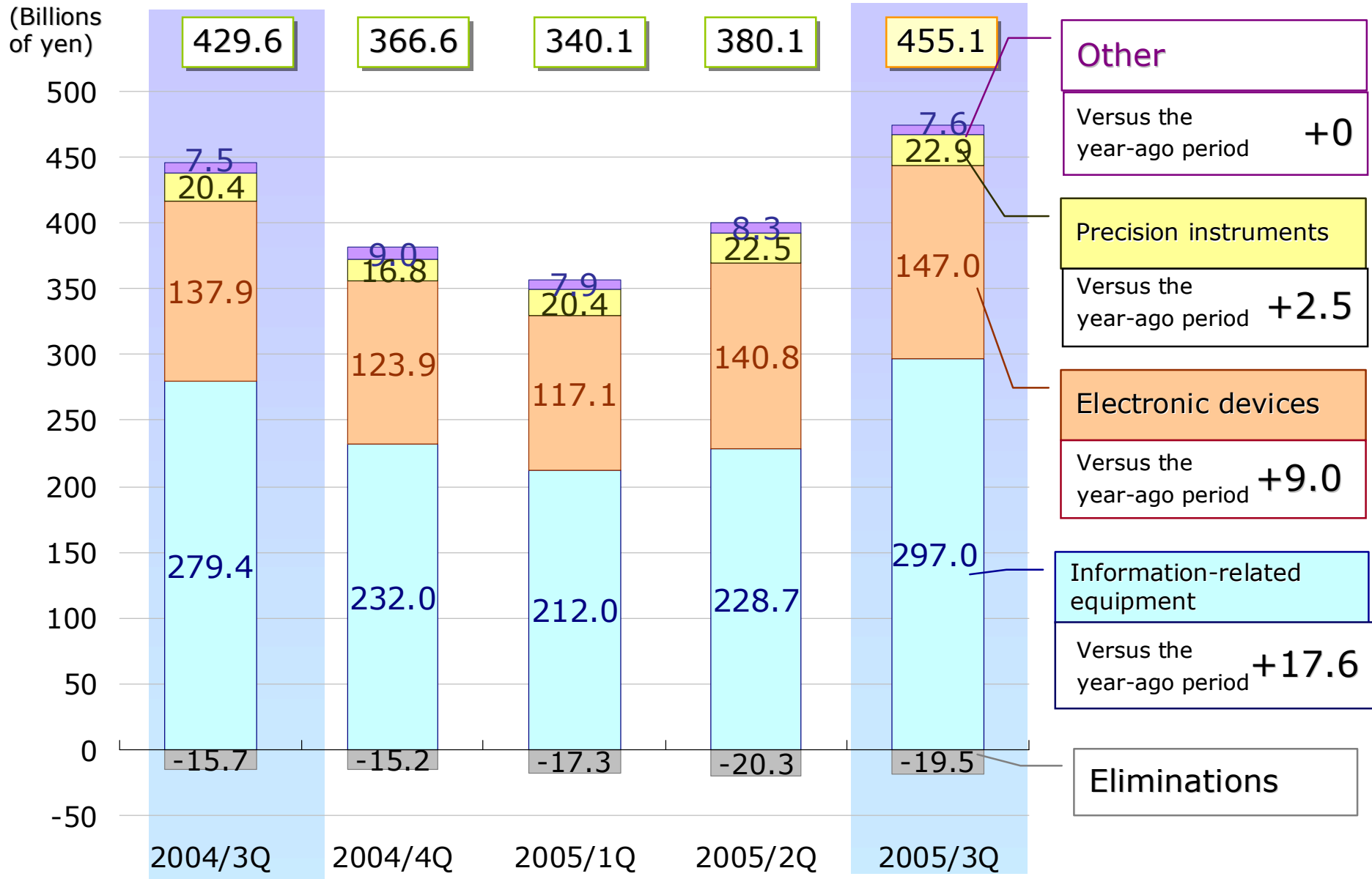
(2) FY2005 Business Outlook

Financial Highlights (3Q) ▶ Vs. the year-ago period



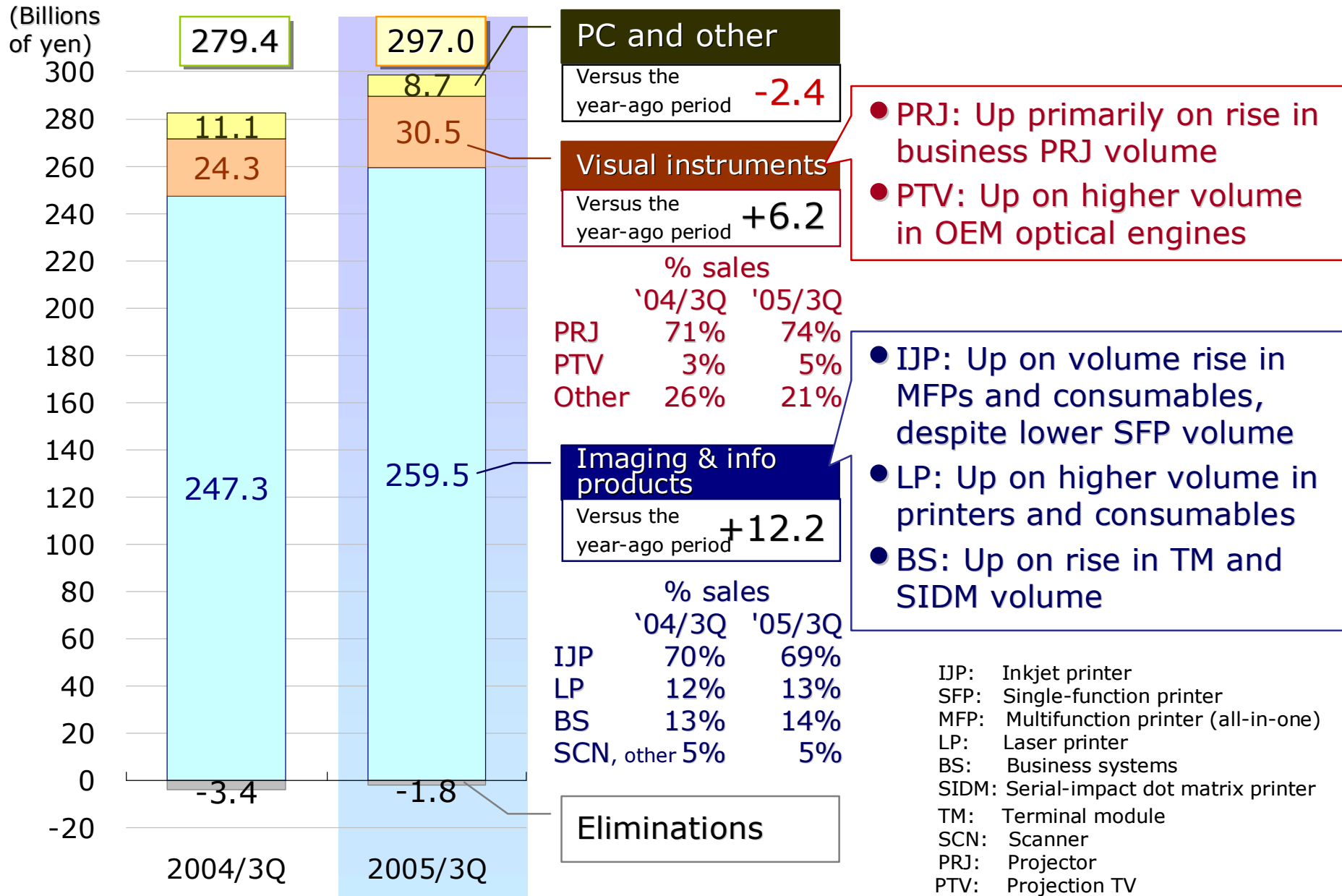
(Billions of yen)		FY2004		FY2005		Change	
		3Q Actual	%	3Q Actual	%	Amount	%
Net sales		429.6	-	455.1	-	+25.4	+5.9%
Operating income		30.9	7.2%	17.1	3.8%	-13.8	-44.7%
Ordinary income		27.9	6.5%	17.9	3.9%	-9.9	-35.8%
Net income before income taxes		26.1	6.1%	12.2	2.7%	-13.9	-53.3%
Quarterly net income		20.4	4.8%	9.0	2.0%	-11.3	-55.6%
Exchange rate	USD	¥105.95		¥117.35			
	EUR	¥137.16		¥139.44			
Extraordinary gains and losses		Total gains: ¥13.0 bil. (incl. ¥12.2 bil. gain on change in interest due to business combination with Toyocom)					
		Total losses: ¥18.7 bil. (incl. ¥17.2 bil. in reorganization charges*) *Charge on semiconductor production site & line reorganization: ¥10.1 bil. Impairment loss on investment in semiconductor technology: ¥7.1 bil.					

