

First Half and Second Quarter Financial Results  
Fiscal Year 2006  
(Ending March 2007)

October 25, 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 timely introduce new products and services.

This report is a simple translation of the Japanese version of second quarter financial results of FY2006 explanatory presentation prepared in Japanese. No reclassification nor rearrangement has been made.

Numerical values: Any portion of an amount less than the unit stated is disregarded.  
Percentages: Rounded off to one decimal place.

## 1. FY2006 1H Financial Results

## 2. FY2006 Business Outlook

# Reform Plan for Improving Earnings Potential

— First-Half Progress —



## Epson Group Mid-Range Business Policies

- 1** Redefine & reinforce the business and product portfolio  
Give direction to the inkjet-related product portfolio
- 2** Reorganize the electronic device businesses  
Promote structural and overall staffing structure reforms
- 3** Streamline costs  
Promote thorough design-to-cost and cost streamlining
- 4** Reform the governance system  
Introduce a corporate executive officer system to clarify corporate execution decisions and supervision, reduce the number of directors, reduce director terms to one year and increase importance of annual performance evaluations
- 5** Reform the corporate culture  
Go back to the spirit of "Creativity and challenge," "S&A," and "One Epson" to radically boost earnings potential and ensure solid future growth.

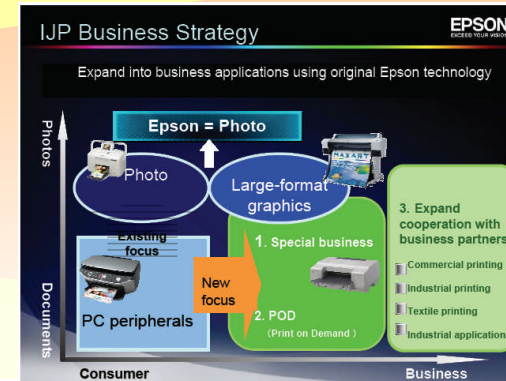
Reform Plan for  
Improving Earnings Potential  
Is in Progress

# Develop Applications for Micro Piezo Print Head Technology

## Business segment

### ➤ Enhance & expand inkjet printer business segment

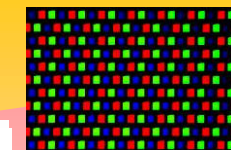
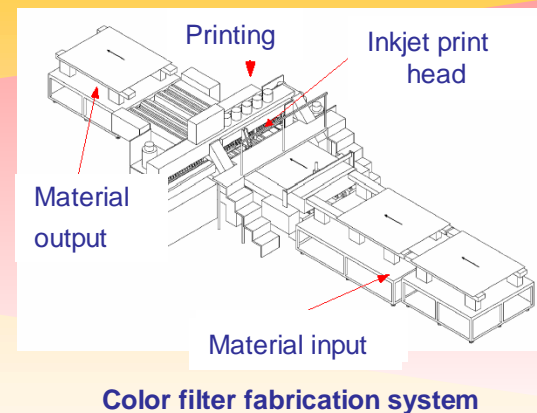
- Specific business segments
- Print-on-demand (POD) segment
- Collaboration with business partners



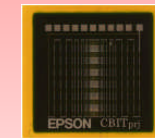
## Industrial segment

### ➤ Developed inkjet system for color filter fabrication

- Developed industrial inkjet applications based on Micro Piezo print heads
- World's first gen-8-capable inkjet system for fabricating color filters (used at Sharp's Kameyama plant)
- Prototyped a 20-layer circuit board
- Use inkjet system to form alignment layer on HTPS panels for front projectors
- Examining business expansion of machines for industrial inkjet applications



Liquid crystal color filter



20-layer circuit board (front)



World's first inkjet alignment layer  
0.6" XGA HTPS

# First-Half Financial Highlights

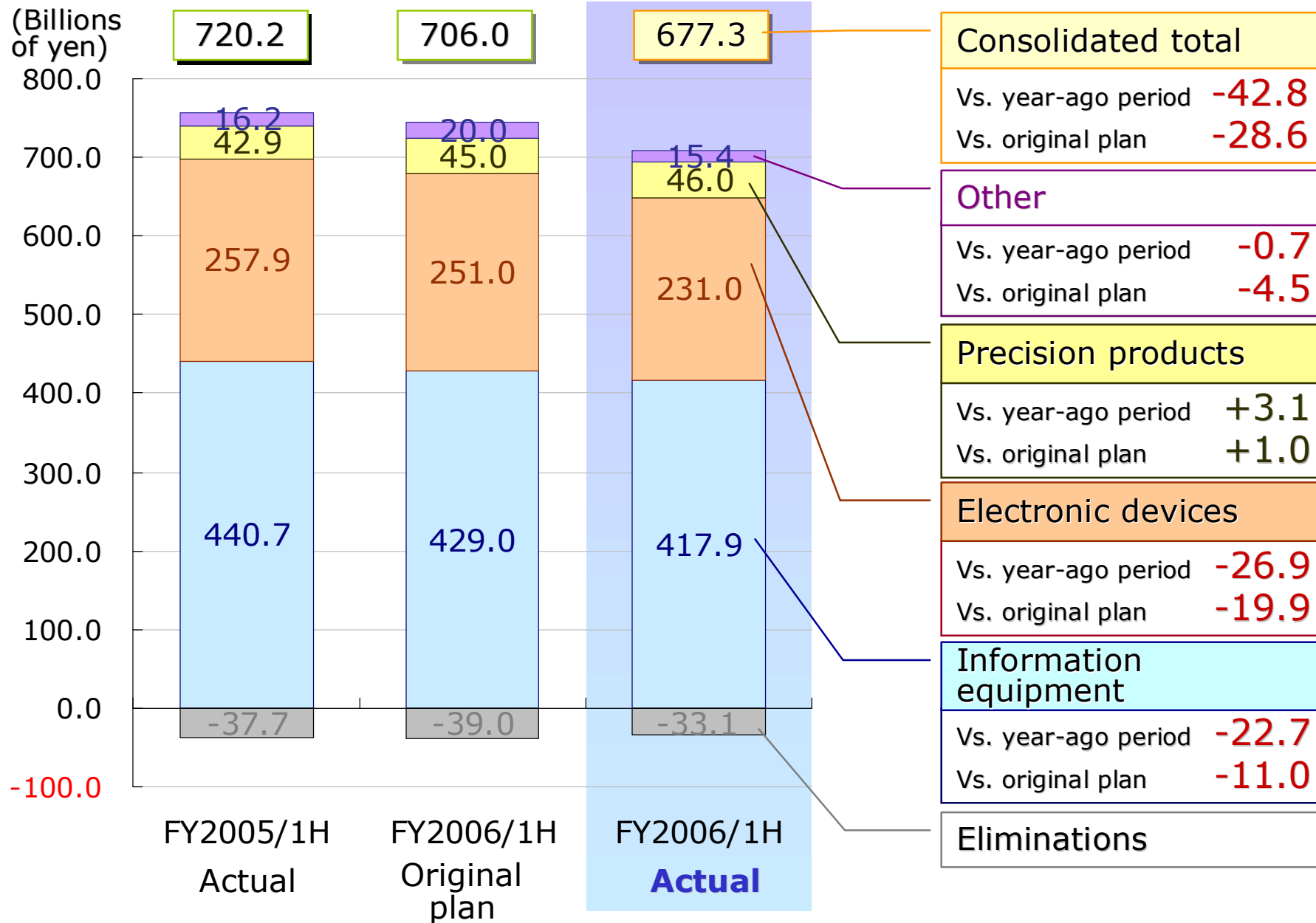


	FY2005		FY2006				Change (amount, %)	
	Actual	%	Original Plan	%	Actual	%	Vs. year-ago period	Vs. original plan
(Billions of yen)								
Net sales	720.2	-	706.0	-	677.3	-	-42.8 -5.9%	-28.6 -4.1%
Operating income	6.0	0.8%	2.0	0.3%	20.9	3.1%	+14.9 +249.1%	+18.9 +948.0%
Ordinary income	8.8	1.2%	3.0	0.4%	20.8	3.1%	+12.0 +135.2%	+17.8 +596.0%
Net income before income taxes	7.6	1.1%	-4.0	-0.6%	16.2	2.4%	+8.5 +110.7%	+20.2 -
Net income	-1.1	-0.2%	-11.0	-1.6%	0.4	0.1%	+1.5 -	+11.4 -
EPS	-¥5.91		-		¥2.10			
Exchange rate	USD	109.48	¥112.00		¥115.38			
	EUR	135.65	¥135.00		¥145.97			

\* Exchange rates used in 7/26 outlook:  
USD: 110.00 / EUR: 139.00

# Half-Year Financial Highlights

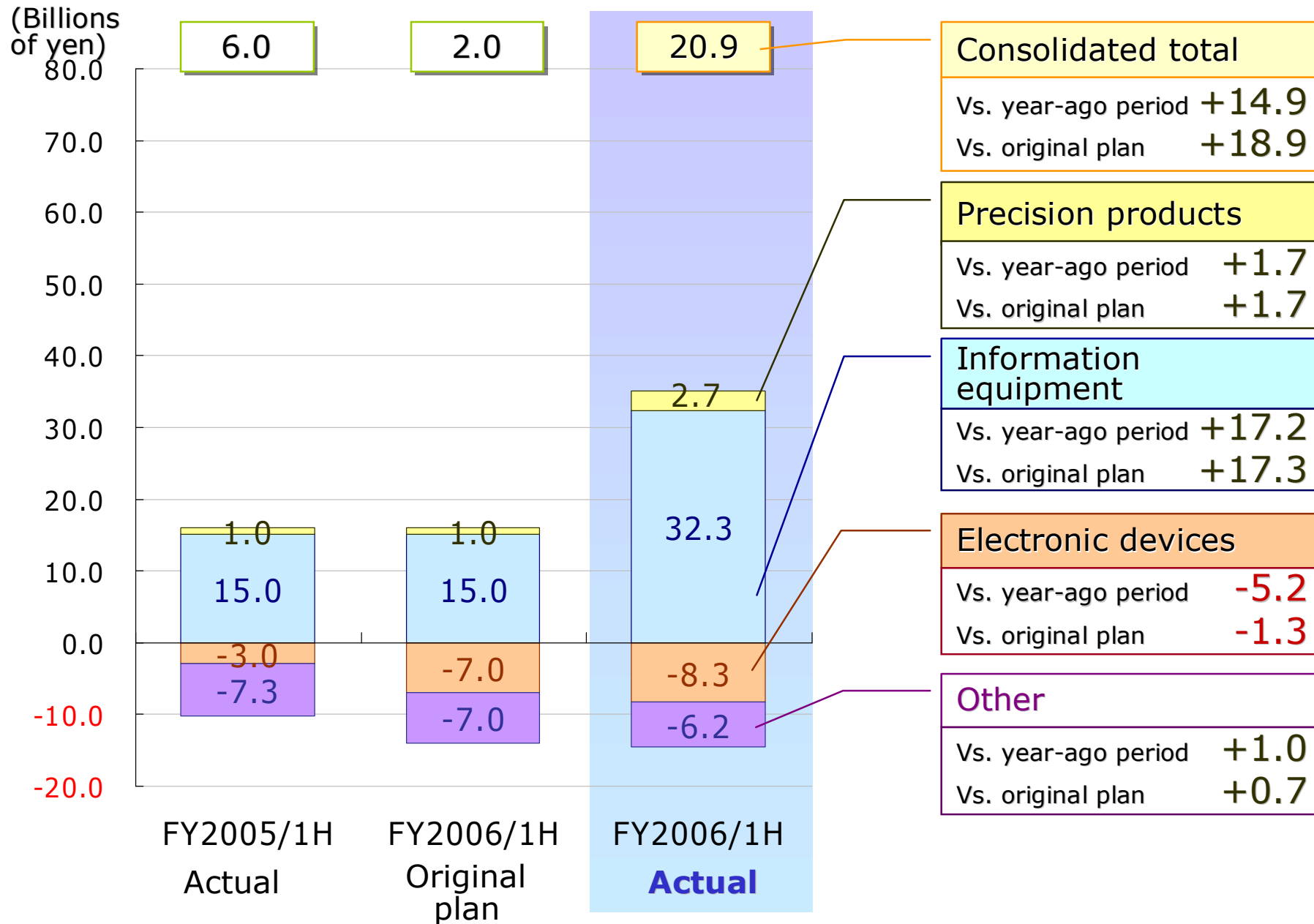
## ▶ Net sales (by business segment)



