



Second Quarter Financial Results
Fiscal Year 2012
(Ending March 2013)

October 31, 2012

SEIKO EPSON CORPORATION

■ 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.

1. Overview

2. Details

Financial Highlights (First Half)



	FY2011		FY2012				Change (amount, %)	
	Actual	%	7/31 Outlook	%	Actual	%	Y/Y	Vs. 7/31 Outlook
Net sales	425.5	-	400.0	-	388.2	-	-37.2 -8.8%	-11.7 -2.9%
Operating income	6.7	1.6%	-14.0	-3.5%	-14.1	-3.6%	-20.9 -	-0.1 -
Ordinary income	6.1	1.4%	-14.0	-3.5%	-14.1	-3.7%	-20.3 -	-0.1 -
Net Income <small>Before Income Taxes</small>	0.0	0.0%	-30.0	-7.5%	-29.6	-7.6%	-29.7 -	+0.3 -
Net Income	-4.3	-1.0%	-34.0	-8.5%	-35.4	-9.1%	-31.0 -	-1.4 -
EPS	-¥21.89		-¥190.06		-¥198.15			
Exchange Rate	USD	¥79.82	¥77.00		¥79.41			
	EUR	¥113.80	¥102.00		¥100.64			

Previous outlook exchange rate assumptions from Q2 onward
USD: ¥75.00, EUR: ¥100.00

3

■ FY2012 first-half financial highlights

- First-half net sales were ¥388.2 billion, down ¥37.2 billion year over year. Operating income slid by ¥20.9 billion, to negative ¥14.1 billion, and we recorded a net loss of ¥35.4 billion.
- Looking at the results compared to the outlook we announced on July 31, operating income was basically in line with projections, but both net sales and operating income in the core information-related equipment business were below expectations.

Key Points of FY2012 Second-Quarter Financials
(Vs. Previous Outlook)



Inkjet Printer Business

- Net sales of inkjet printers and consumables were less than forecast due to a sluggish market & fierce competition in certain regions.
 - ✓ Printer unit shipments fell short of plan despite year-over-year growth.
- Inability to meet planned printer cost reductions left operating income short.

Business Systems Business

- Net sales & operating income short of outlook due to postponement until next year of new SIDM orders for tax collection system in China and shortfall in shipments of POS products due to effects of slow economic recovery in developed economies.

Visual Products Business

- Projector unit shipments grew year over year, but net sales fell short of outlook due to market slowdown in China and postponement of tenders.
- Operating income in line with outlook, as growth in high added-value products improved the model mix.

4

■ Main factors affecting second-quarter financial performance in the information-related equipment business

- The IJP business reported net sales that were lower than the previous outlook even though global unit shipments grew 21% year over year. Net sales were hurt by continued negative growth in Europe and America, as well as by the effects of intense competition in Japan, a market where we have traditionally enjoyed high unit selling prices. Income was also lower than forecast. A major reason for this is that we were not able to reduce costs as planned in the startup of manufacturing for new products.
- The business systems business missed the outlook for both net sales and operating income. One reason was that orders for SIDM printers used in tax collection systems in China were postponed until next year. Another reason was that the slow economic recoveries in Europe and America dampened demand for POS-related products, causing orders to be postponed.
- The visual products business missed its net sales outlook. Although projector unit shipments grew 20% year over year as a result of solid demand in the education markets of Japan, North America, and the emerging economies of Europe, net sales were hurt primarily by a slowing of growth in China and the postponement of certain tender business opportunities. Income was basically in line with the outlook thanks to firm sales of high-added-value products, such as high-lumen and short-throw projectors.