Quarterly Net Sales ▶ By business segment



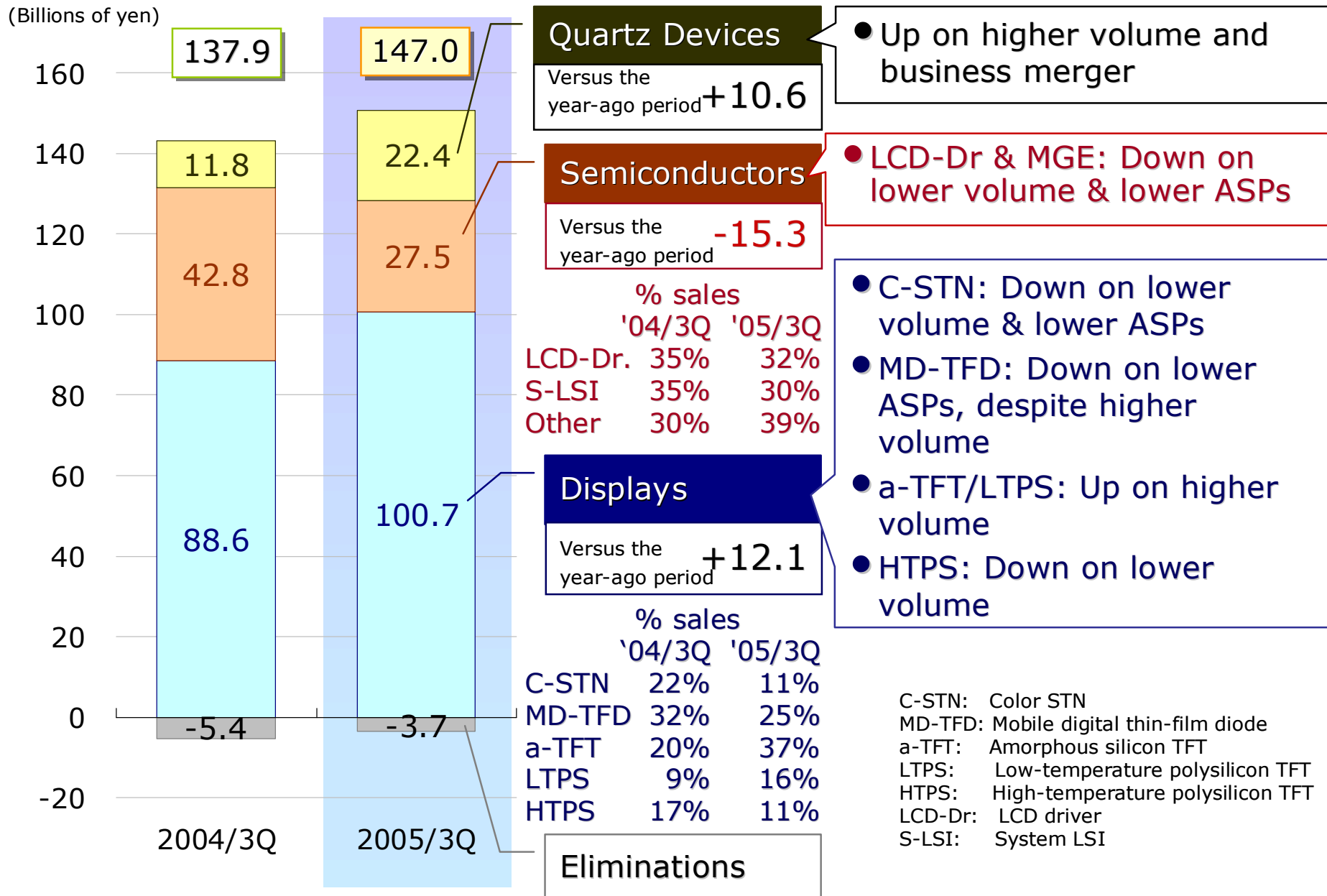
Quarterly Net Sales Comparison

Information related equipment

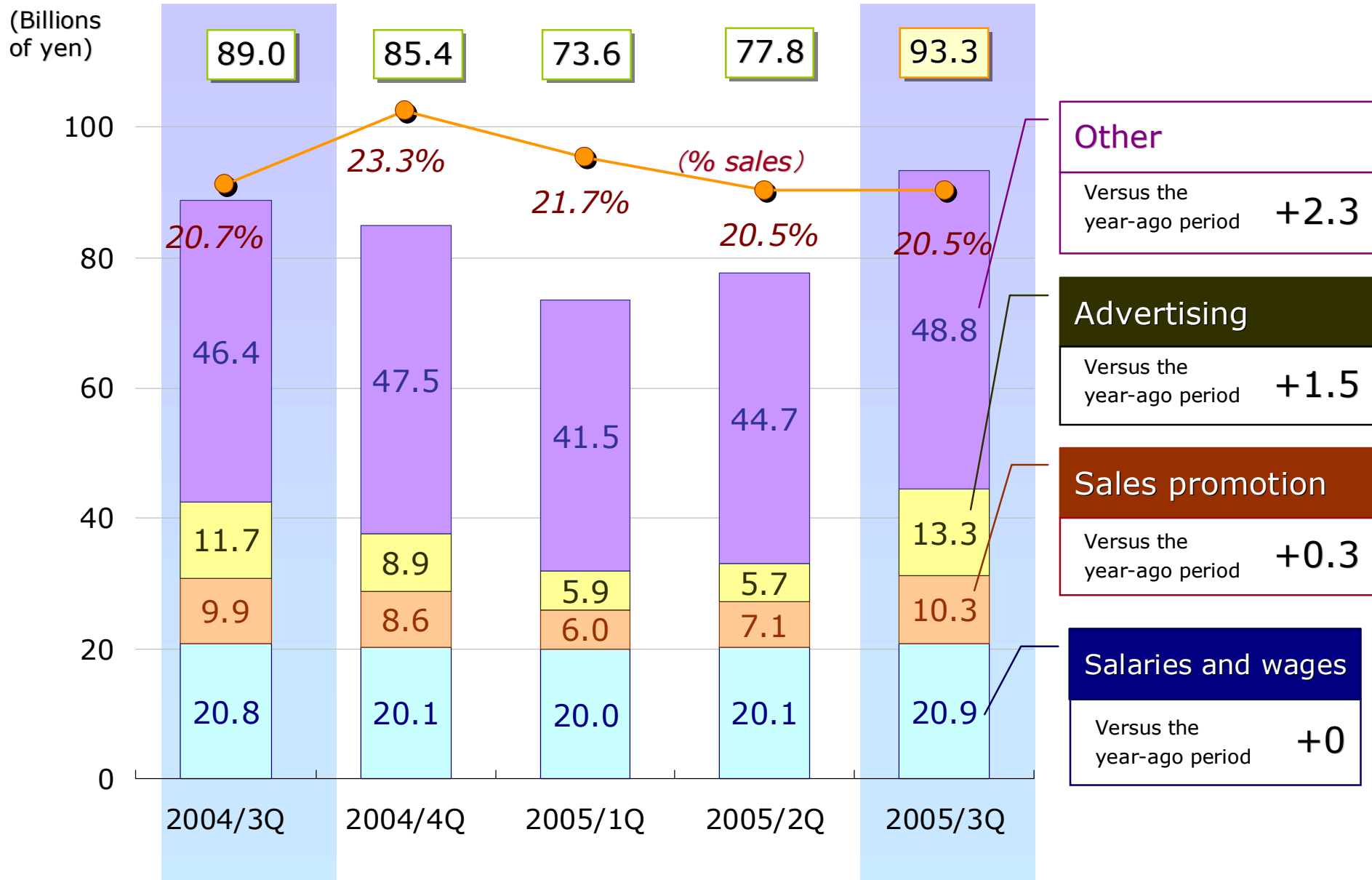


Quarterly Net Sales Comparison

▶ Electronic devices

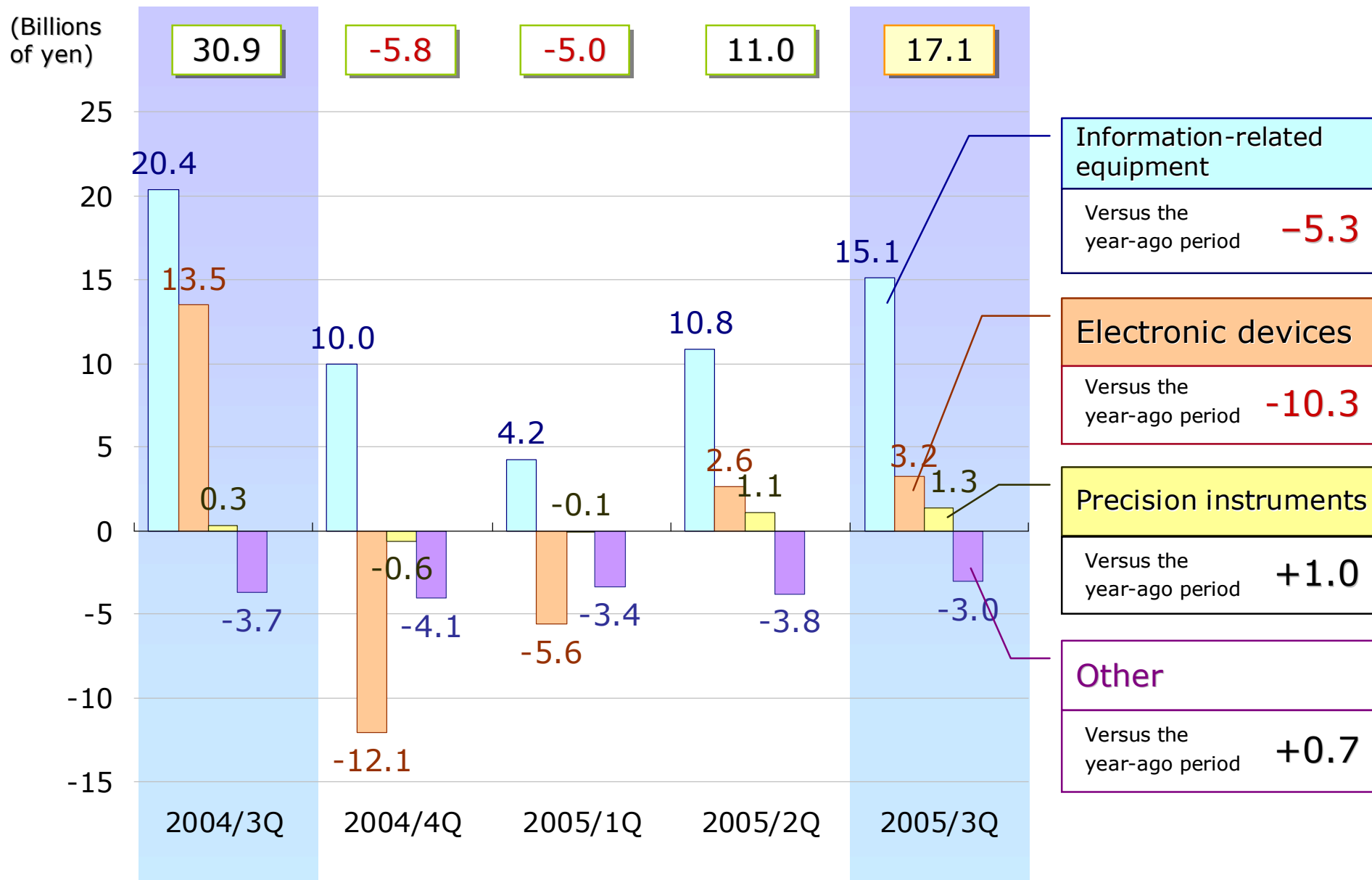


Quarterly Selling, General and Administrative Expenses

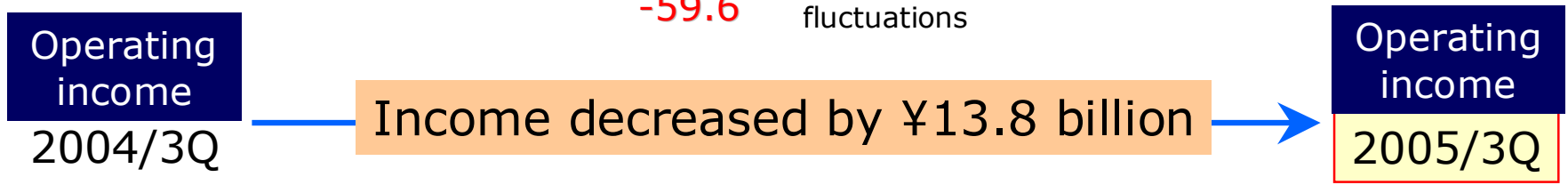
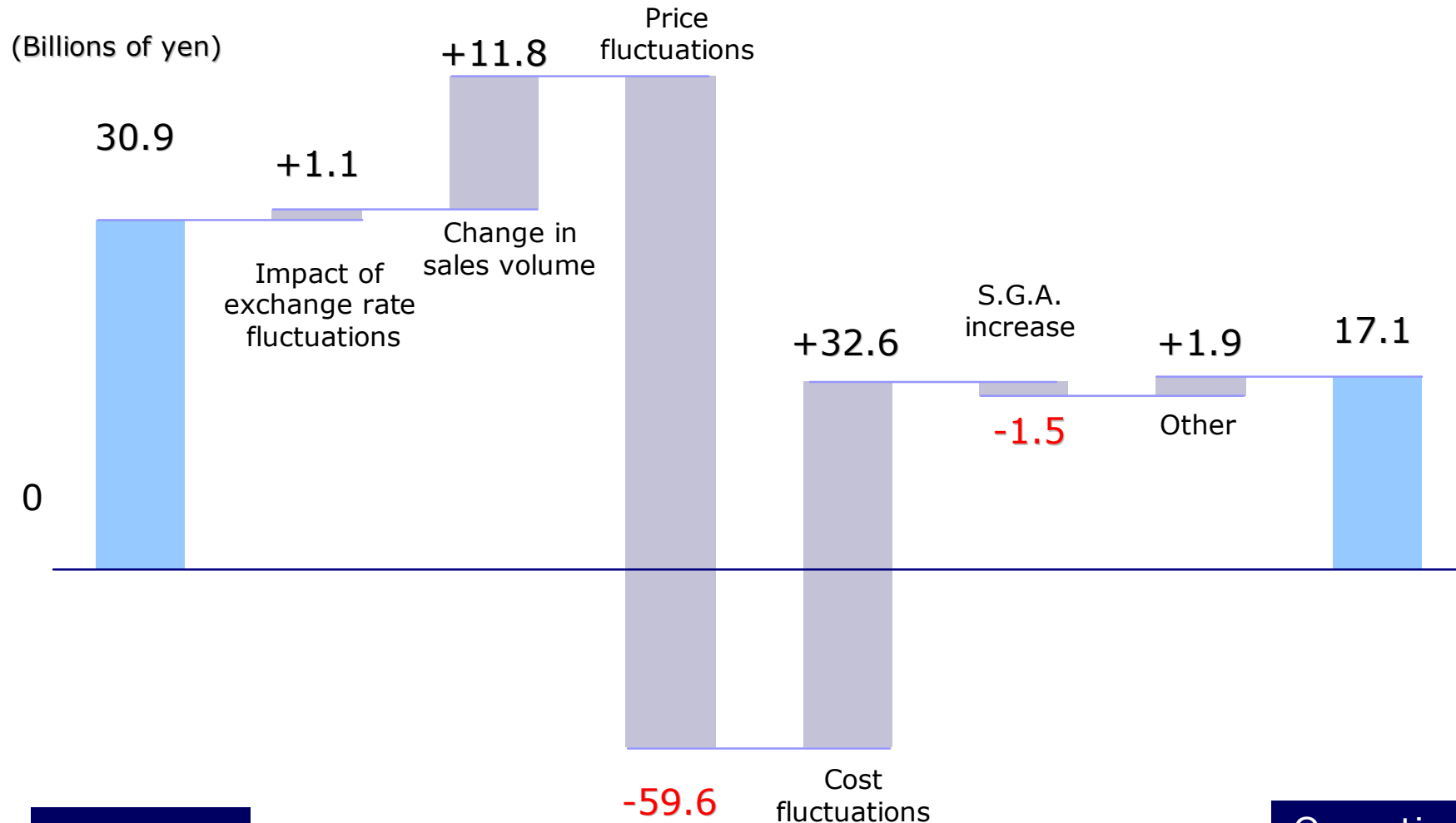