# Half-Year Financial Highlights



## ▶ Operating income (by business segment)





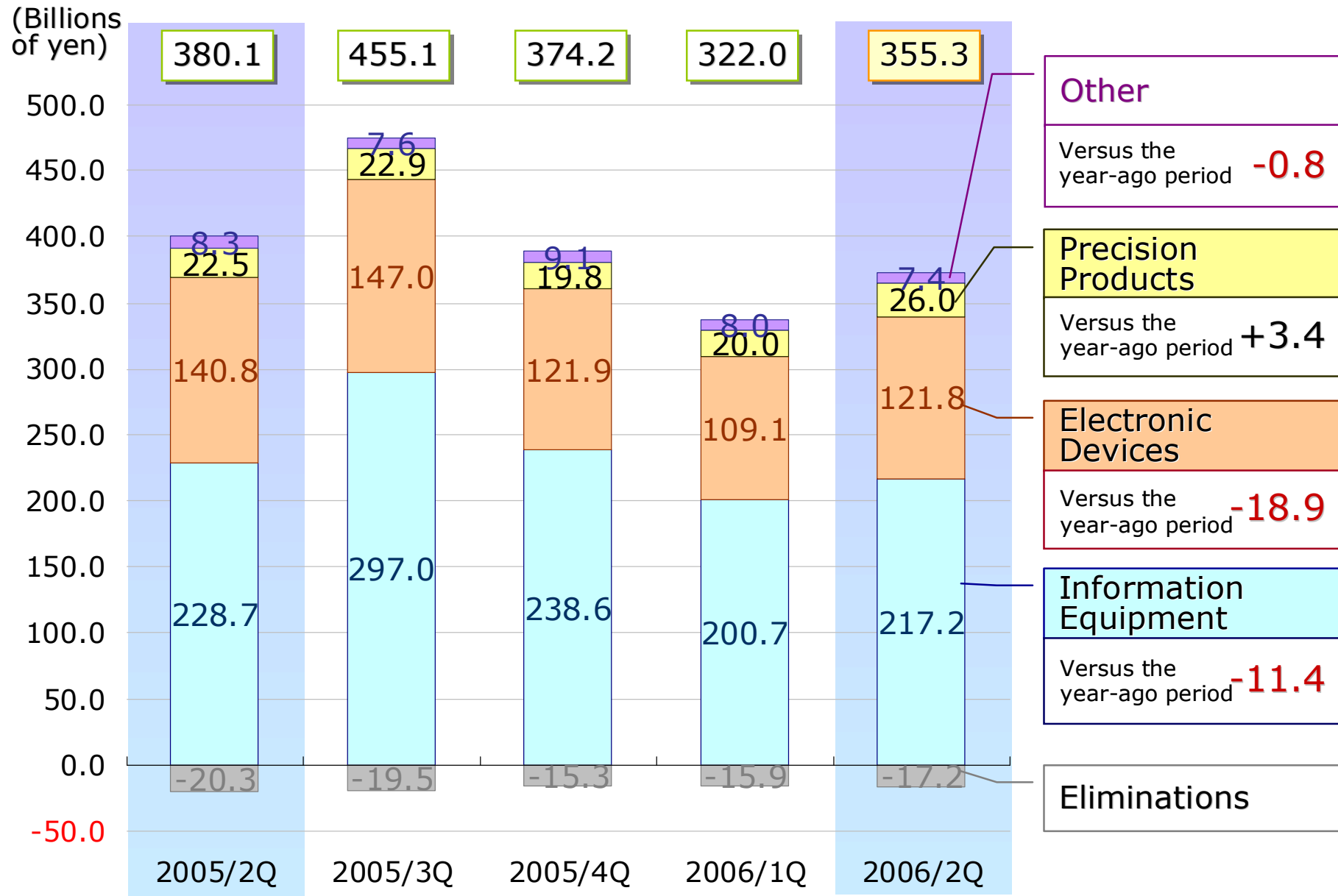
# Second-Quarter Financial Highlights



		FY2005		FY2006		Change	
		2Q	%	2Q	%	Amount	%
(Billions of yen)							
Net sales		380.1	-	355.3	-	-24.7	-6.5%
Operating income		11.0	2.9%	13.9	3.9%	+2.9	+26.3%
Ordinary income		11.6	3.1%	14.5	4.1%	+2.9	+25.0%
Net income before income taxes		11.4	3.0%	10.6	3.0%	-0.8	-7.1%
Net income		5.8	1.5%	6.0	1.7%	+0.2	+3.4%
Exchange rate	USD	¥111.28		¥116.26			
	EUR	¥135.72		¥148.16			