FY2012 Financial Outlook



(Billions of yen)	FY2011		FY2012				Change (amount, %)	
	Actual	%	7/31 Outlook	%	Current Outlook	%	Y/Y	Vs. 7/31 Outlook
Net sales	877.9	-	870.0	-	850.0	-	-27.9 -3.2%	-20.0 -2.3%
Operating income	24.6	2.8%	28.0	3.2%	18.0	2.1%	-6.6 -26.9%	-10.0 -35.7%
Ordinary income	27.0	3.1%	28.0	3.2%	16.0	1.9%	-11.0 -40.8%	-12.0 -42.9%
Net Income <small>before Income Taxes</small>	15.6	1.8%	13.0	1.5%	-4.0	-0.5%	-19.6 -	-17.0 -
Net income	5.0	0.6%	5.0	0.6%	-15.0	-1.8%	-20.0 -	-20.0 -
EPS	¥26.22		¥27.95		-¥83.85			
Exchange Rate	USD	¥79.08	¥76.00		¥77.00		Current outlook exchange rate assumptions for FY2011/H2 USD: ¥75.00 EUR: ¥100.00	
	EUR	¥108.98	¥101.00		¥100.00			

Previous outlook exchange rate assumptions from Q2 onward
USD: ¥75.00/¥, EUR: ¥100.00

5

■ 2012 full-year financial outlook

- We lowered our net sales outlook to ¥850 billion, down ¥20 billion from the previous outlook. Operating income is now seen in the range of ¥18 billion, ¥10 billion less than previously forecast. The net income outlook was also lowered. Instead of ¥5 billion in net income, we now expect a net loss of ¥15 billion, a ¥20 billion decrease from the previous outlook.
- We lowered the outlook after revising the assumptions on which the information-related equipment financial outlook was based. We did this because signs point to a further economic slowdown in developed economies, particularly America and Europe, and to a deceleration of growth in China and other emerging nations.
- We expect to record a net loss due to a variety of factors, including the lowering of our operating income forecast, the payment of litigation-related losses, and investment security write-downs in addition to the effects of changes in tax effect accounting.

Inkjet Printer Business

- Net sales reflect market contraction in developed economies and slowing of growth in emerging markets.
Solution: Rather than chase unit volume, improve model mix and composition of install base.
 - ✓ Curtail sales of low-priced home inkjets.
 - ✓ Expand sales of office inkjets and high-end home inkjets.
 - ✓ Expand sales in emerging markets by expanding and enhancing high-capacity ink tank lineup.
- Operating income reflects revised printer cost reduction plan and consumables sales expectations.

Business Systems Business

- Net sales and operating income outlooks reflect a lowered SIDM unit shipment forecast given the trend for tax collection printers in the Chinese market and a lowered POS product net sales forecast due to the slow recovery in developed economies.

Visual Products Business

- Net sales and operating income reflect a lowered unit shipment target in a weaker market, though we will focus on high added value products to improve the model mix.

6

- Revised financial outlook for the information-related equipment business

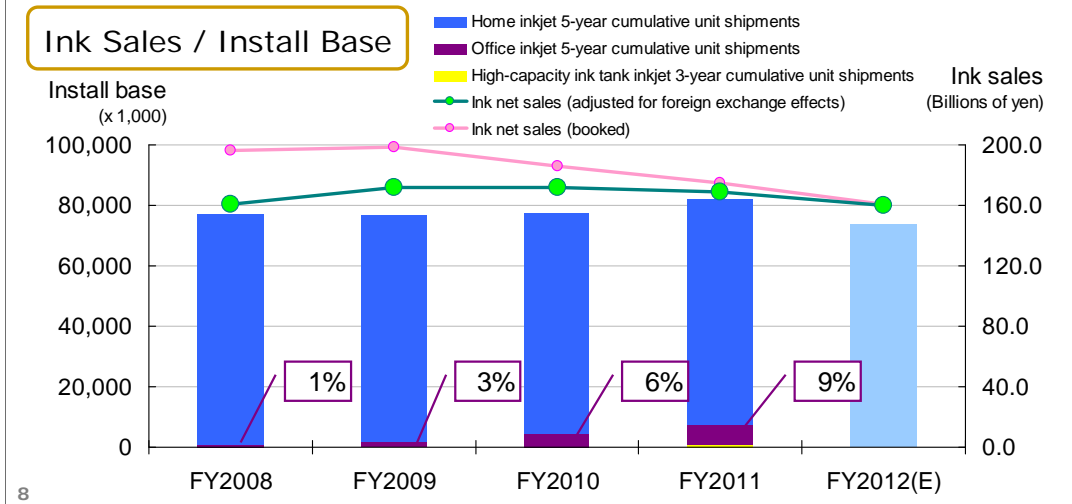
- Reasons for revising outlook
 - ✓ The inkjet printer business was unable to respond to the cooling of the market from the start of 2012 after adopting an aggressive sales plan designed to ensure a recovery from the effects of the earthquake in the first-half of FY2011.
 - ✓ The business systems business was slow to respond to rapid environmental changes.
- Immediate actions in response to revised outlook for FY2012:
 - ✓ Increase business speed by flattening and slimming the organization.
 - ✓ Reduce inventory.
- Revise mid-range financial targets and SE15 financial goals to reflect the revised FY2012 financial outlook.
 - ✓ Verify the validity of strategies and rationality of targets in light of changes in the macroeconomic, market, and competitive landscape.
 - ✓ Keep the same strategic direction, but examine assumptions and time-frames.
 - ✓ The results of reviews and analyses will be announced after we have a clear picture of Q3 results.