Quarterly Operating Income

► By business segment

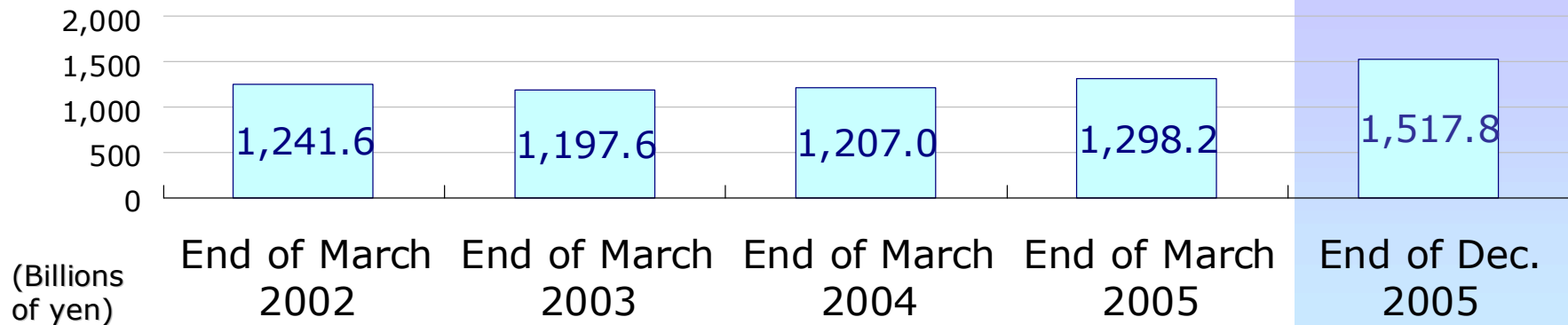


Operating Income Fluctuation Cause Analysis

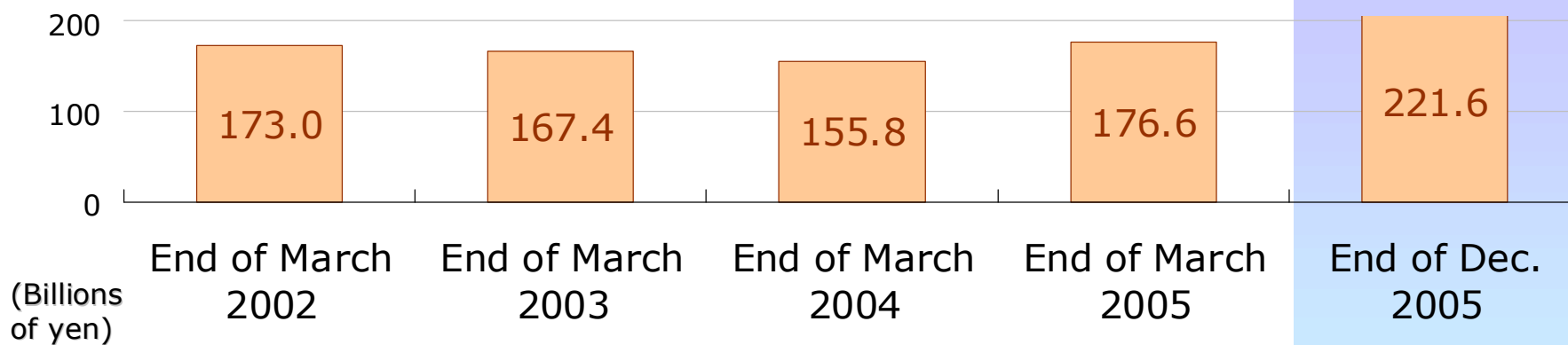


Statistics of Balance Sheet Items

Total Assets

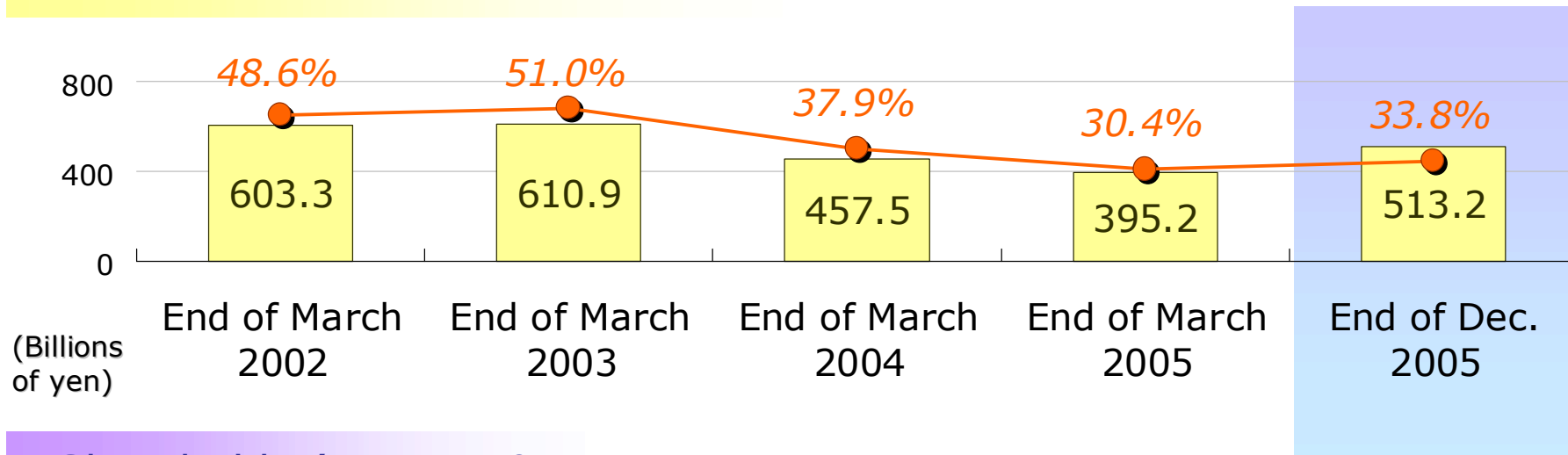


Inventories

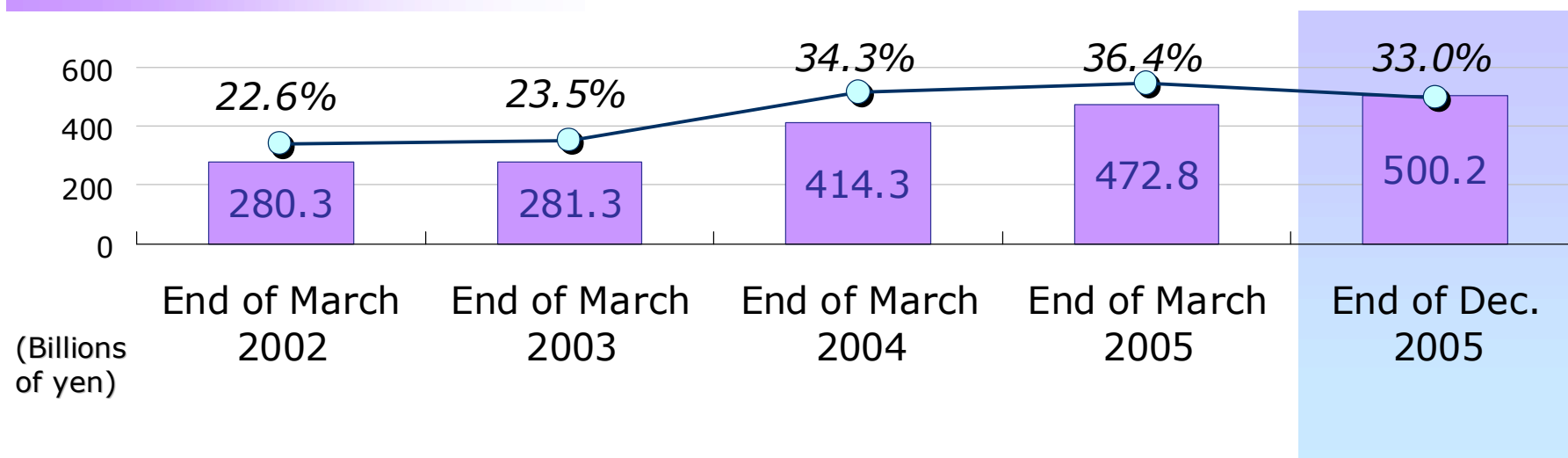


Statistics of Balance Sheet Items

Interest-bearing liabilities & ratio of interest-bearing liabilities



Shareholder's equity & equity ratio



(1) 3Q Financial Results

(2) FY2005 Business Outlook

FY2005 Business Outlook



	FY2004		FY2005				Change (amount, %)	
	Actual	%	10/26 outlook	%	Current outlook	%	YoY	Vs. 10/26 outlook
(Billions of yen)								
Net sales	1479.7	-	1,618.0	-	1,553.0	-	73.2 5.0%	-65.0 -4.0%
Operating income	90.9	6.1%	44.0	2.7%	24.0	1.5%	-66.9 -73.6%	-20.0 -45.5%
Ordinary income	85.3	5.8%	45.0	2.8%	26.0	1.7%	-59.3 -69.5%	-19.0 -42.2%
Net income before income taxes	73.6	5.0%	38.0	2.3%	-11.0	-0.7%	-84.6 -114.9%	-49.0 -128.9%
Net income	55.6	3.8%	22.0	1.4%	-14.0	-0.9%	-69.6 -125.1%	-36.0 -163.6%
EPS	¥283.60		¥112.04		¥-71.30			
Exchange rate	USD	¥107.55	¥109.00		¥112.00			
	EUR	¥135.19	¥134.00		¥136.00			

FY2005 Business Outlook



▶ Extraordinary gains & losses

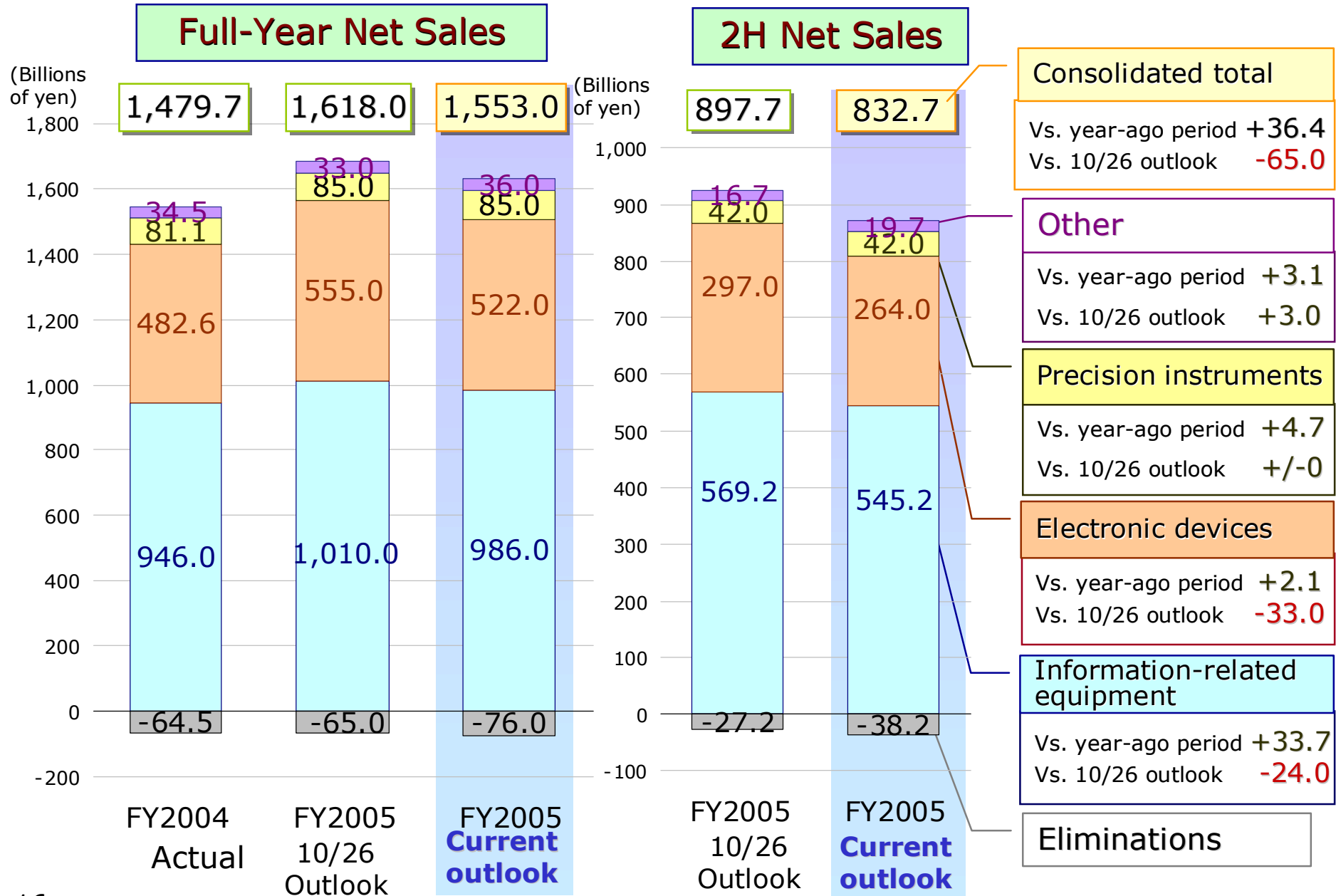
(Billions of yen)

		3Q actual	4Q outlook	2H total
Extraordinary gains (major items)				
	Gain on change in interest due to business combination with Toyocom	12.2	-	12.2
	Other extraordinary gains	0.7	0.5	1.2
		13.0	0.5	13.5
Extraordinary losses (major items)				
Restruct. charges	Electronic device fixed cost restructuring	10.1	21.5	31.7
	Impairment loss on investment in semiconductor technology	7.1	-	7.1
Others	Lawsuit-related expenses	-	7.2	7.2
	Other loss on sale/disposal of property	0.5	0.8	1.3
	Other extraordinary losses	0.9	1.5	2.4
		18.7	31.1	49.8

Potential expenses related to fixed-cost restructuring in the electronic device business are under examination in conjunction with the mid-range business plan (to be announced 3/16)