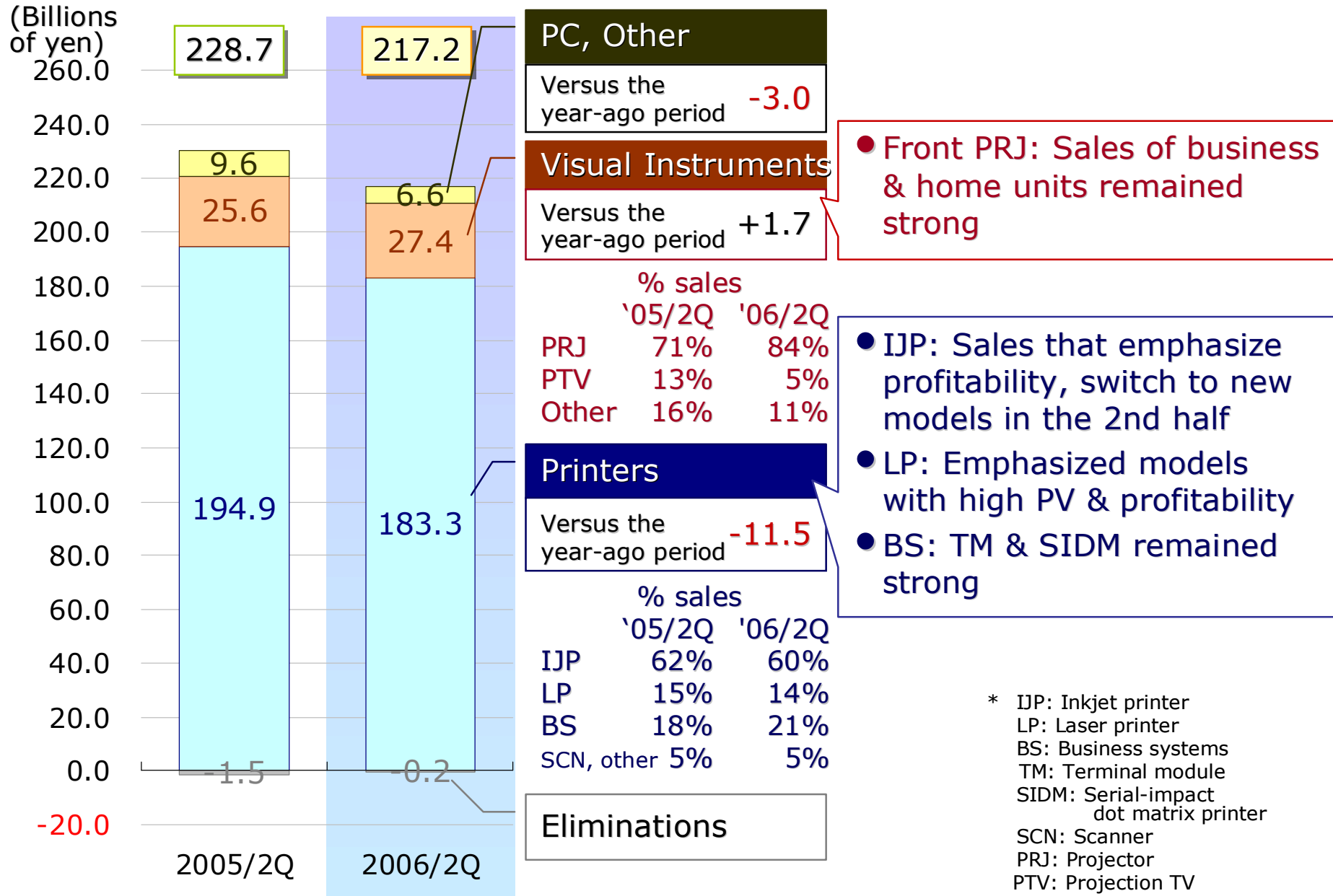
# Quarterly Net Sales

## ► By business segment



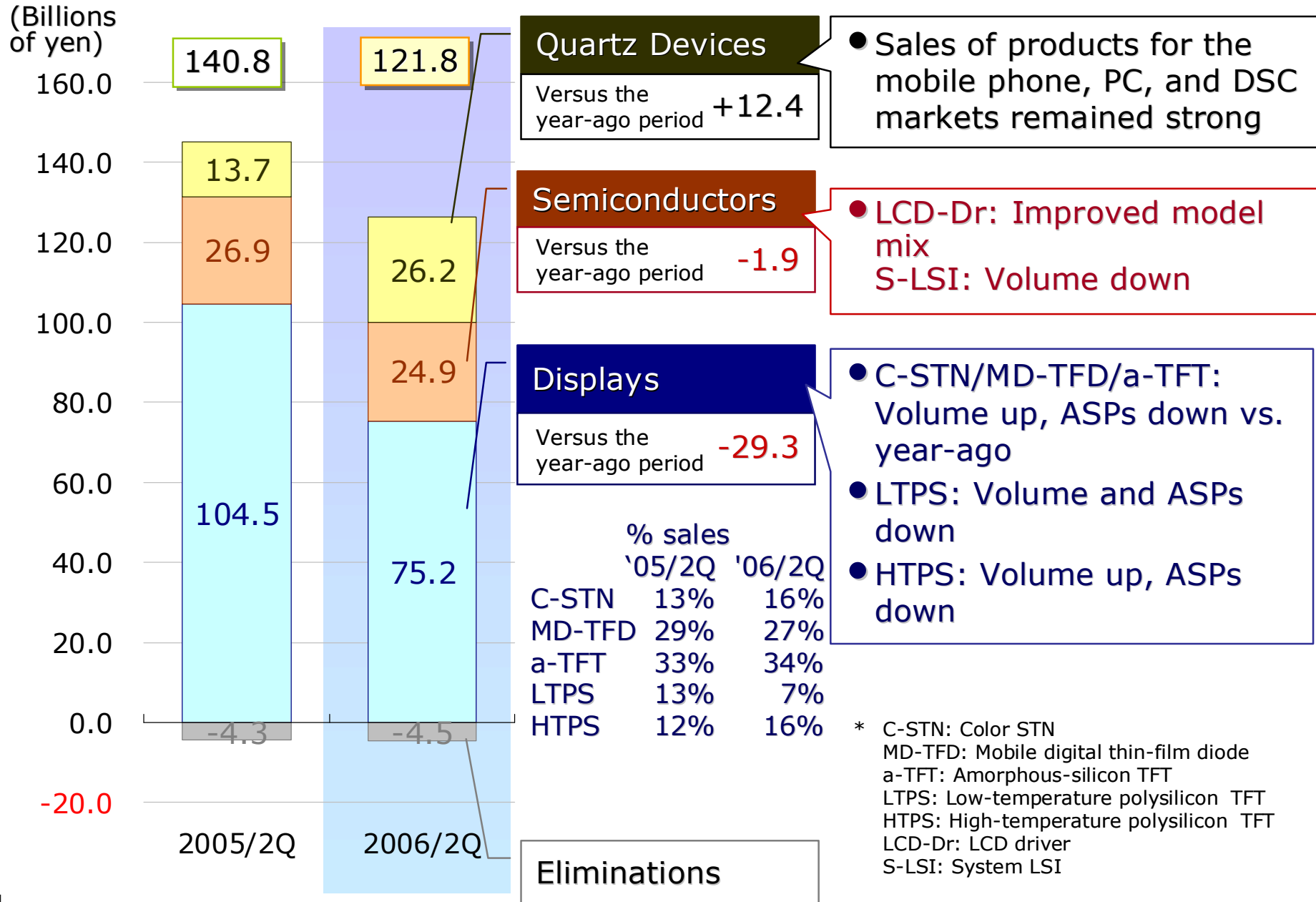
# Quarterly Net Sales Comparison

## Information equipment

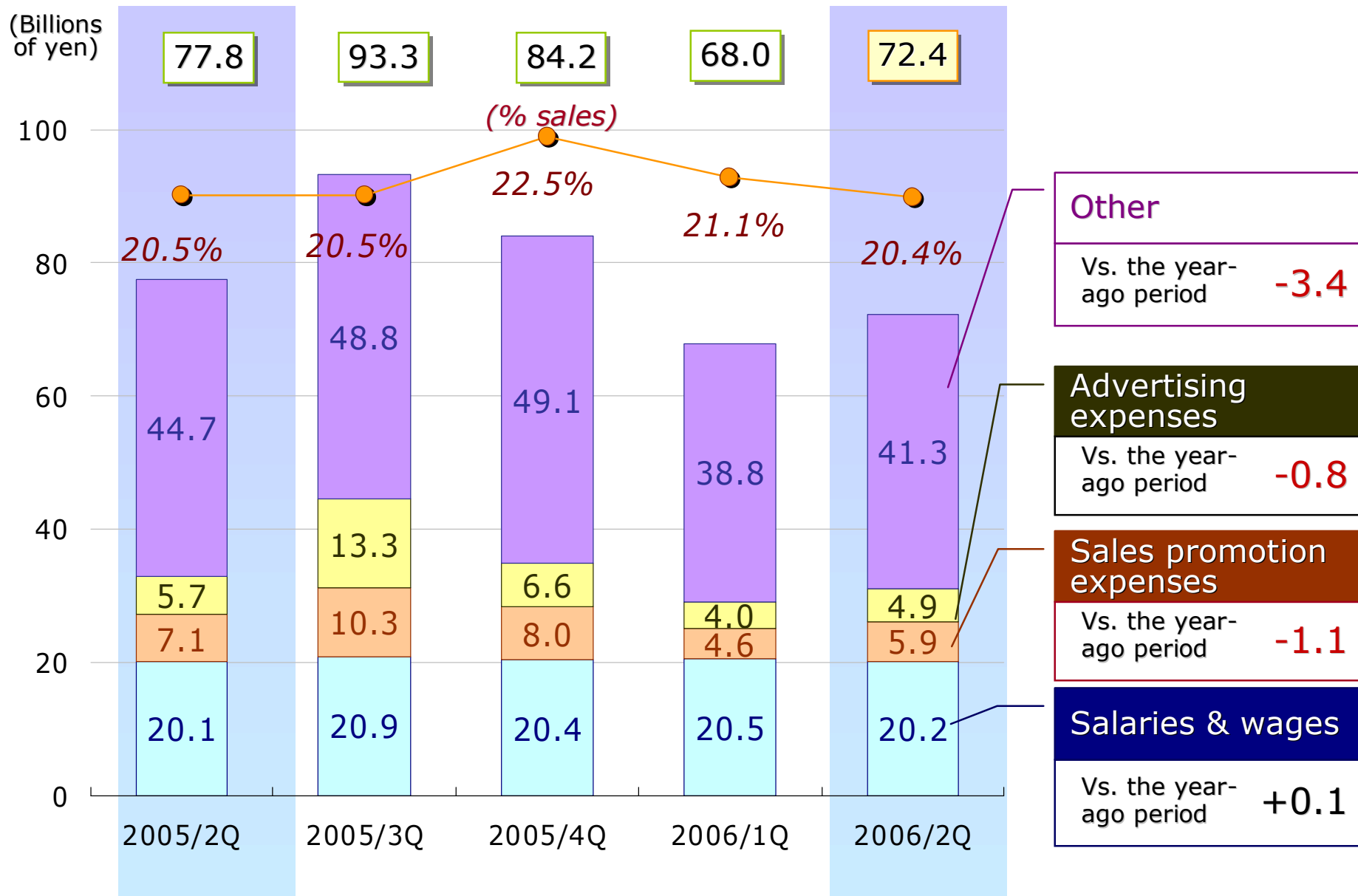


# Quarterly Net Sales Comparison

## ▶ Electronic devices

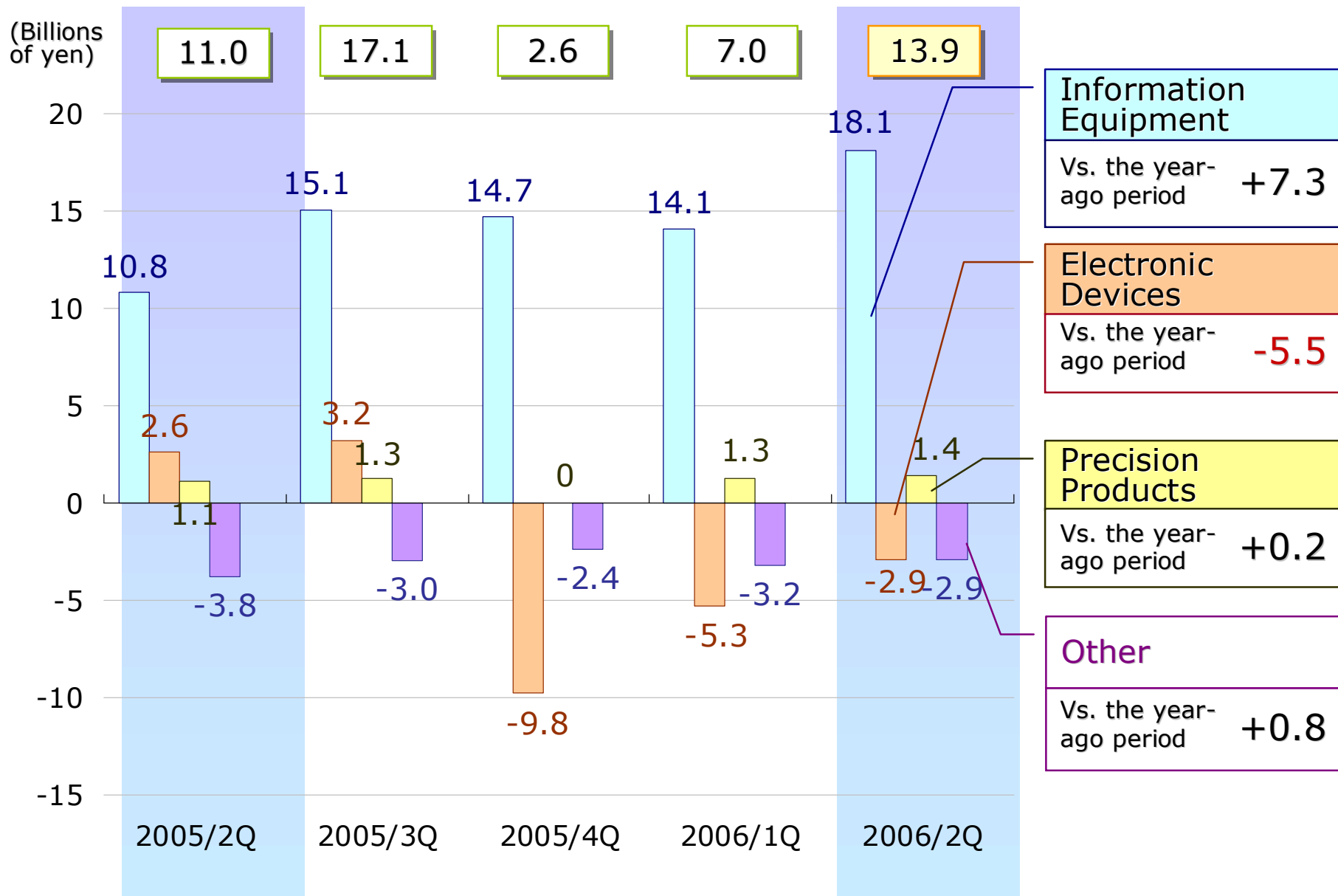


# Quarterly Selling, General and Administrative Expenses

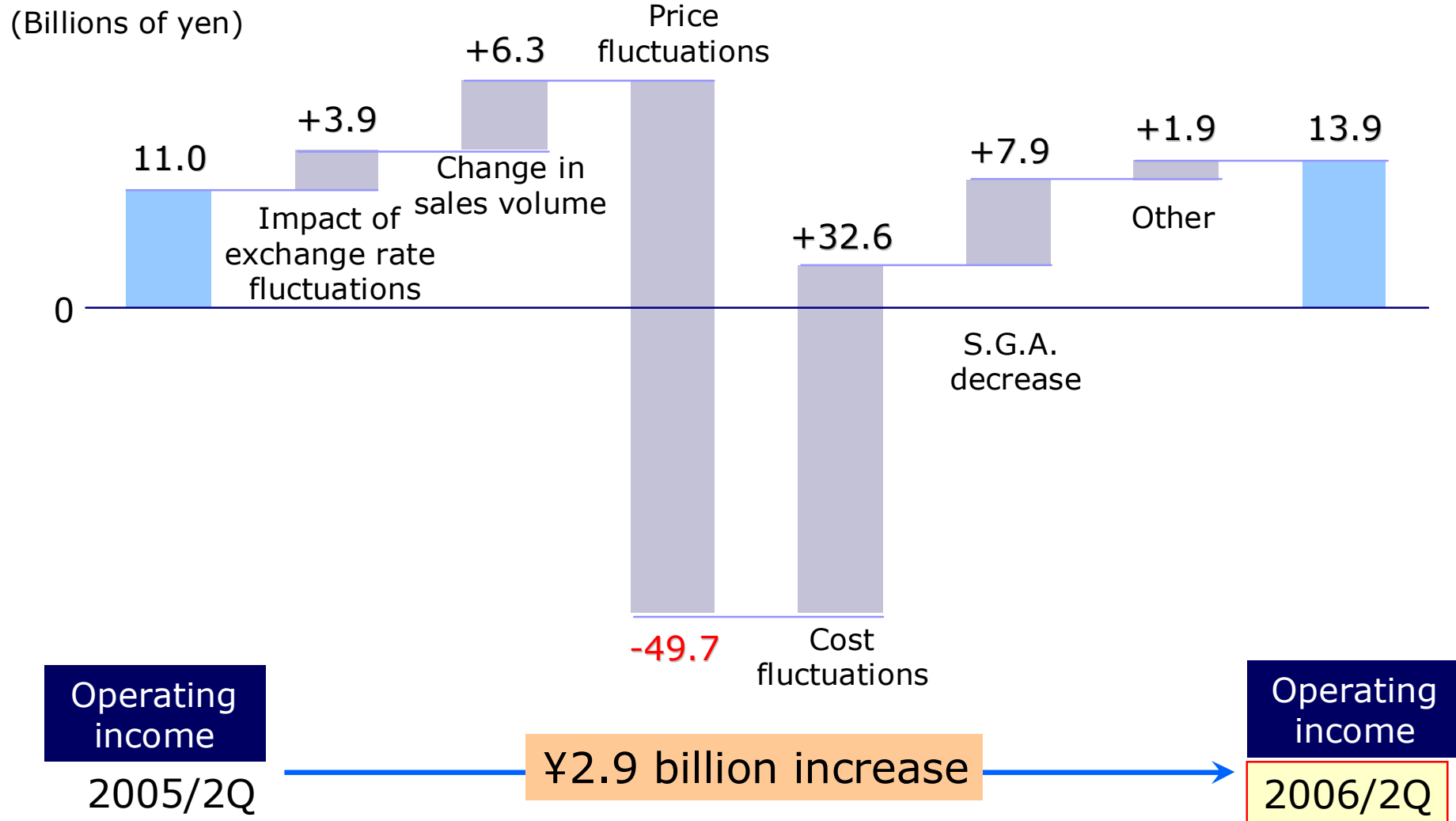


# Quarterly Operating Income

## ► By business segment

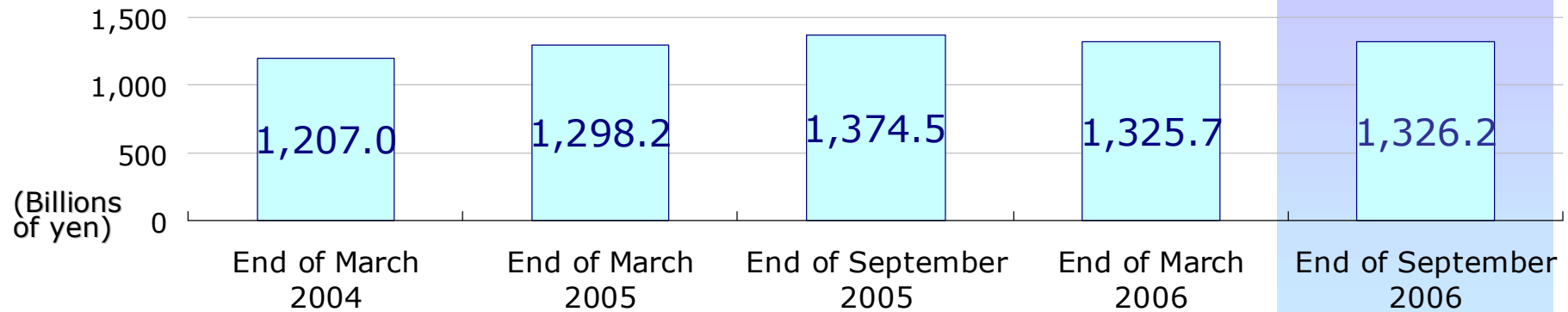


# Operating Income Fluctuation Cause Analysis

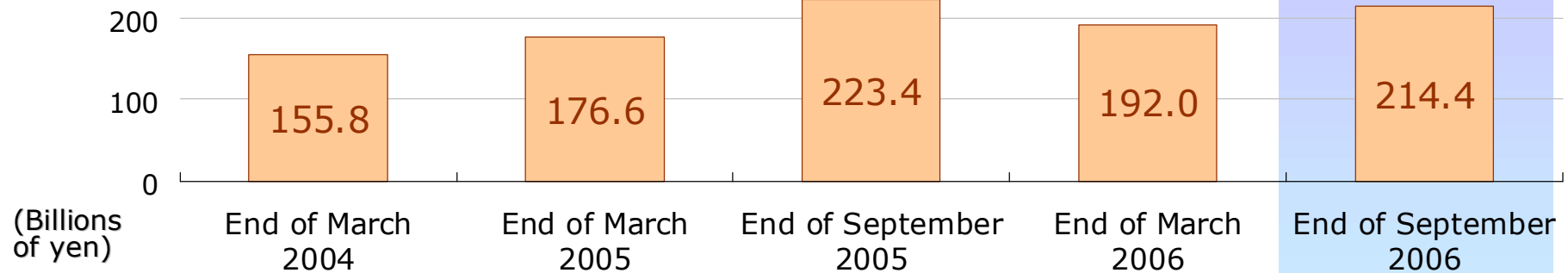