■ Revised financial outlook for the information-related equipment business

SE15 Mid-Range Business Plan Progress



- Epson ink sales (after eliminating foreign exchange effects) are flat or trending slightly downward. While sales of ink for home inkjets are declining, the steadily growing office inkjet install base, though still small, is making up for this.
- To secure ink sales growth, we will improve the composition of the install base by continuing to increase the office inkjet install base while curtailing unit shipments of low-priced home inkjets.

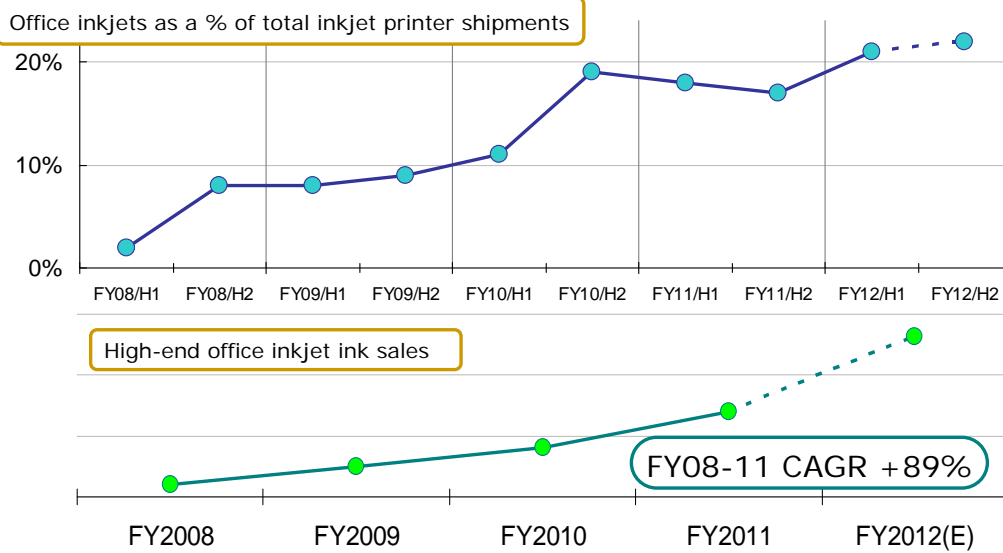


- Progress in carrying out the SE15 strategies

SE15 Mid-Range Business Plan Progress



- Establish the foundation for mid-term profitability by increasing the install base of office inkjets.
- Sales of ink for high-end office inkjets are growing at a rapid rate.