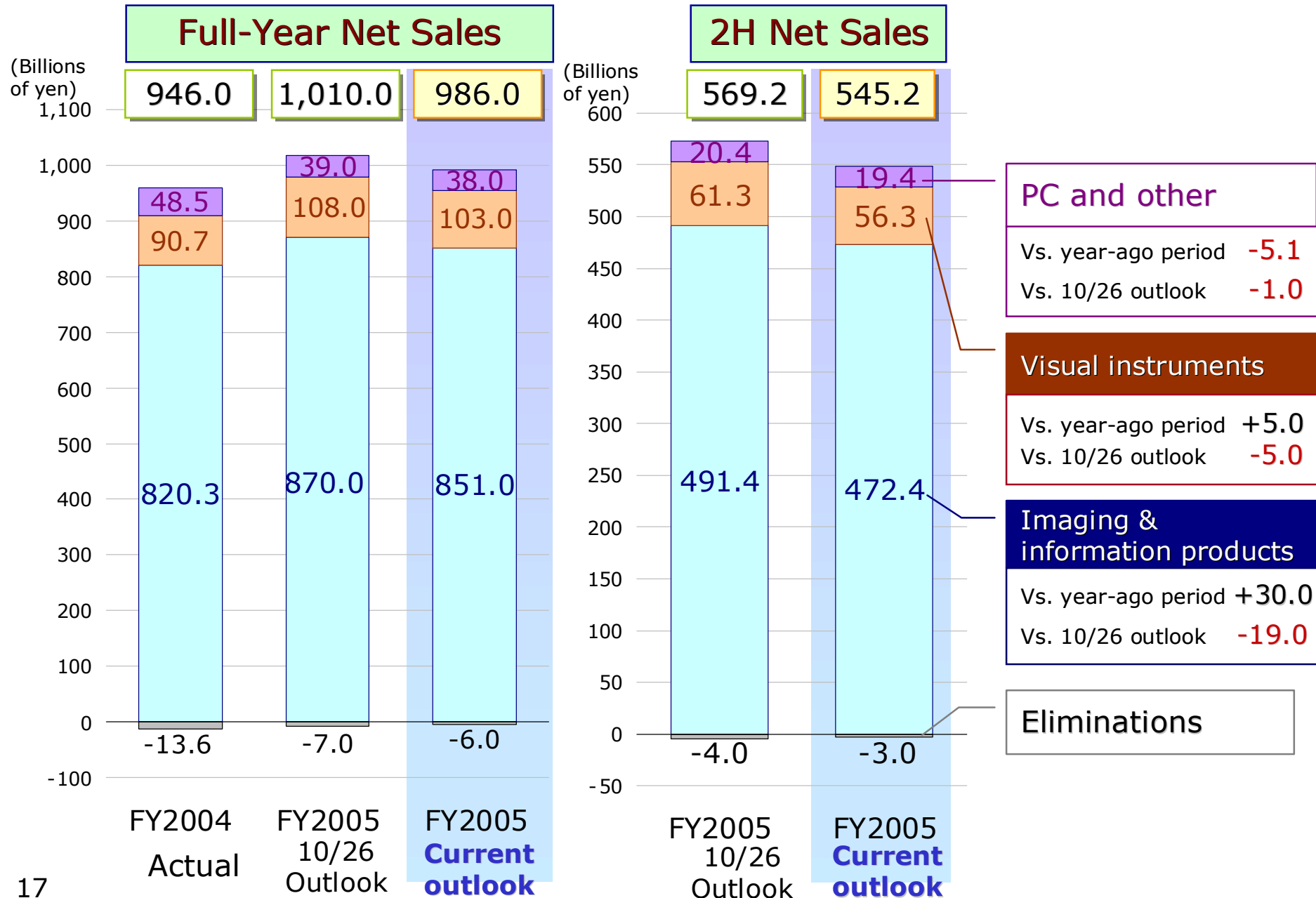
FY2005 Business Outlook

► Net sales (by business segment)