# Statistics of Balance Sheet Items

## Total assets



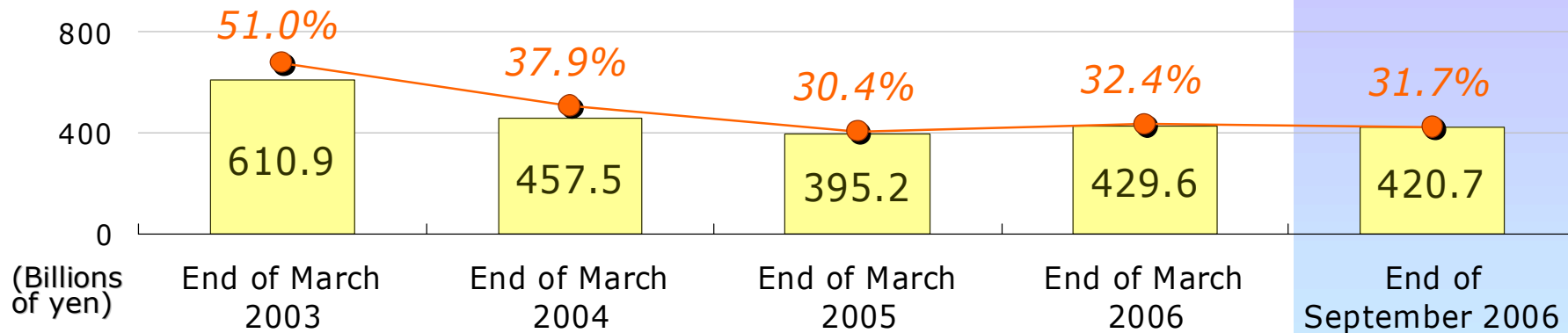
## Inventories



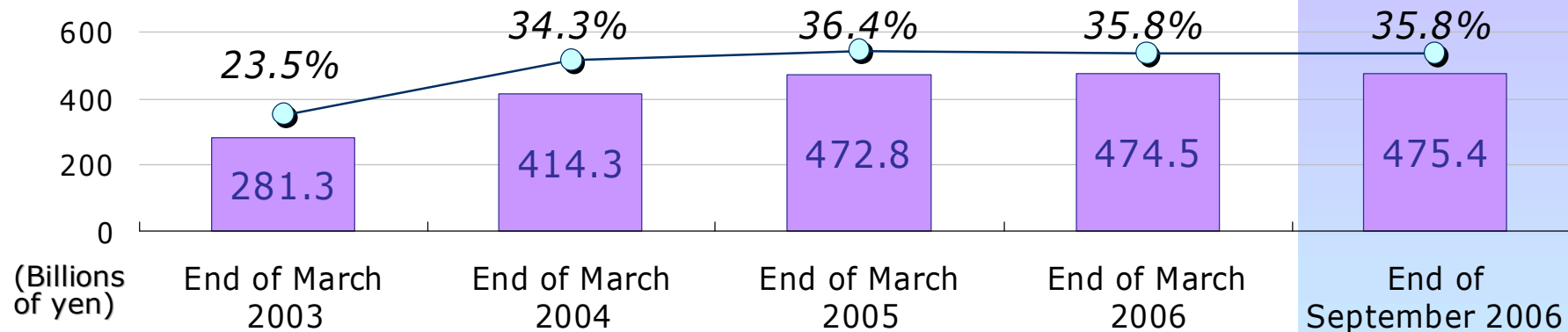


# Statistics of Balance Sheet Items

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



## Shareholder's equity & equity ratio



The definition of shareholder equity changed due to changes in accounting standards  
 End of June 2006: Shareholder equity = total net assets - minority interests in subsidiaries  
 Shareholder equity would be ¥475.6 billion using the old calculations