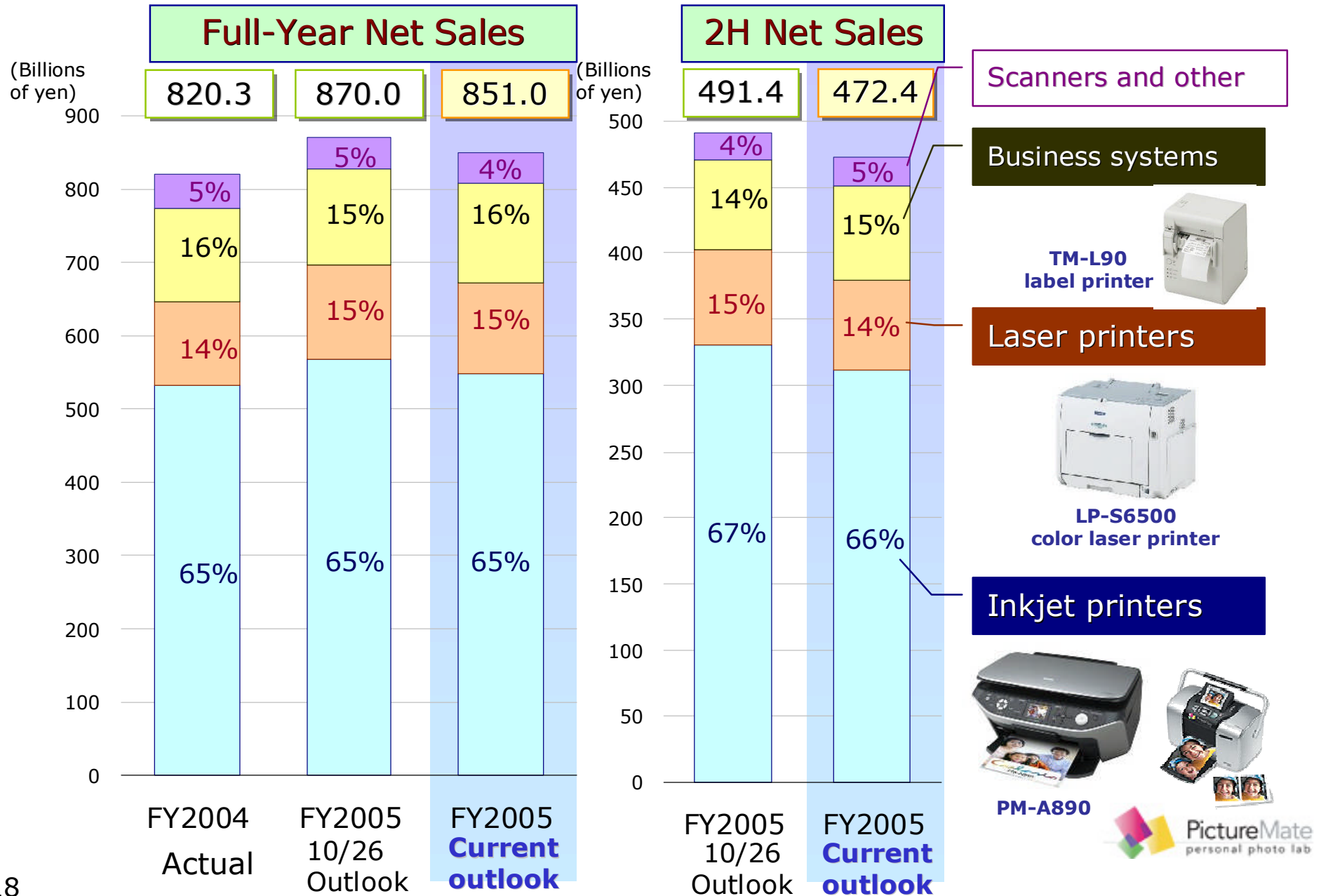
Net Sales Outlook by Business

► Information-related equipment segment



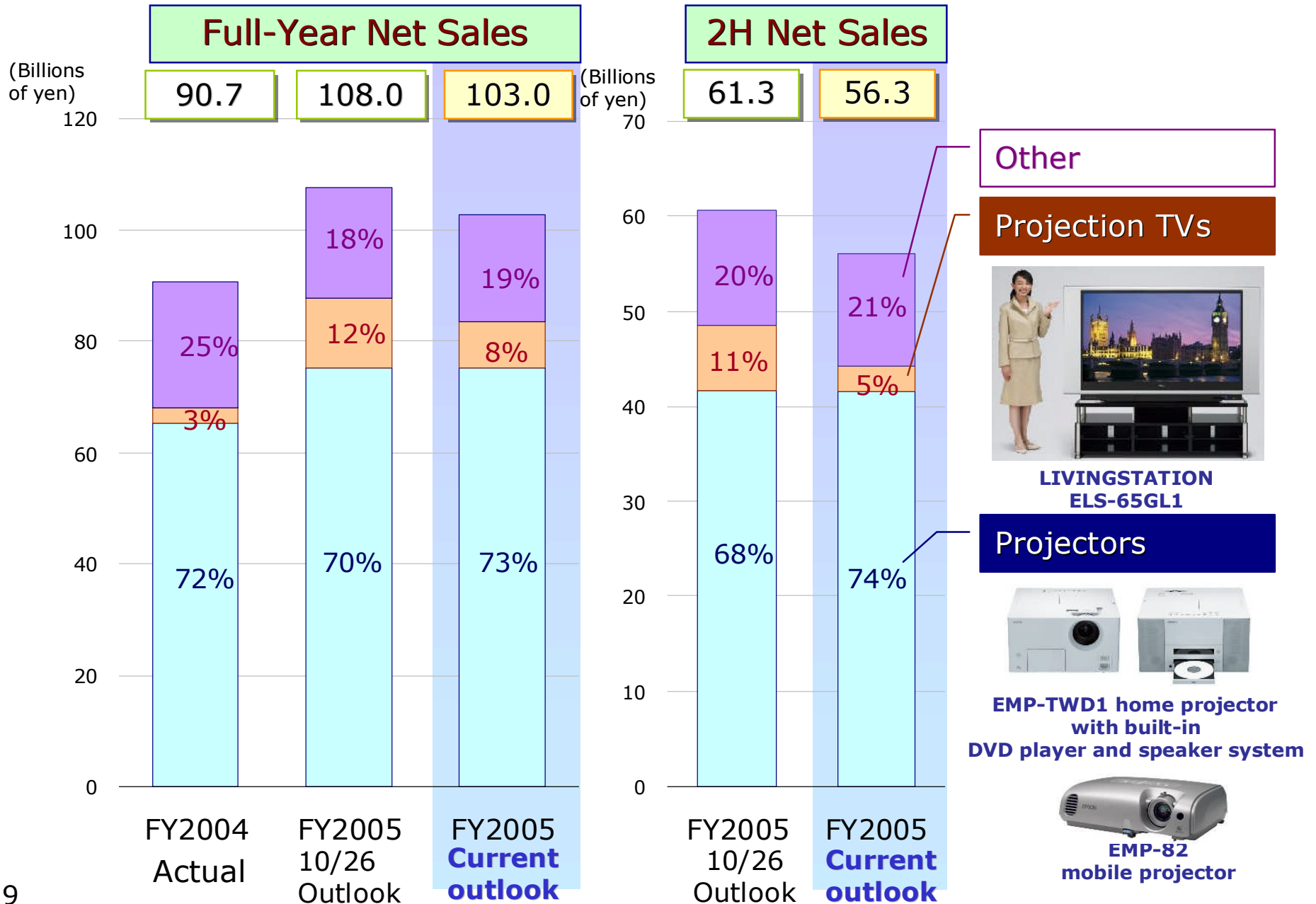
Net Sales Outlook by Business

► Imaging & information business



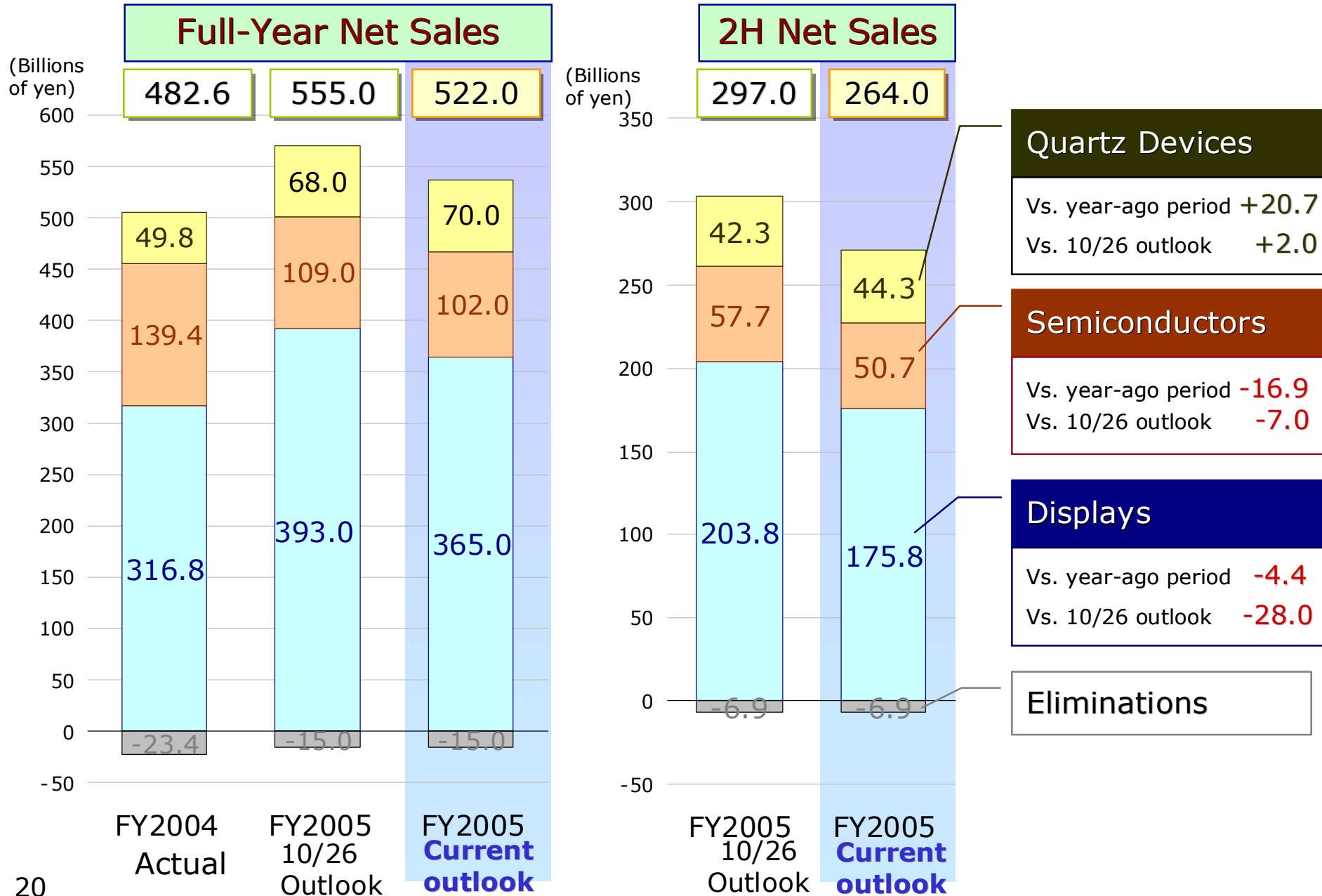
Net Sales Outlook by Business

► Visual instruments business



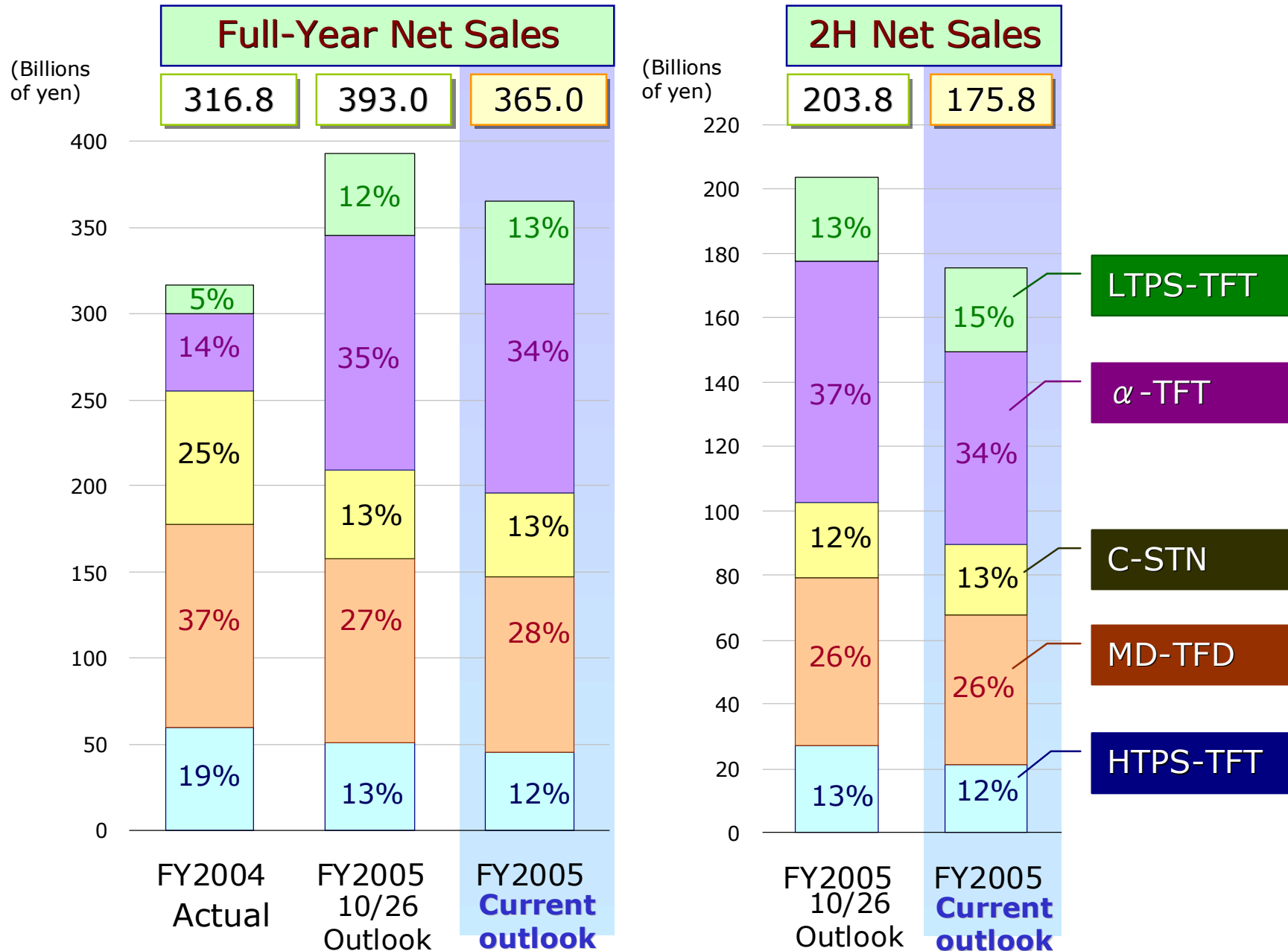
Net Sales Outlook by Business

▶ Electronic device segment



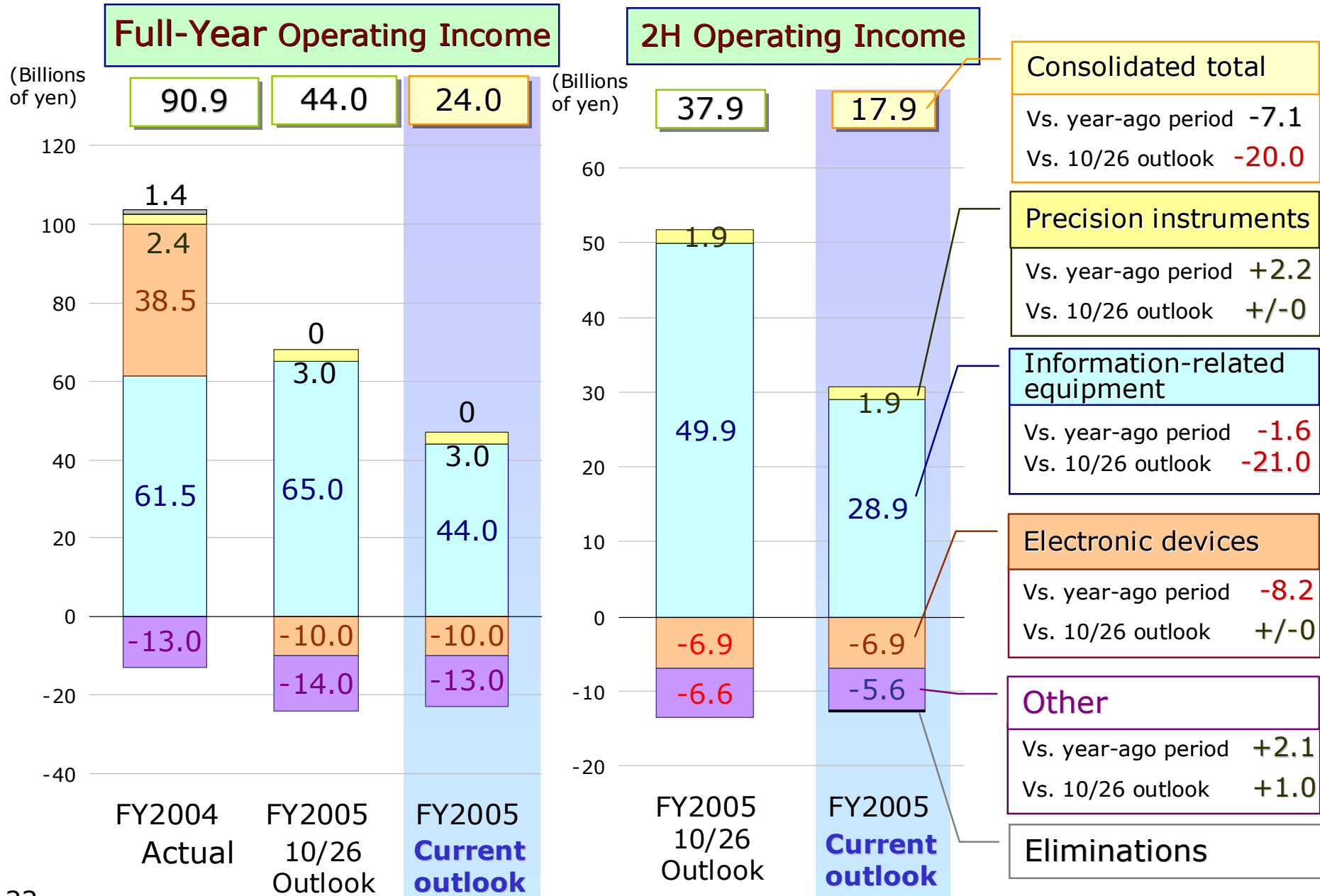
Net Sales Outlook by Business

► Display business

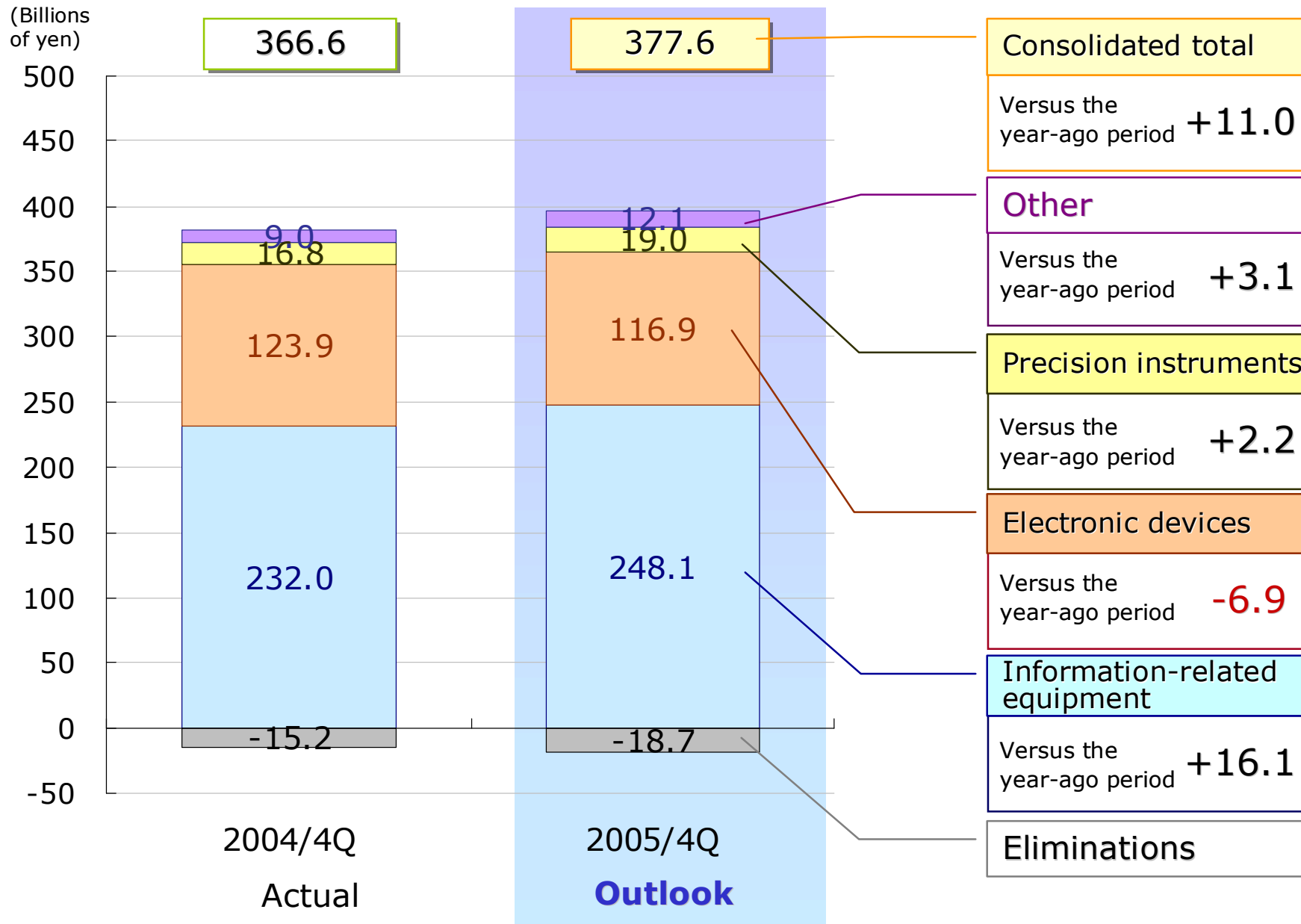


FY2005 Business Outlook

▶ Operating income (by business segment)