1. FY2006 1H Financial Results

2. FY2006 Business Outlook

# FY2006 Business Outlook



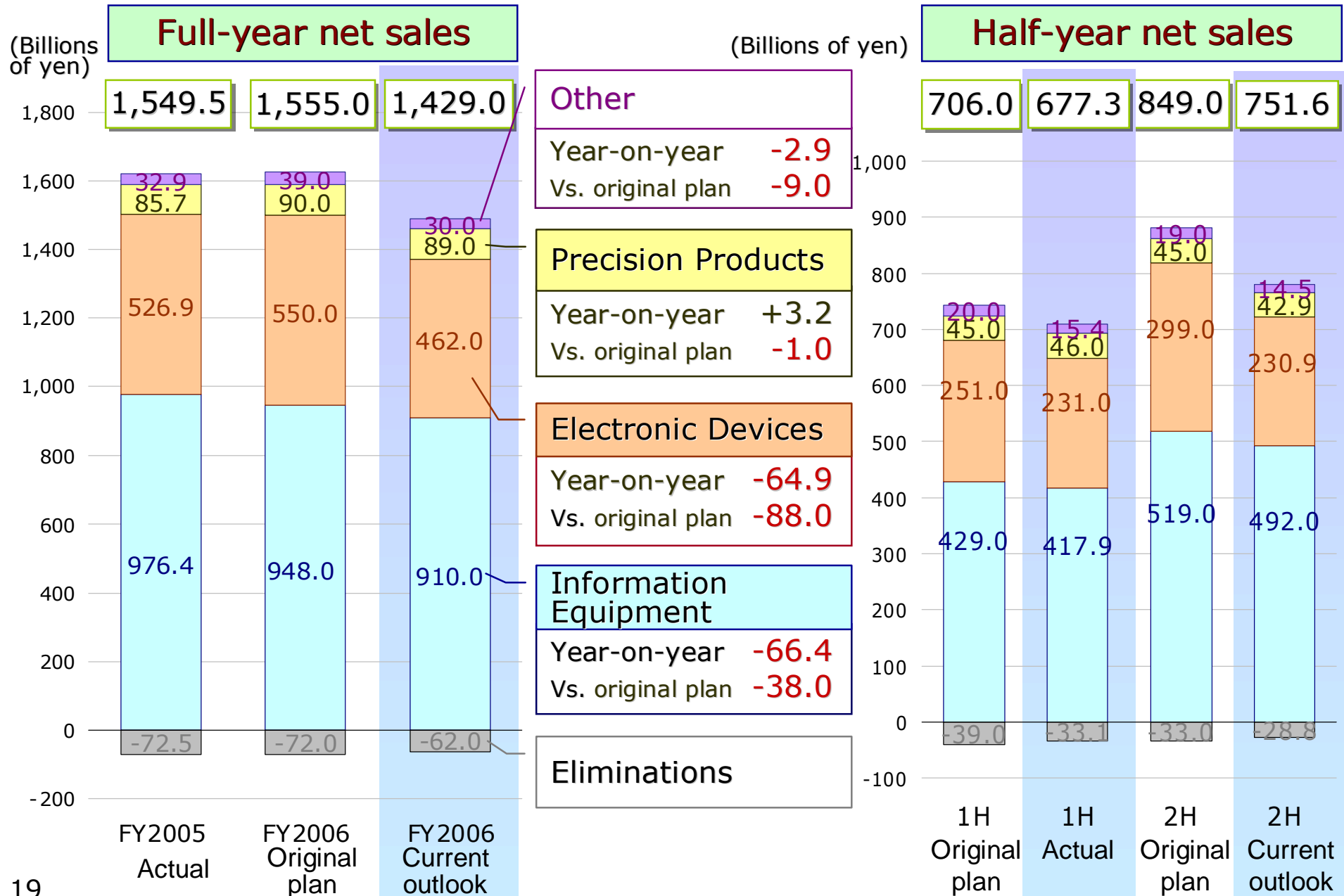
	FY2005		FY2006				Change (amount & %)	
	Actual	%	Original plan	%	Current outlook	%	YoY	Vs. original plan
(Billions of yen)								
<b>Net Sales</b>	1,549.5	-	1,555.0	-	1,429.0	-	-120.5 -7.8%	-126.0 -8.1%
<b>Operating Income</b>	25.7	1.7%	40.0	2.6%	40.0	2.8%	+14.2 +55.3%	-
<b>Ordinary Income</b>	27.9	1.8%	40.0	2.6%	40.0	2.8%	+12.0 +42.9%	-
<b>Net Income Before income taxes</b>	-20.0	-1.3%	33.0	2.1%	33.0	2.3%	+53.0 -	-
<b>Net Income</b>	-17.9	-1.2%	14.0	0.9%	14.0	1.0%	+31.9 -	-
<b>EPS</b>	-¥91.24		¥71.30		¥71.30			
<b>Exchange rate</b>	<b>USD</b>	¥113.31	¥112.00		¥114.00			
	<b>EUR</b>	¥137.86	¥135.00		¥146.00			