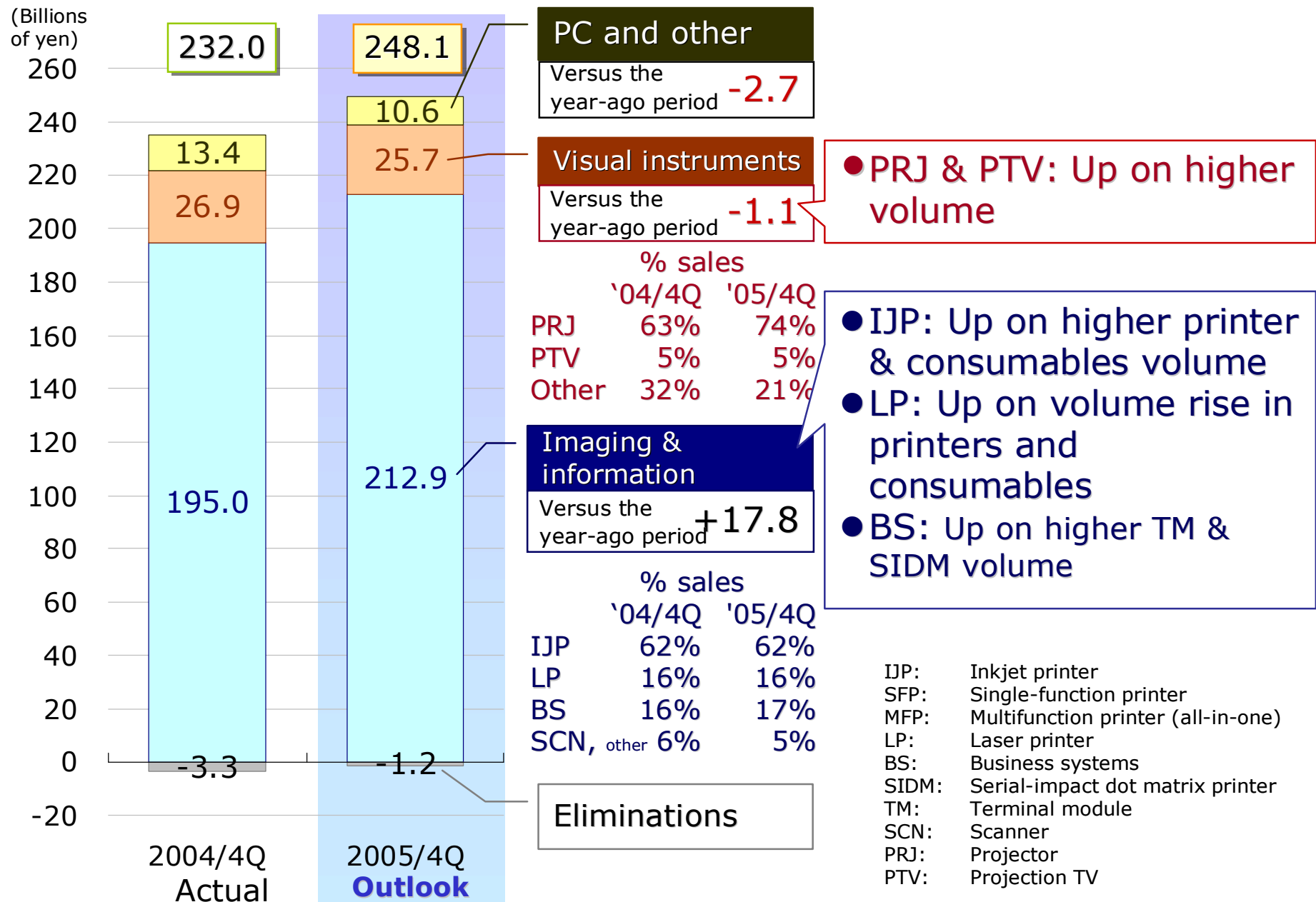


4Q Net Sales Comparison ▶ By business segment



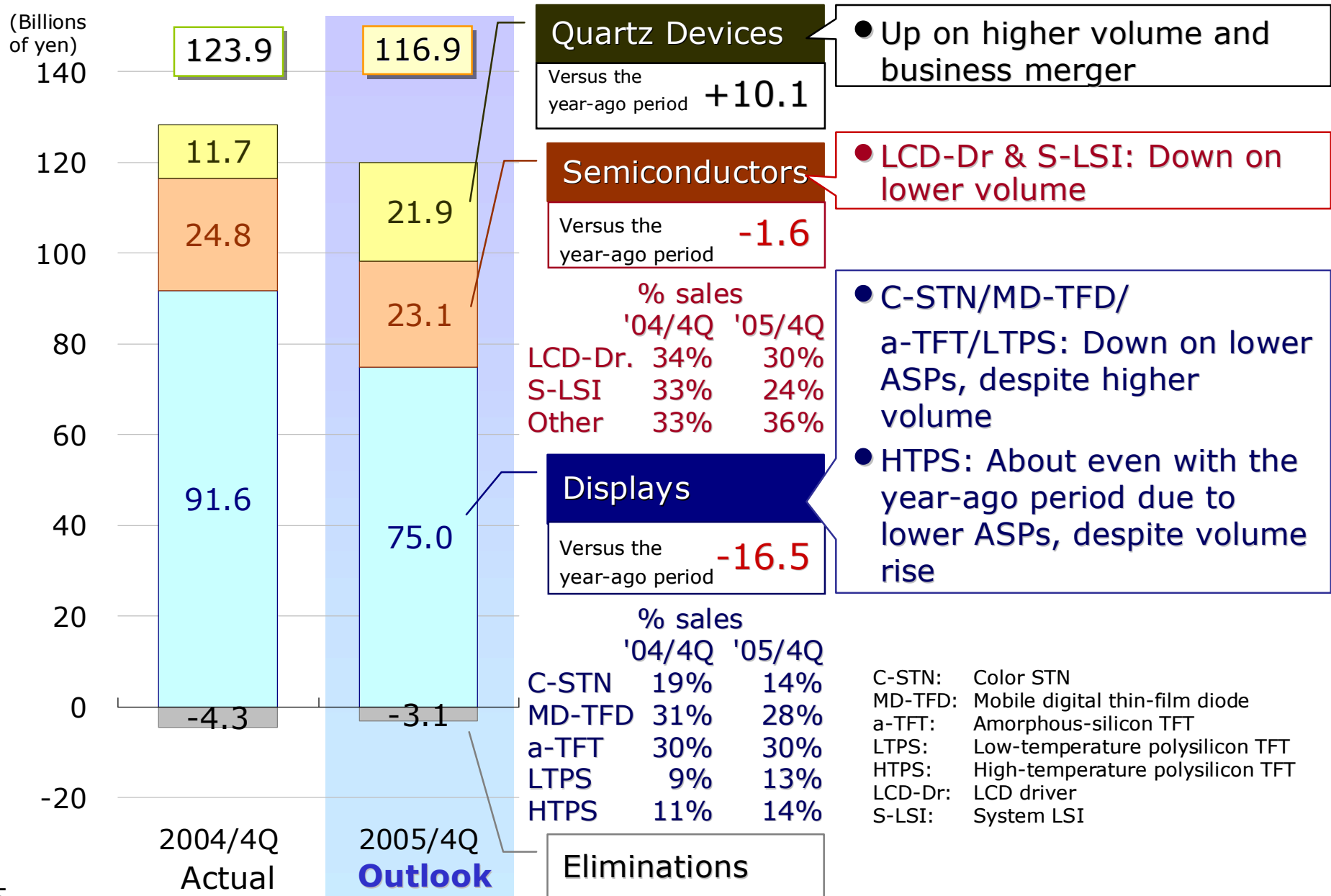
4Q Net Sales Comparison

Information related equipment

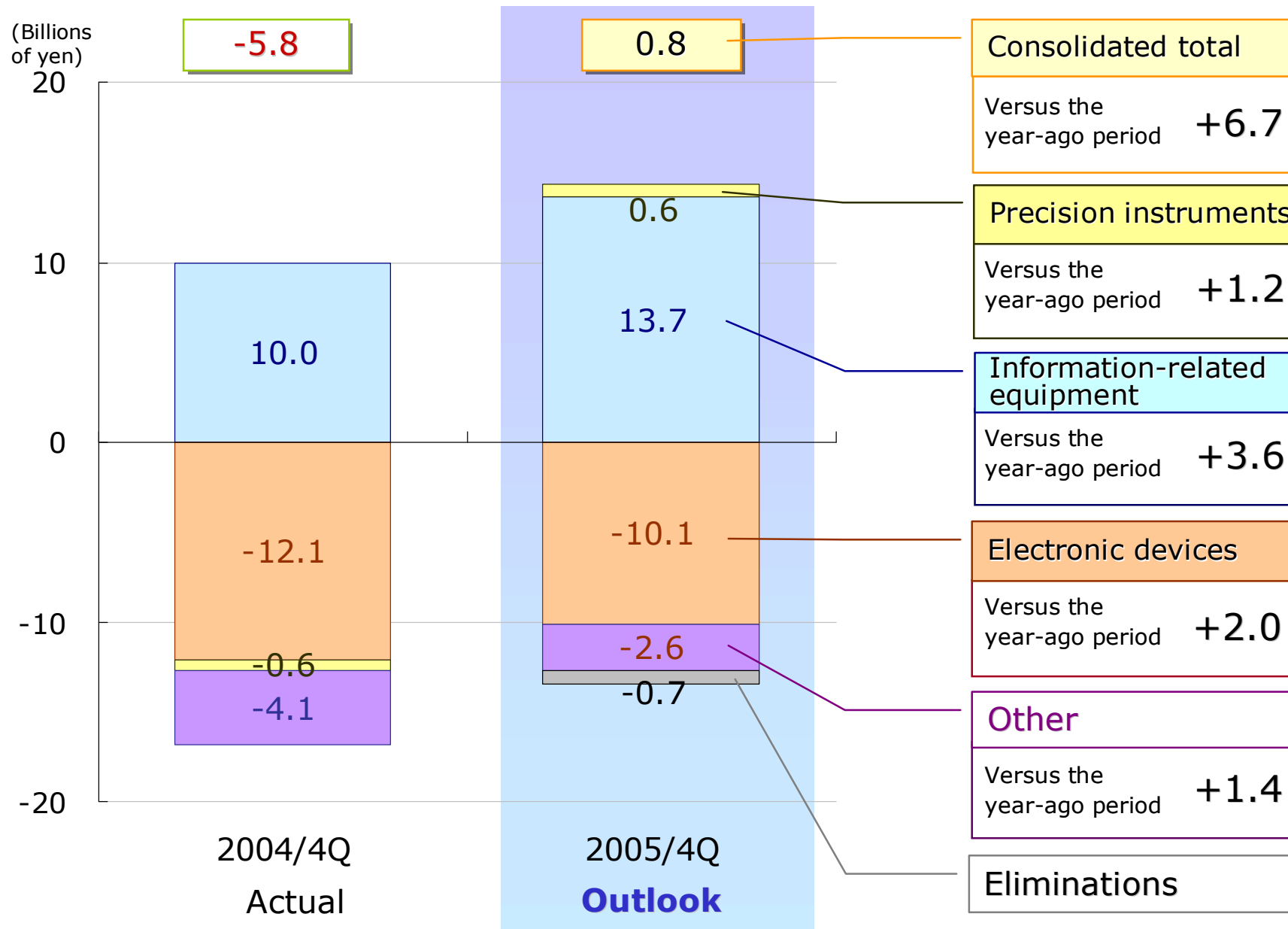


4Q Net Sales Comparison

► Electronic devices



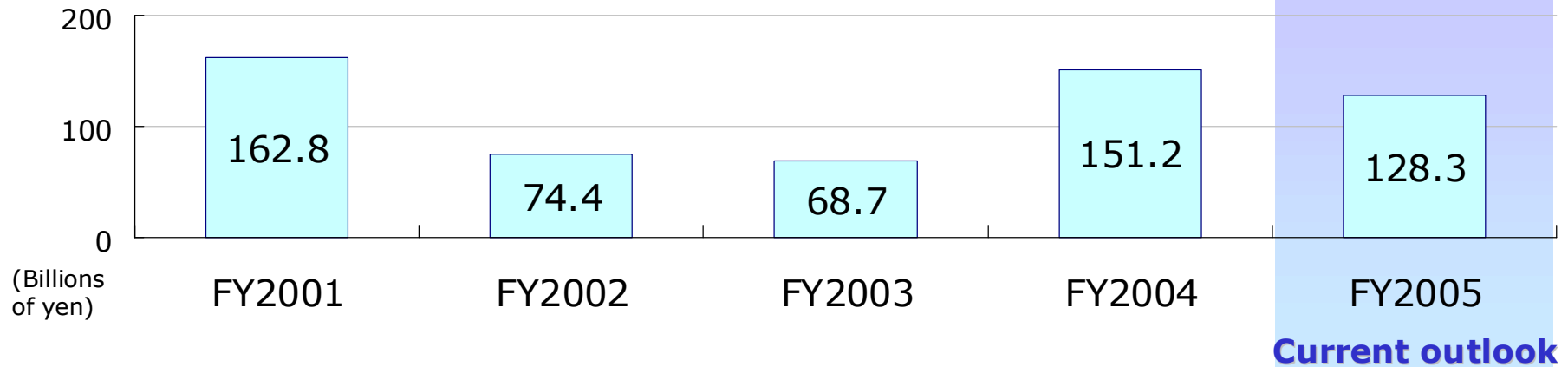
4Q Operating Income ▶ By business segment