\* Exchange rates used in 7/26 outlook:  
USD: 110.00 / EUR: 139.00

# FY2006 Business Outlook (Net Sales)

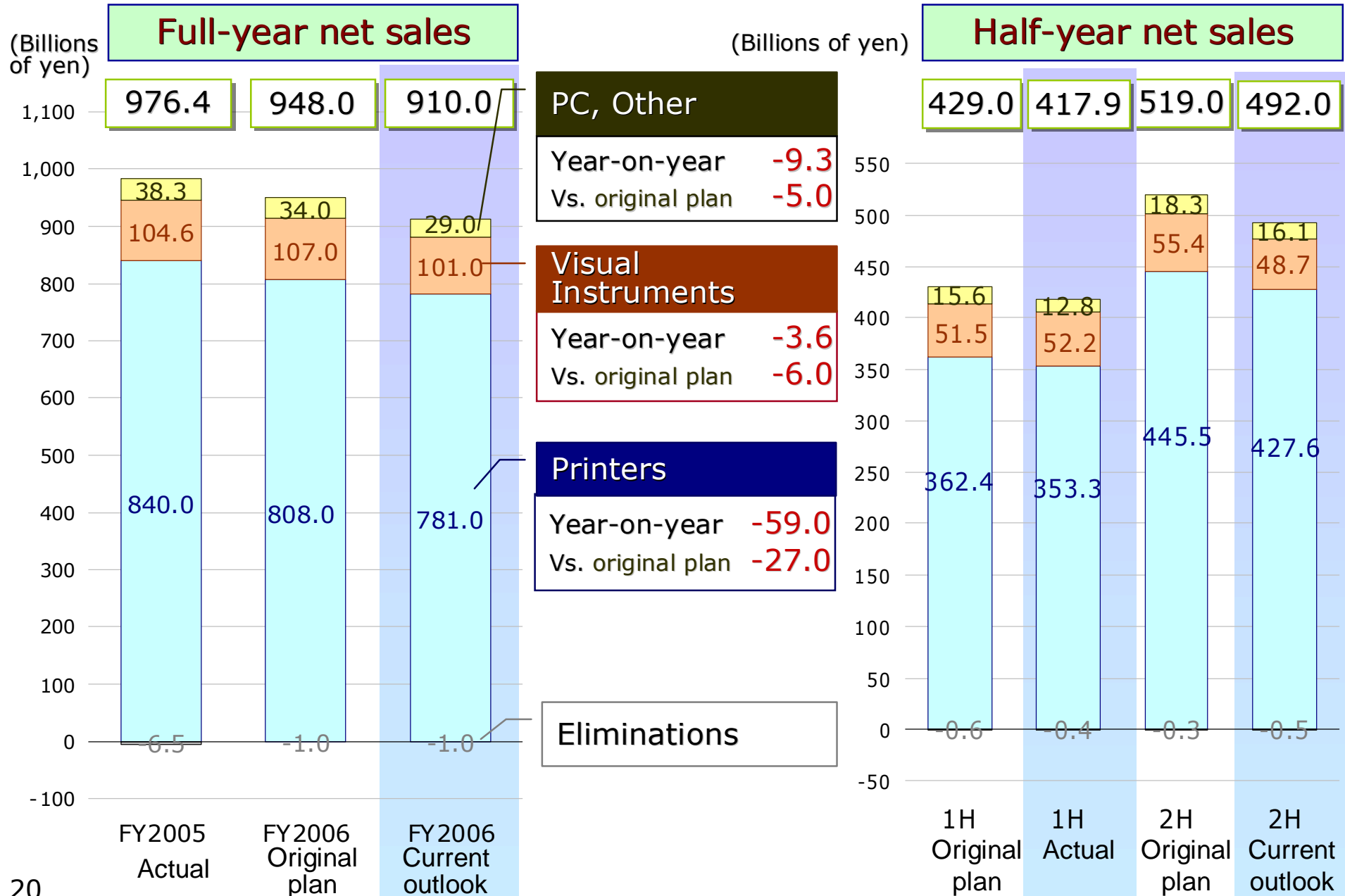


## ► By business segment



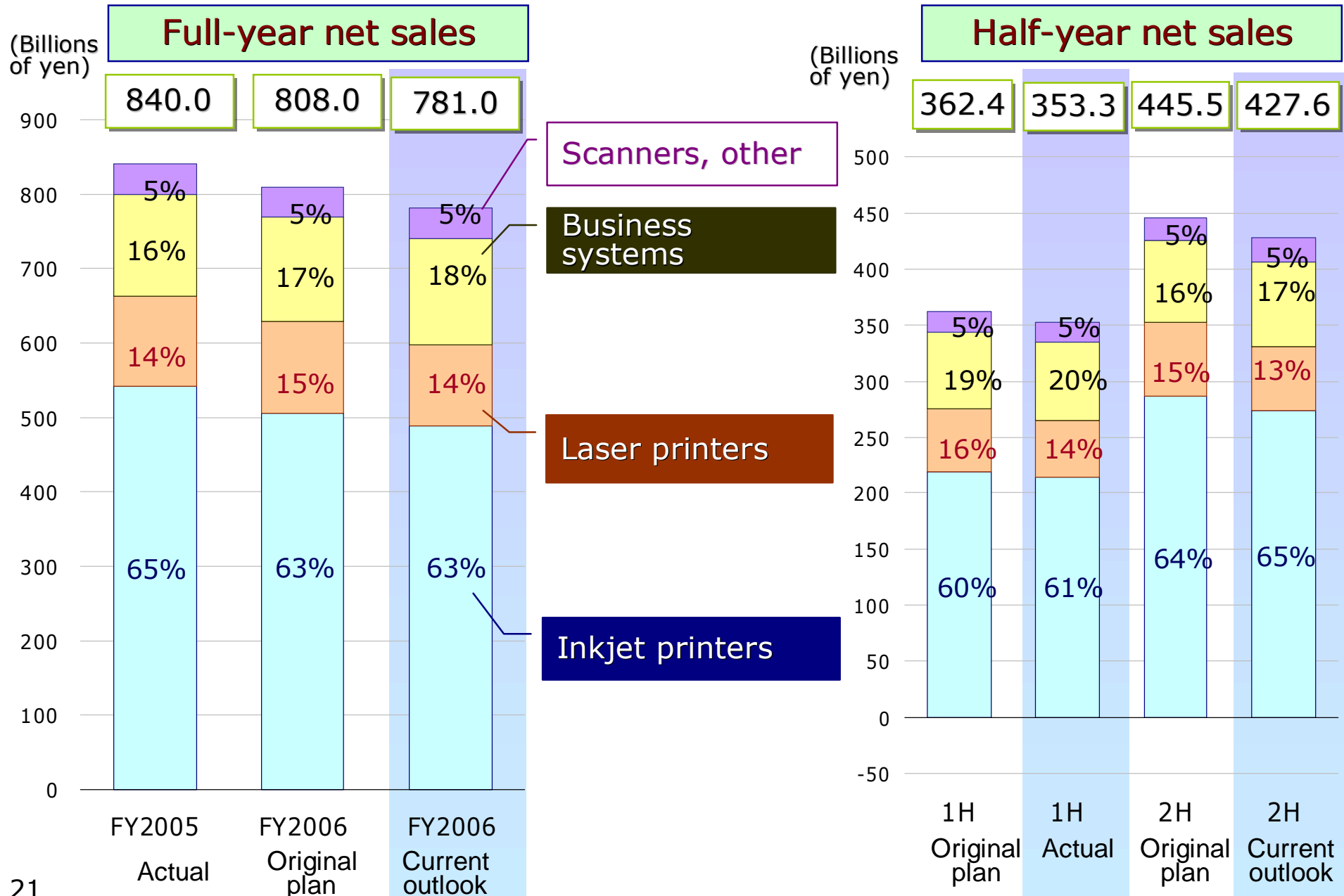
# Net Sales Outlook by Business

## Information equipment segment



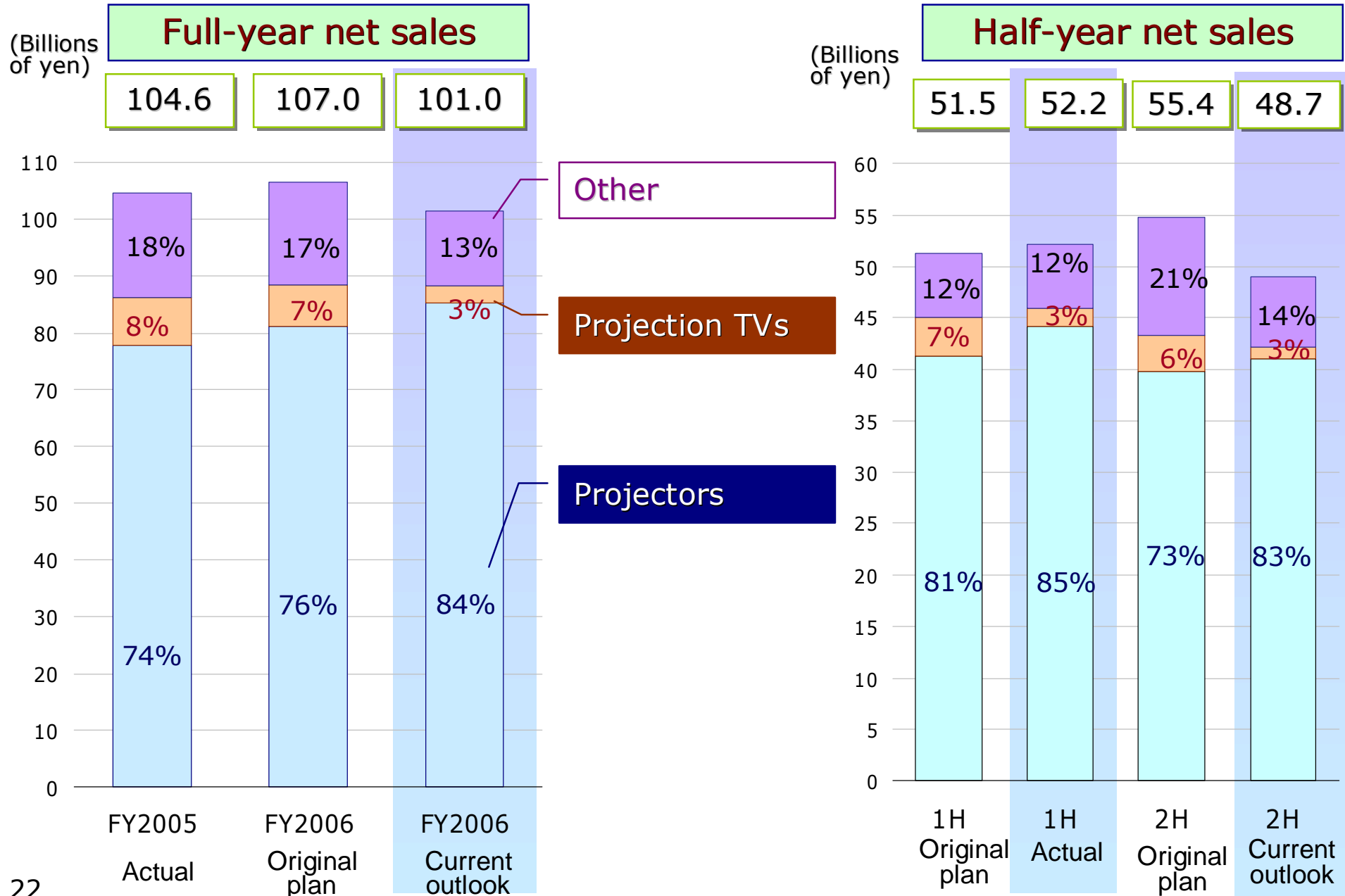
# Net Sales Outlook by Business

## ▶ Printer business



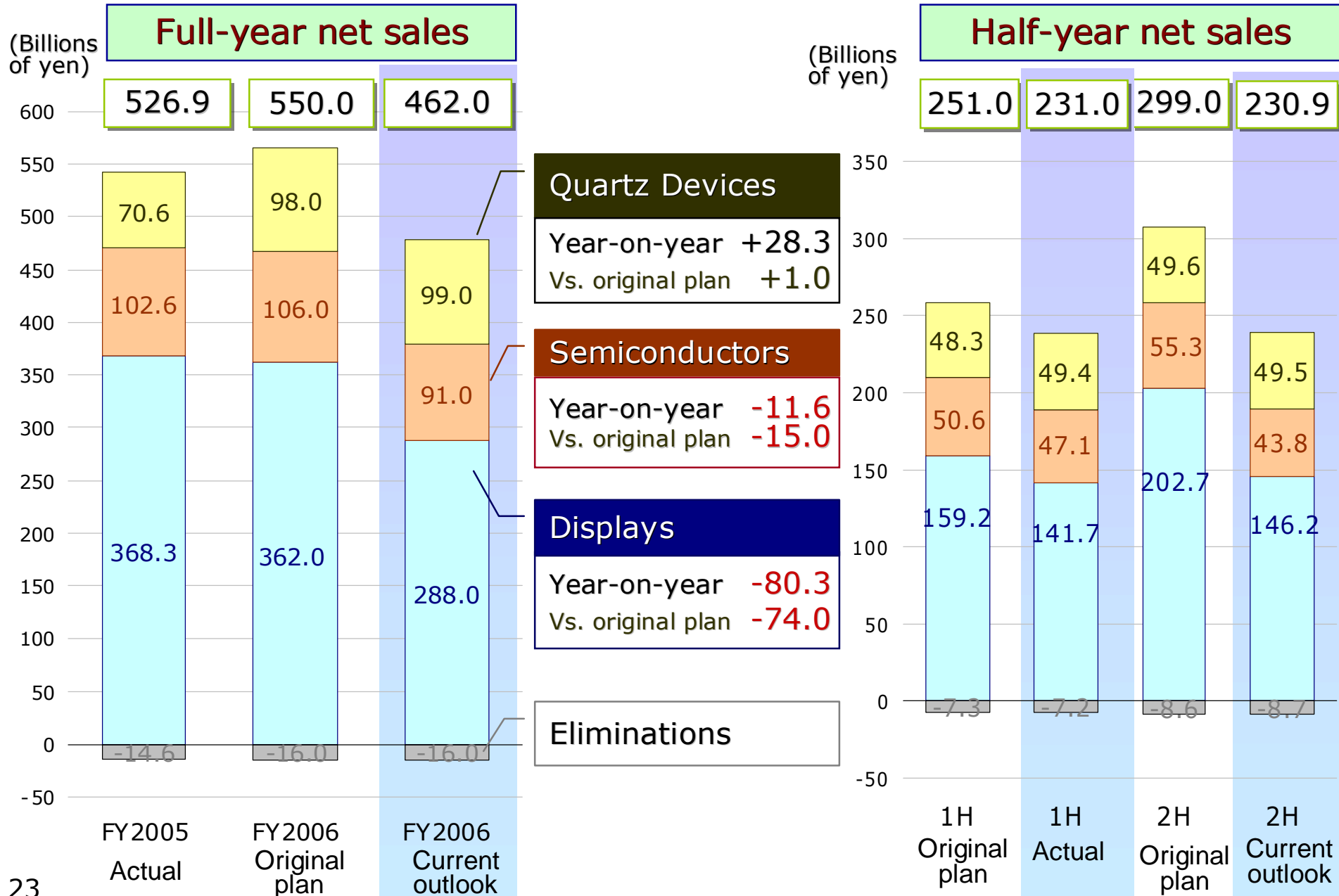
# Net Sales Outlook by Business

## ► Visual instruments business



# Net Sales Outlook by Business

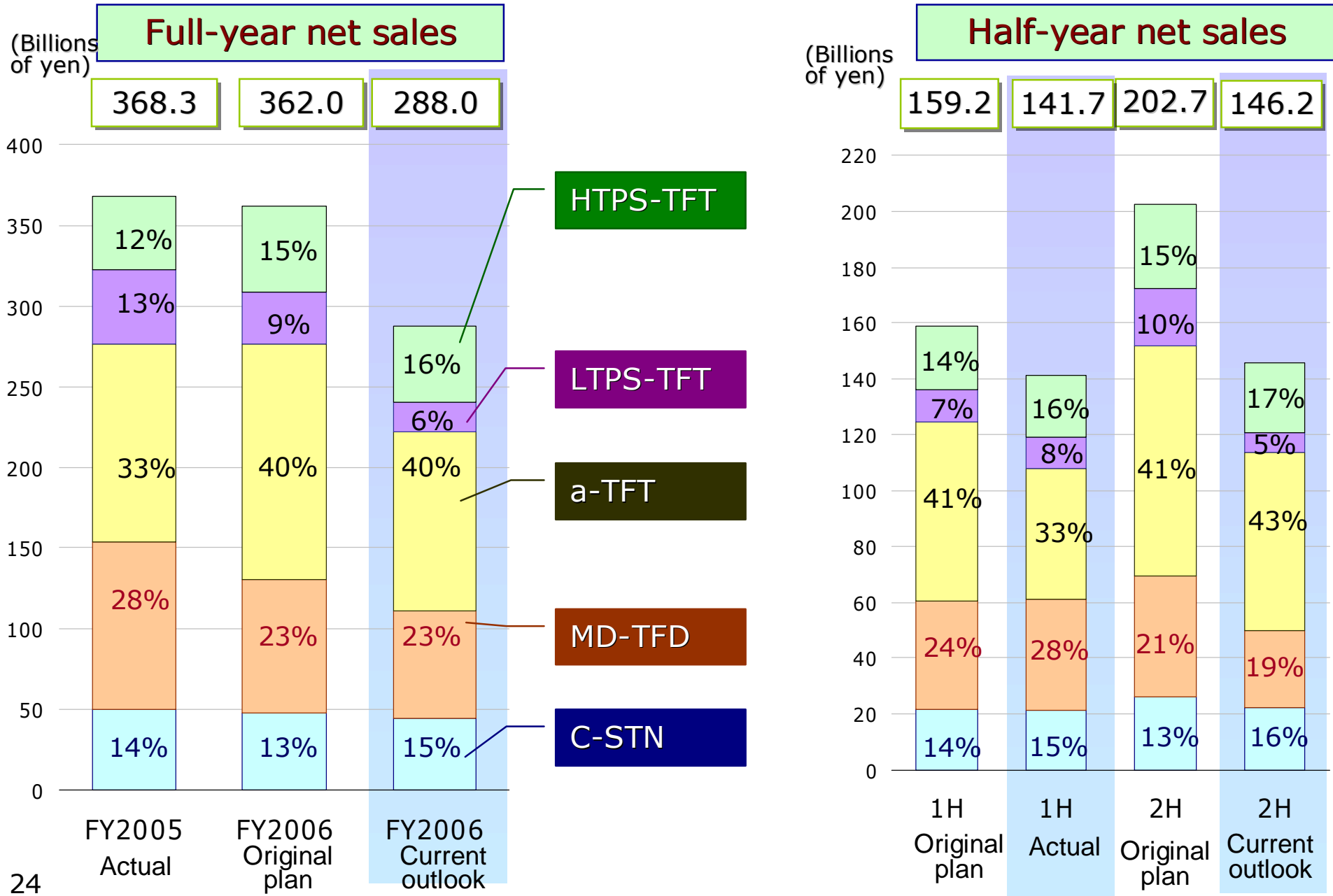
## ▶ Electronic device segment





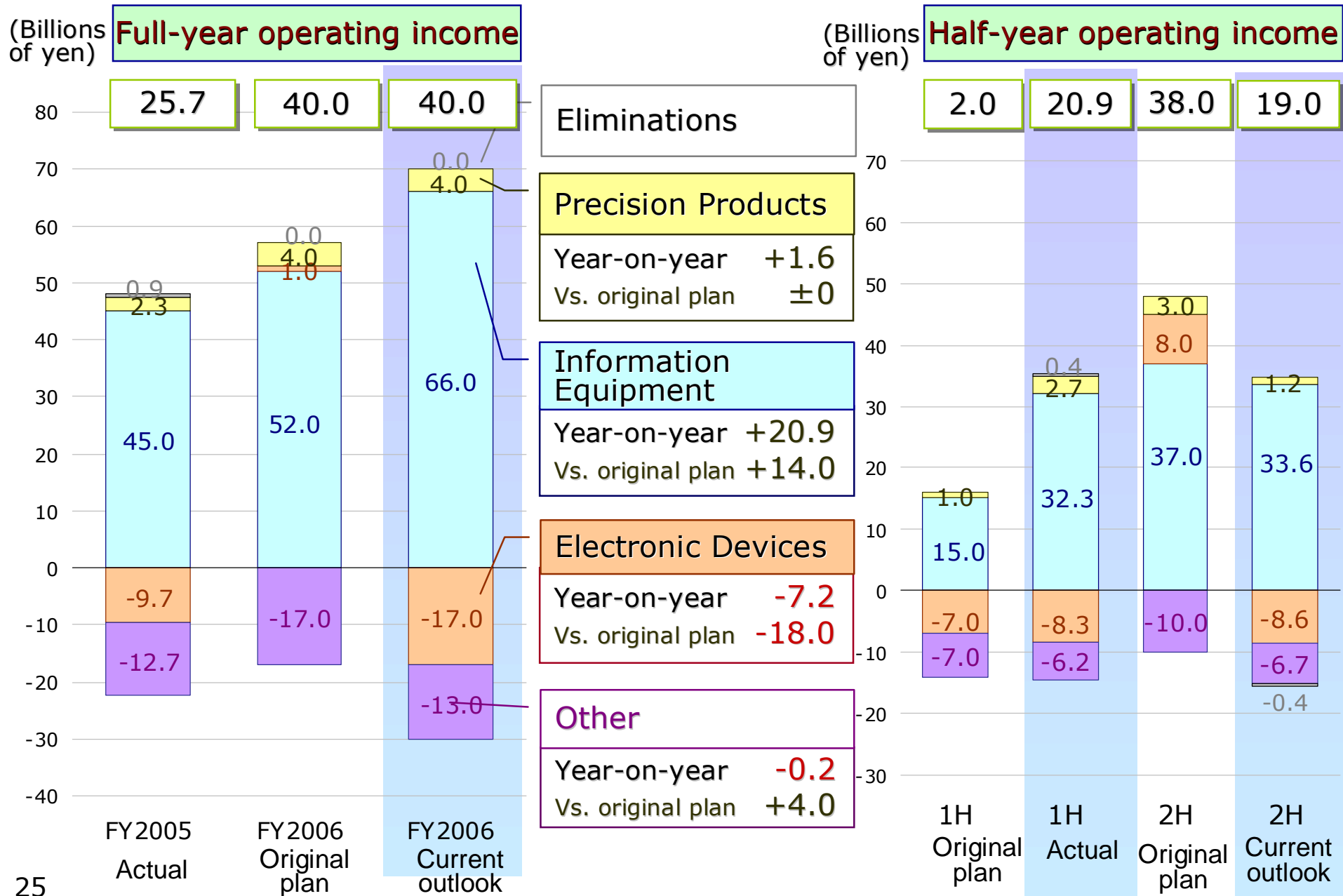
# Net Sales Outlook by Business

## ► Display business



# FY2006 Business Outlook (Operating Income)

## ► By business segment

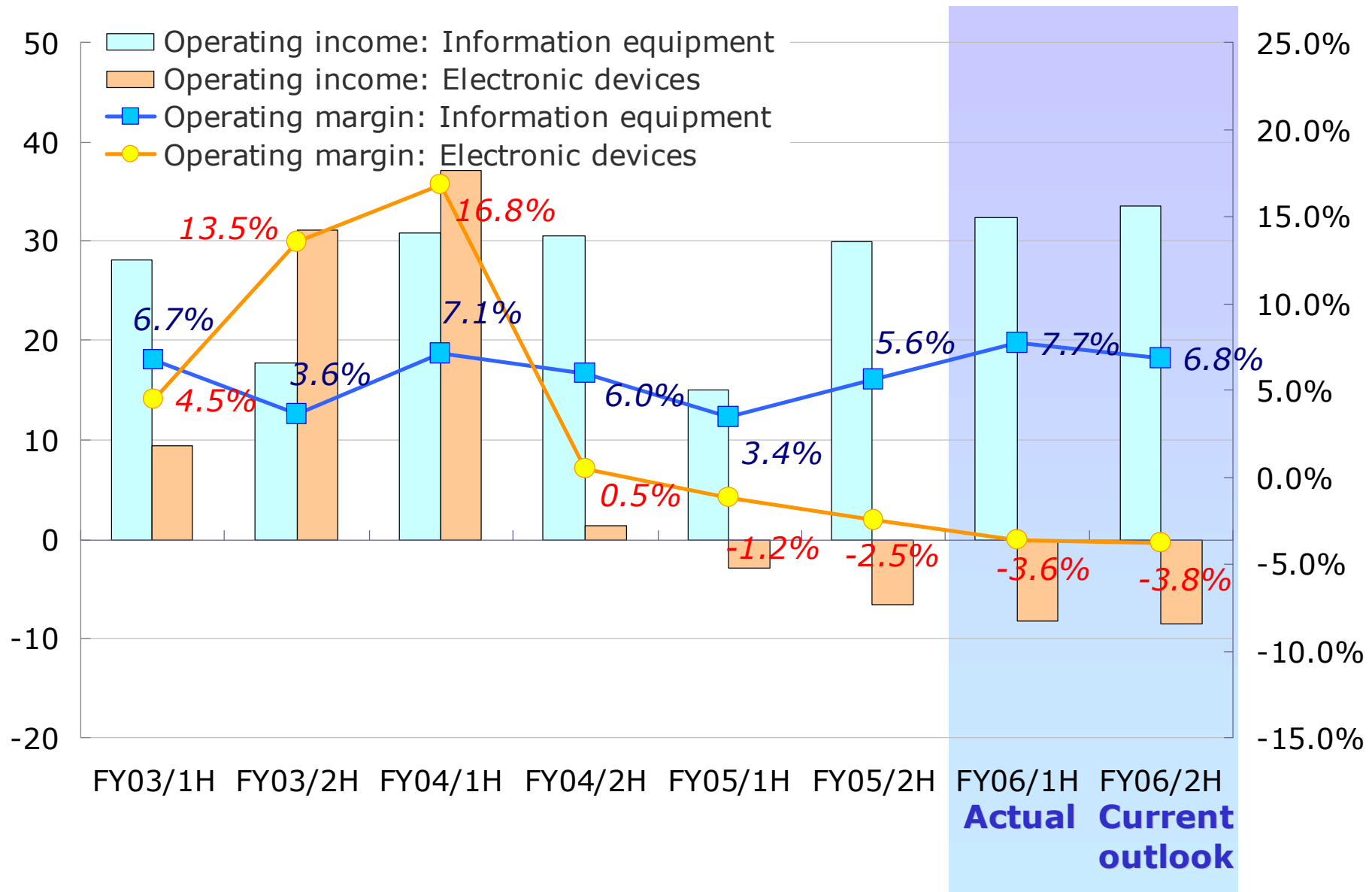


# Operating Income Trend and Outlook



Operating income (billions of yen)

Operating margin



# Achieving the Second-Half Outlook

## ▶ Information equipment

### Key second-half actions

#### ◆ Inkjet printer business

- Boost sales of new products in the year-end shopping season
- Continue sales strategy that emphasizes profitability
- Improve sales of consumables that enhance customer convenience

#### ◆ Business system & laser printer business

- Continue customer-engaged, high-margin business & low-cost operations

#### ◆ Visual instruments business

- Continue to release competitive products



Photo all-in-one



Dot-matrix printer



Thermal label printer



Color laser printer



Full HD home projector

# Achieving the Second-Half Outlook

## ▶ Electronic devices

### Key second-half actions

#### ◆ Display business

- Expand sales by winning volume orders for mobile phones with differentiated technology
- Reduce costs
- Restructure fixed costs
  - ✓ Streamline workforce
  - ✓ Review & promote site streamlining



Four-way 180-degree ultra-wide viewing angle



~500 ppi ultra-high-density 2.6" XGA LTPS LCD



7.1" direct-view HD LTPS LCD



Controller LSI

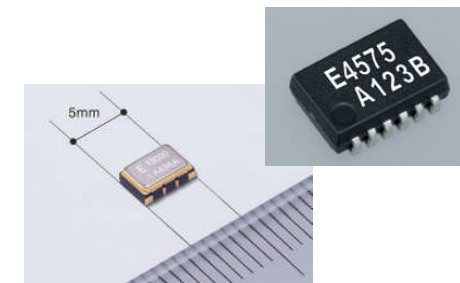
#### ◆ Semiconductor business

- Restructure & consolidate sites to further improve efficiency



#### ◆ Quartz device business

- Leverage the effects of the Epson Toyocom merger in production, development, and marketing to further improve profitability