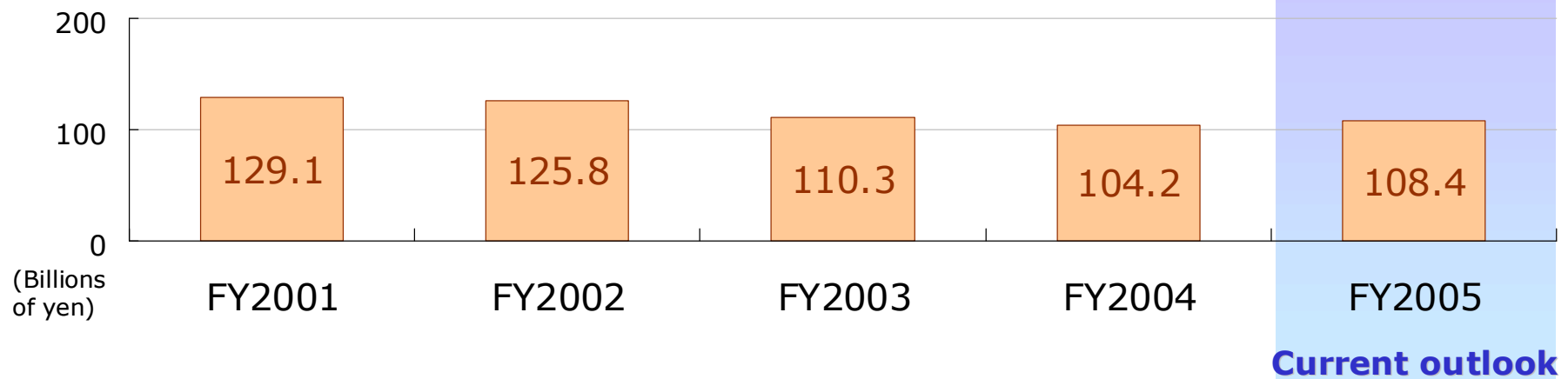
Depreciation & Amortization Expenses



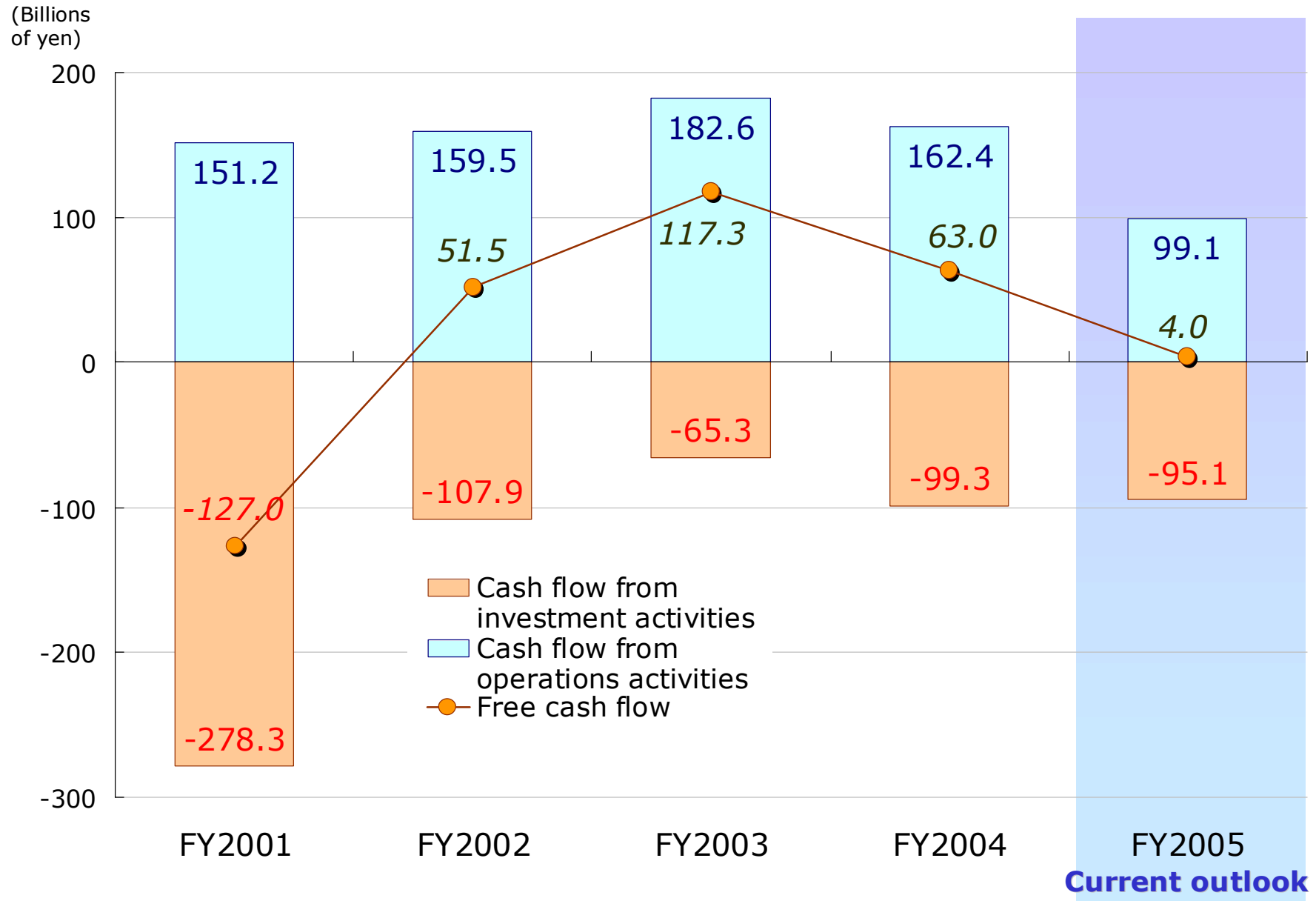
Capital Expenditures



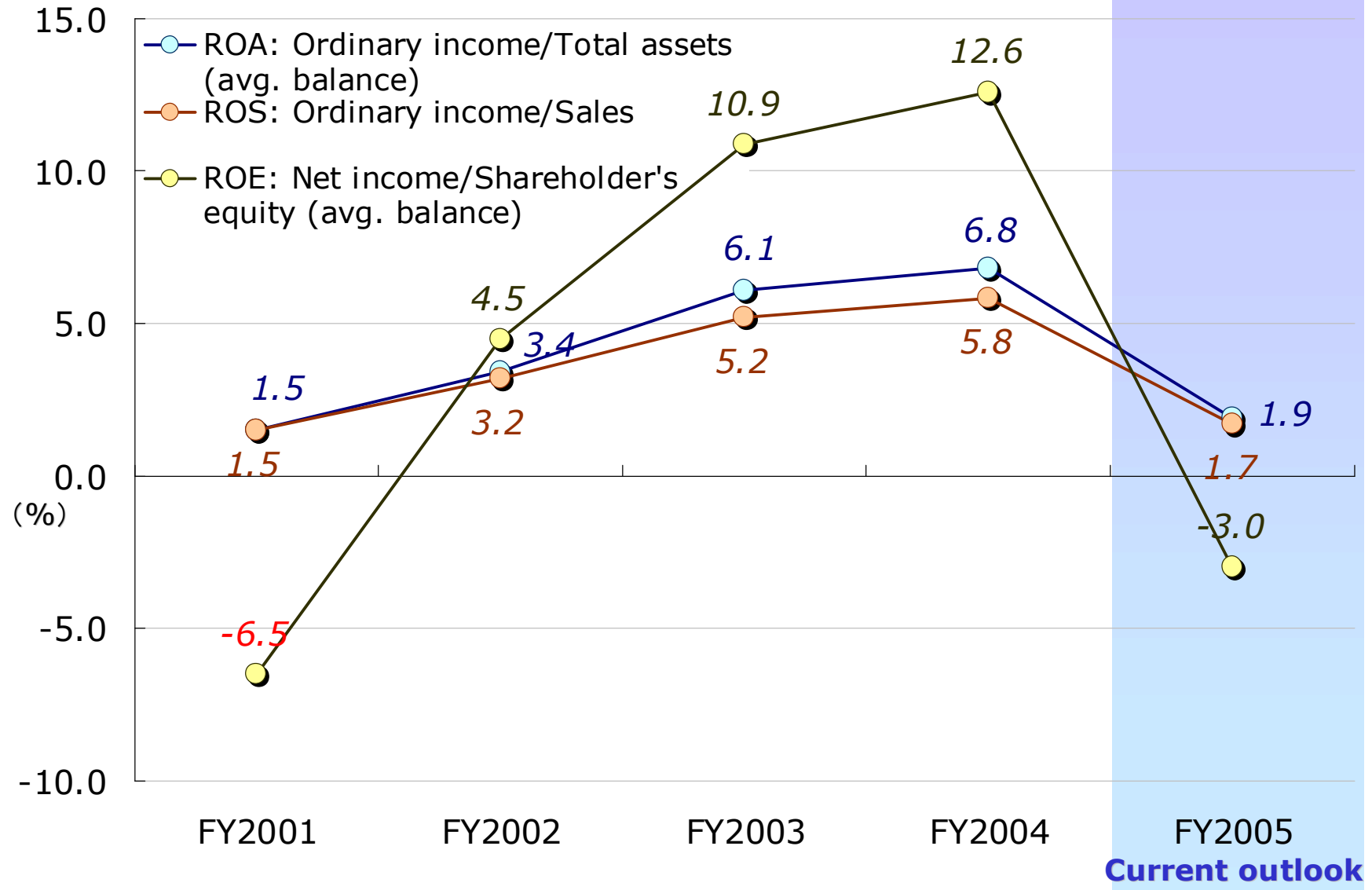
Depreciation and amortization expenses



Free Cash Flows Outlook

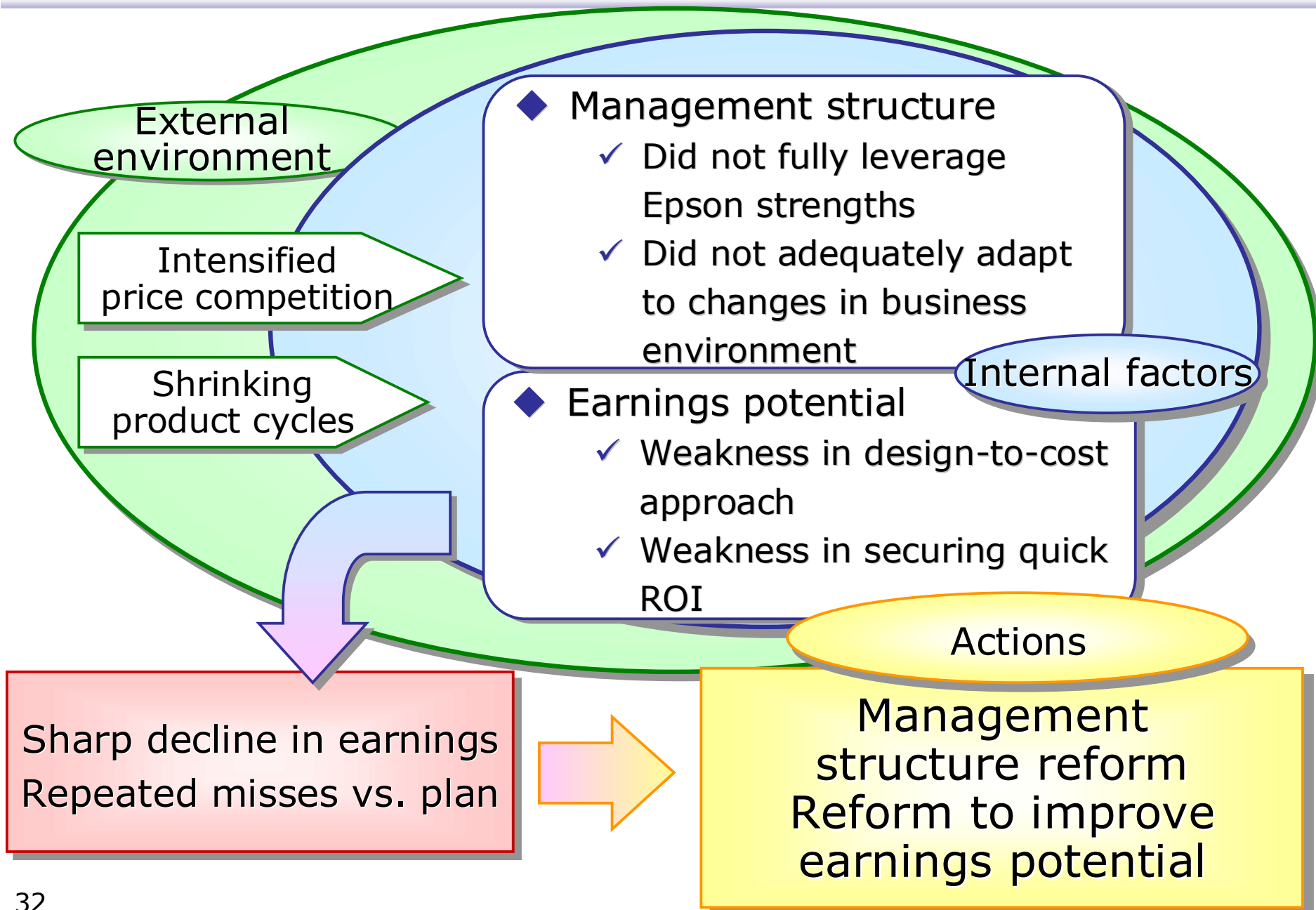


Main Management Metrics



2. Reform Plan for Improving Earnings Potential

1. Current Situation and Issues
2. Overall Management Structure Reform and Policies
3. Reform Plan for Improving Earnings Potential
4. Direction of the Mid-Range Strategy, by Business
 - ◆ Semiconductor Business
 - ◆ Small- and Medium-Sized Display Business
 - ◆ HTPS Business
 - ◆ Inkjet Printer Business
5. Goals of the Mid-Range Business Plan



Overall Management Structure Reform and Policies **EPSON**



Reform the overall management structure and put us back on the path to growth

1 Redefine & reinforce the mid-term business and product portfolio

Execution of reform plan for improving earnings potential

Mid-range business plan
(announcement planned for 3/16)

Five-point plan

1.

2.

3.

4.

5.

Achieve

2

Reform the system of governance

Support

3

Promote changes in culture and mindset toward "creativity & challenge"

1. Revamp the fixed-cost structure in the electronic device business

Revamp and reduce the fixed-cost structure by a total of approx. ¥42 bil. + additional reserves over 2 years to quickly restore profitability and improve earnings potential

- Aggressively reduce all fixed costs, including through impairment & asset disposal, primarily via production site & line reorganization

FY2005: ¥38.8 bil. + *

FY2006: ¥3.0 bil.

*) Additional reserves not included in the current financial outlook

2. Redefine & reinforce the mid-term business and product portfolio

Under the 3i strategy, continue to focus on the growth drivers: i1, i2 & i3. Reposition the i0 segment based on the portfolio.

i1: imaging on paper = Printers ... Strengthening IJP & laser printers

i2: imaging on screen = Projectors ... Strengthening 3LCD project & HTPS

i3: imaging on glass = Displays ... Strengthening small- and mid-sized displays

i0: imaging support devices

- Improve earnings potential in i0, and semiconductors in particular, by a thorough reorganization and a revamping of the fixed cost structure

Reinforce development of upcoming products

- Continue to develop and refine core technologies as leverage
- Leverage core technologies to strengthen existing products & expand the future product base

Weighted allocation of mid-range capital investment

- Basic policy: Total investment \leq depreciation & amortization, and aligned with portfolio. Three-year ROI. Earnings emphasis.
- Emphasize product development for growth segments, the strengthening of sales channels, IT investment, etc.