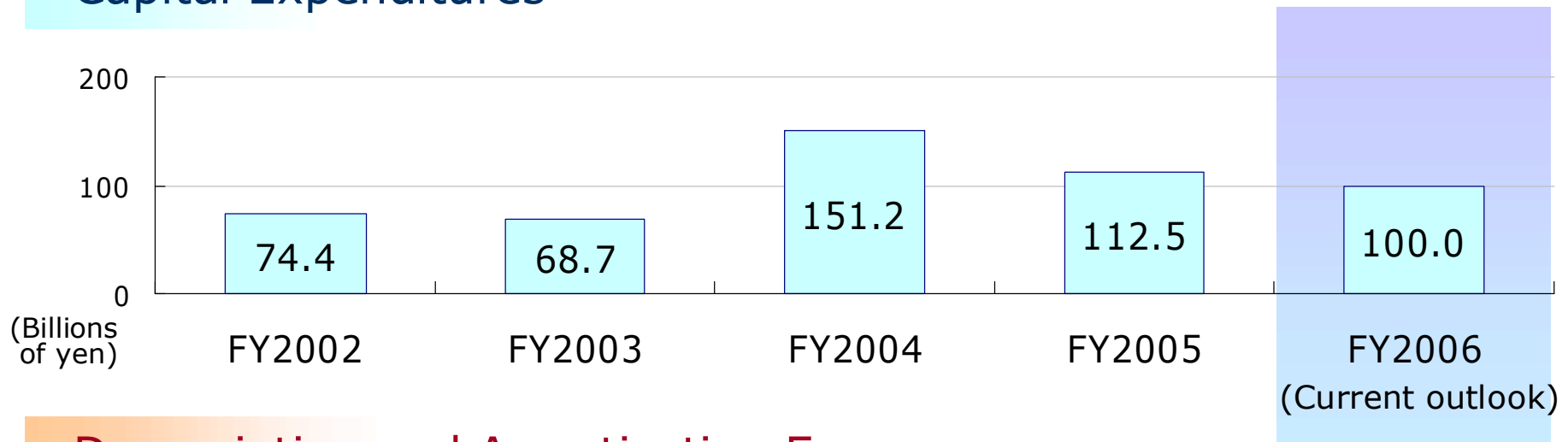


High-precision gyro sensor

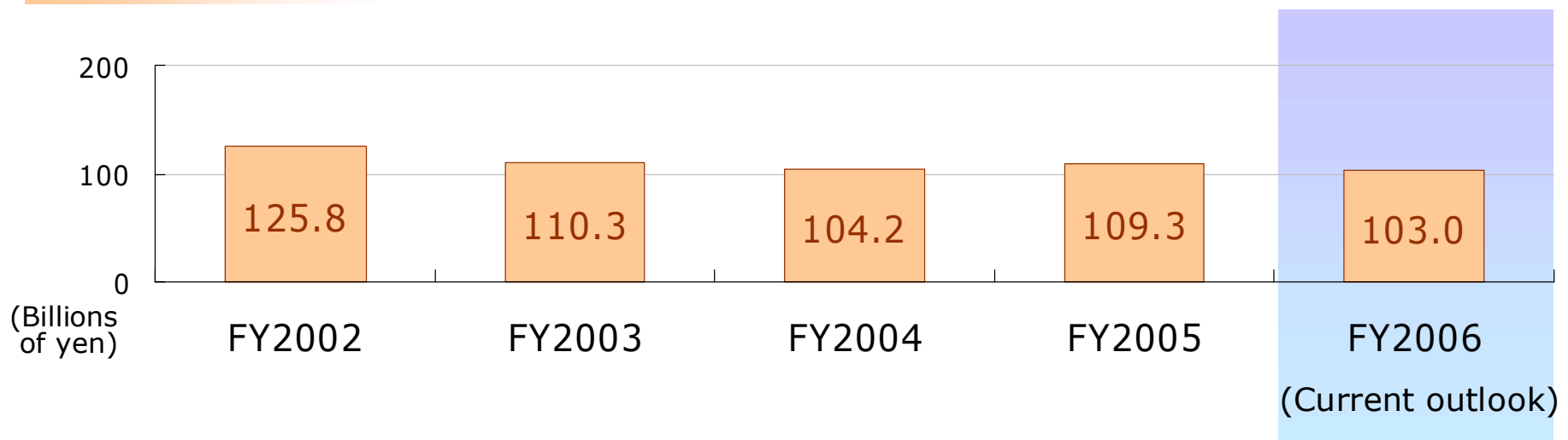
# Outlook for Capital Expenditure and Depreciation & Amortization Expenses



## Capital Expenditures

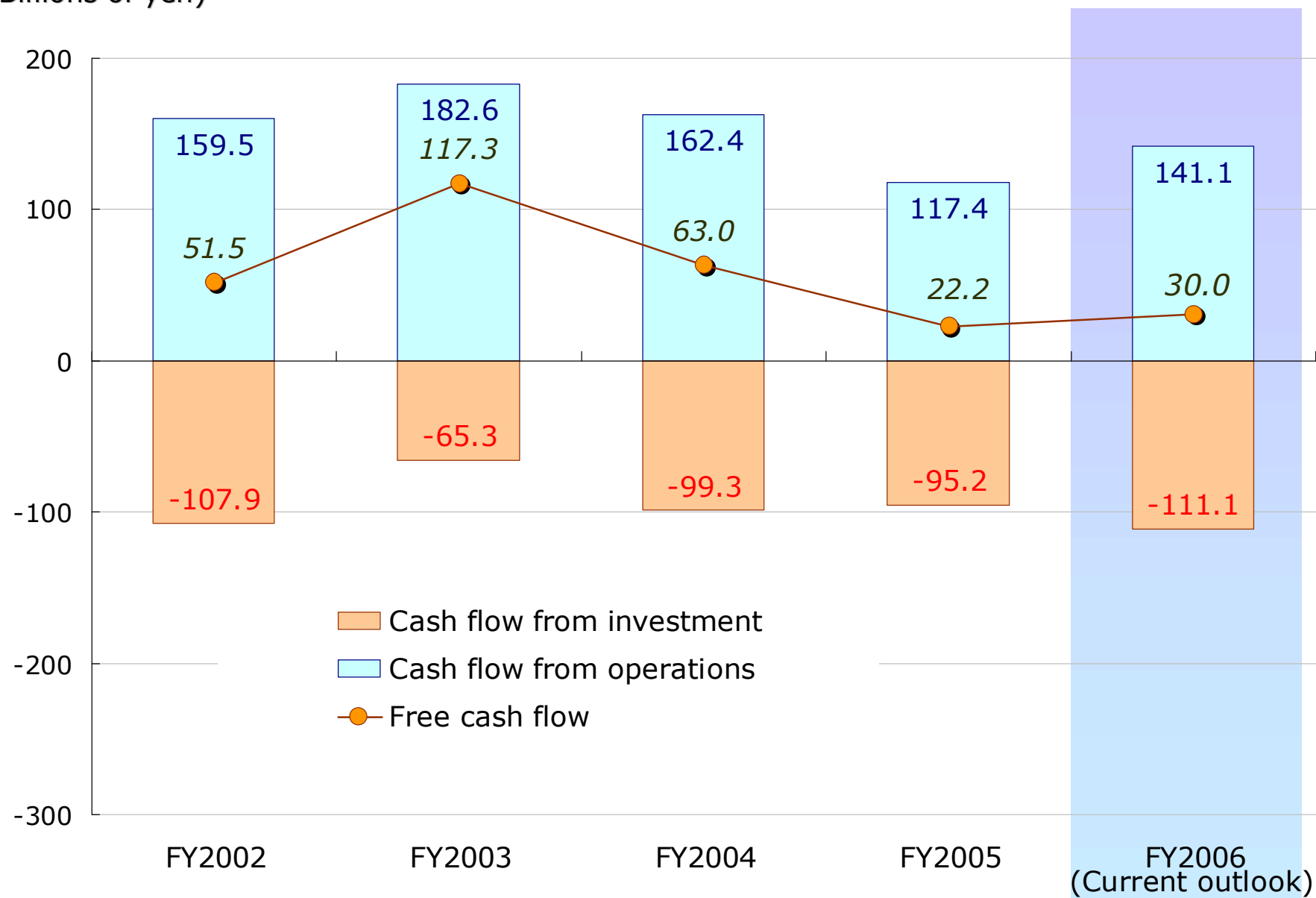


## Depreciation and Amortization Expenses

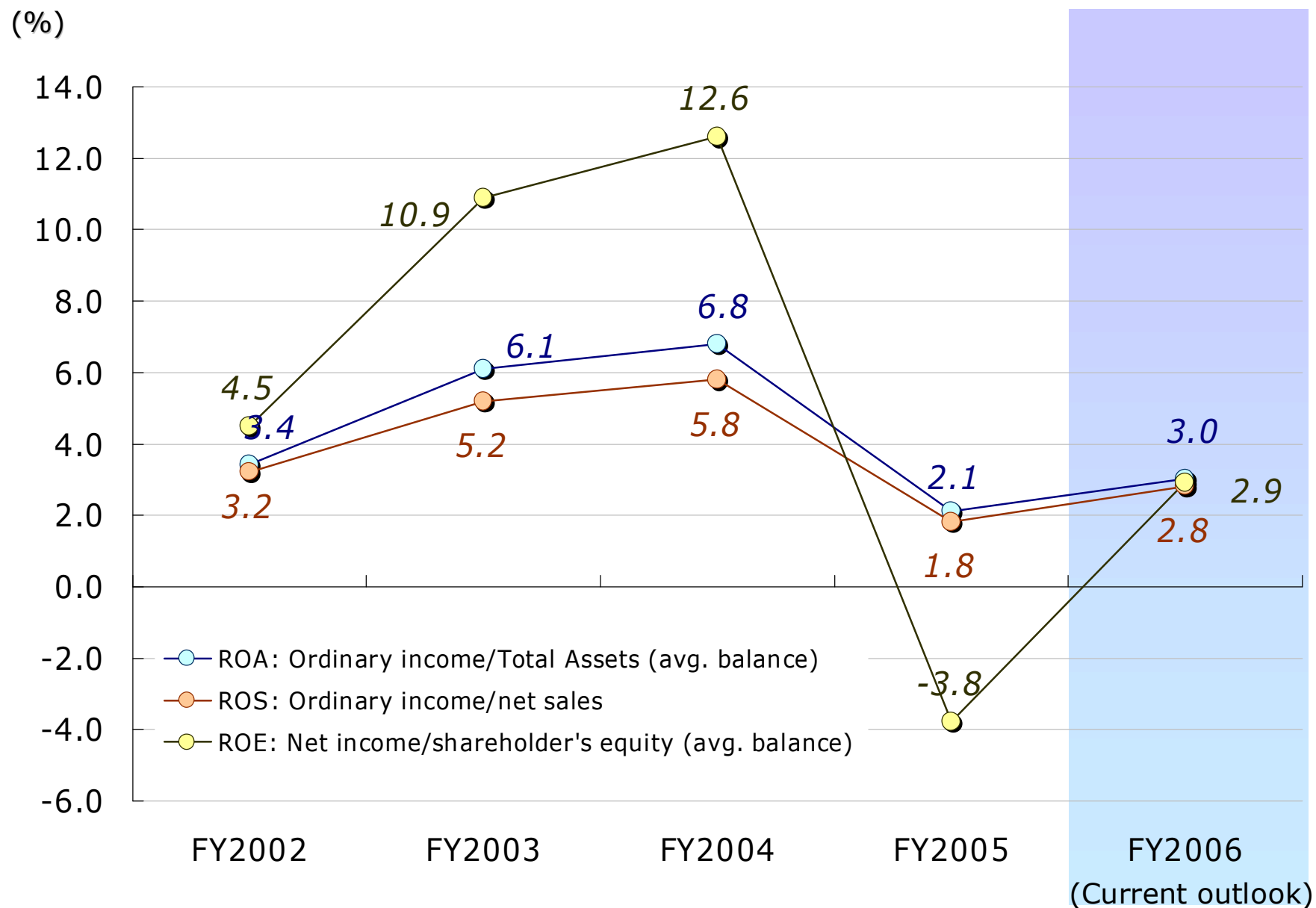


# Free Cash Flow Outlook

(Billions of yen)



# Main Management Indicators





# Reform Plan for Improving Earnings Potential

— First-Half Progress —



## Epson Group Mid-Range Business Policies

**1** Redefine & reinforce the business and product portfolio

Give direction to the inkjet-related product portfolio

**2** Reorganize the electronic device businesses

Promote structural and overall staffing structure reforms

**3** Streamline costs

Promote thorough design-to-cost and cost streamlining

**4** Reform the governance system

Introduce a corporate executive officer system to clarify corporate execution decisions and supervision, reduce the number of directors, reduce director terms to one year and increase importance of annual performance evaluations

**5** Reform the corporate culture

Go back to the spirit of "Creativity and challenge," "S&A," and "One Epson" to radically boost earnings potential and ensure solid future growth.

Reform Plan for  
Improving Earnings Potential  
Is in Progress

**EPSON**  
EXCEED YOUR VISION