3. Strengthen design-to-cost capability & ability to secure quick ROI

Restructure operations & strengthen design-to-cost capability

- Strengthened design-to-cost approach, standardized platforms and parts, procurement reform, etc.

Continue to promote actions to streamline costs

- Procurement costs: Reduce 20%/ year
- Logistics & service support: FY08: Reduce 50% vs. FY05
- QF cost: FY08: Reduce 50% vs. FY05

Streamline the workforce

- Streamline the contingent workforce in Japan ->Reduce the contingent workforce by 3,000 over 3 years & reallocate regular employees to strategic areas

4. Group site consolidation & streamlining

Streamline by consolidating & integrating production & administrative sites in Japan

5. Corporate culture and mindset reform

- Restore & revive the culture and spirit of “creativity and challenge,” “S&A” and “One Epson”
- Training & evaluation system that rewards the willingness to take on challenges and “clear, sow, and grow”

Estimated improvement in profit from reform plan for improving earnings potential

Approx. ¥150 bil.
(3-year cumulative)

Current Situation

- ◆ Volume in LCD drivers for small- and medium-sized LCDs to grow, but prices to continue sharp drop
- ◆ Absence of No. 1 product to drive the business
- ◆ Rising fixed cost burden accompanying decline in net sales

Direction of the mid-range strategy

- Drive actions to restructure fixed costs & improve efficiencies
- Refine core technologies & focus on applications

Perfect low-leak/high-voltage process technologies & hybrid package technology with the aim of boosting competitiveness of other Epson products, and raising per-wafer value, etc.

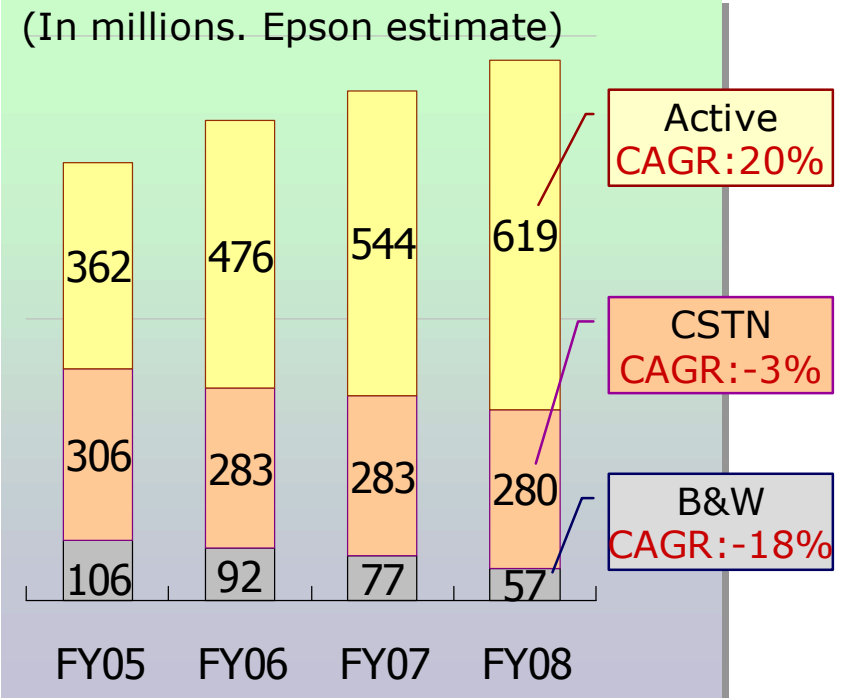
Low-power solution IC for mobile information equipment and digital home appliances

- Optimum allocation between own fabs and external silicon foundries

Current Situation

- ◆ Sharp volume growth for cellular to BRICs
- ◆ Upgrade demand driving color display growth
- ◆ Active display demand splitting → QVGA and low end (128 × 160)
- ◆ CSTN demand sustained by upgrades from B&W
- ◆ Continued price slide and lower margins due to competition

Forecast Handset Unit Shipments Worldwide



Direction of the mid-range strategy

- Leverage strength and aggressively pursue opportunities in this core business

Expand production capacity to meet customer demand

- Supply stability and high quality
- Strategy for surviving and thriving in small- and medium-sized displays



Leverage underlying strengths in low power consumption, high pixel density, high-density assembly, and image processing in a-TFT and LTPS displays to aggressively pursue opportunities -> With support from Display Development Div.

Expand applications that exploit strengths

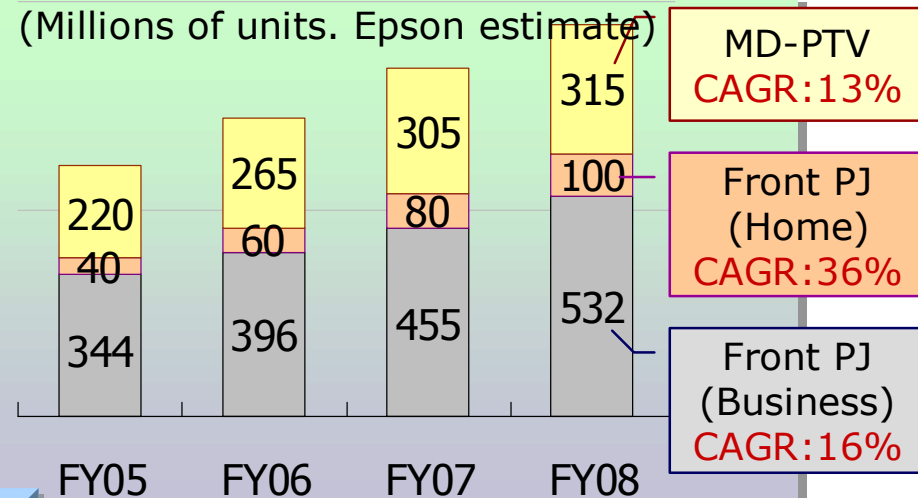
- Maintain & expand business in cellular market
- Expand in mobile devices (media players, ITS-related), etc.

- Revamp the fixed-cost structure
- Accelerate yield improvement (a-TFT & LTPS) and cost-reduction actions

Current Situation

- ◆ Front-projector (business & home) and PTV markets are growing steadily, though well below initial forecasts
- ◆ Increased fixed-cost burden due to slowdown after capacity expansion

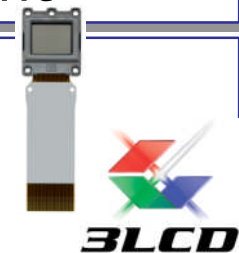
Worldwide Front-Projector & MD-PTV Market Forecast



Direction of the Mid-Range Strategy

- As a core business, further strengthen tech development

Further hone 3LCD advantages (high brightness & picture quality) as the key device in Epson's core 3LCD projector (business & home) business, and drive market growth --> With support from Display Development Div.



- In FY06, closely watch the demand trend, and allocate production according to line capabilities
- Aim to consolidate in Chitose in the future to boost cost competitiveness & production efficiency

Current Situation

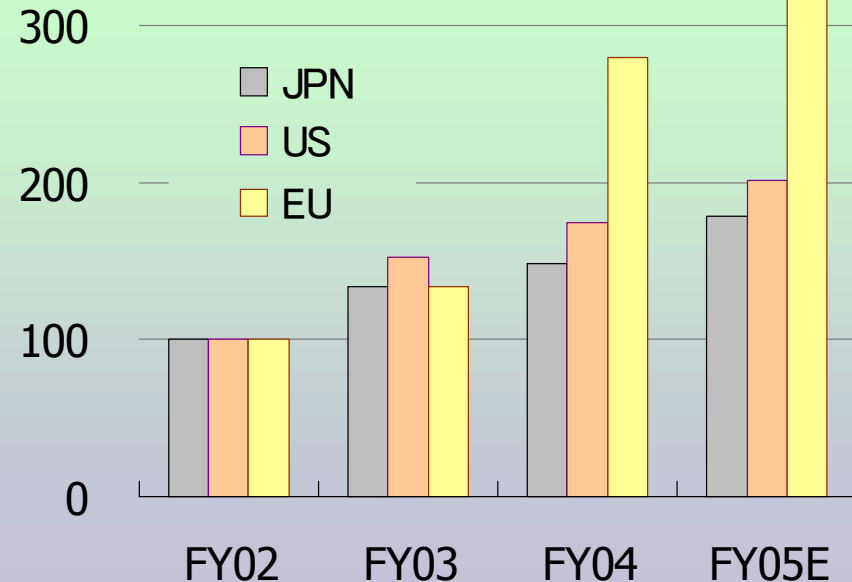
- ◆ Steady growth in home photo-printing market
- ◆ Growth vs. last year in both printers (esp. photo all-in-ones & photo printers) and cartridges during year-end shopping season in Japan, U.S. & Europe
- ◆ But printer & consumables volume ended below 2H plan

◆ Delay in improving printer margins & slowdown in ink cartridge growth rate impacted earnings

◆ Switch to business model that improves combined earnings from both printers & consumables

Photo Paper Shipping Trend

(Paper area. Epson genuine paper, where FY02 is assigned a value of 100)



Direction of the Mid-Range Strategy

- Leverage Epson's strengths and focus management resources on high-margin product segments

Epson strengths

Photo, pigment ink, and high-speed technologies

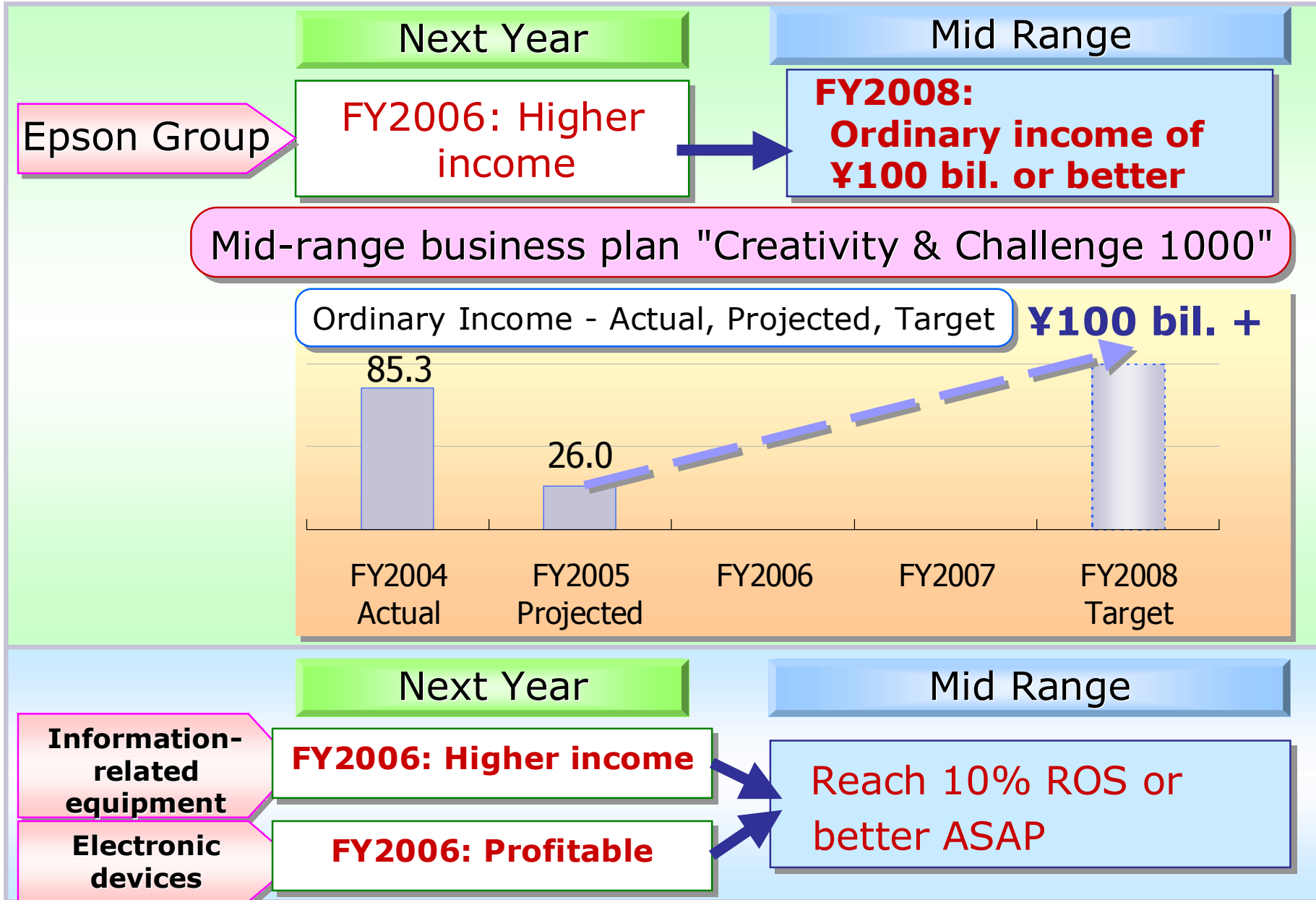
High-margin product segments

Photo, business & large-format printers

- Drive earnings improvement actions

Deploy actions to improve printer profitability

Increase the ratio of genuine Epson ink cartridges -->
Squarely address customer preferences



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