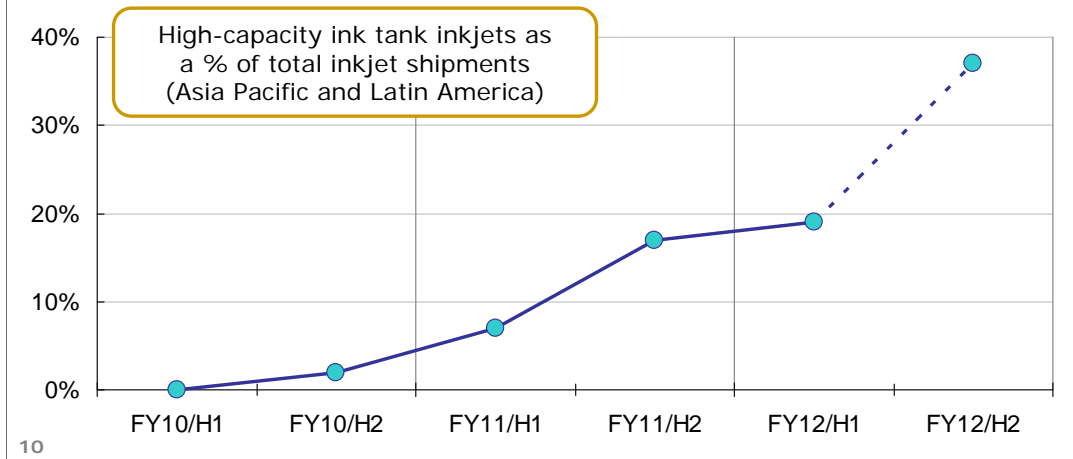


- Progress in carrying out the SE15 strategies

SE15 Mid-Range Business Plan Progress



- Sales of high-capacity ink tank inkjets, growing steadily in Asia Pacific & Latin America, expected to account for nearly 40% of unit shipments in these regions in the second half.
- Profitability in these regions is improving in tandem with increases in these models, so we will act to further expand sales in emerging markets.

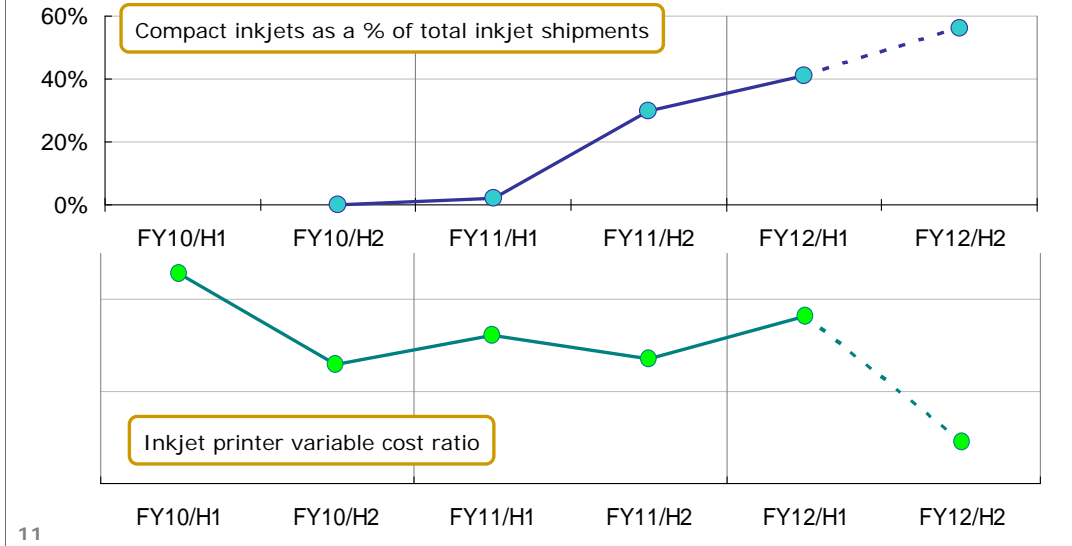


- Progress in carrying out the SE15 strategies

SE15 Mid-Range Business Plan Progress



- Compact inkjet models are steadily growing as a percentage of total inkjet printer shipments and have become a factor in product competitiveness.
- Although profitability has improved to some extent, costs were not reduced as far as planned, so we will step up cost reduction efforts.



■ Progress in carrying out the SE15 strategies

1. Overview

2. Details

1) FY2012 Q2 Financial Results

2) FY2012 Financial Outlook

Financial Highlights (Second Quarter)

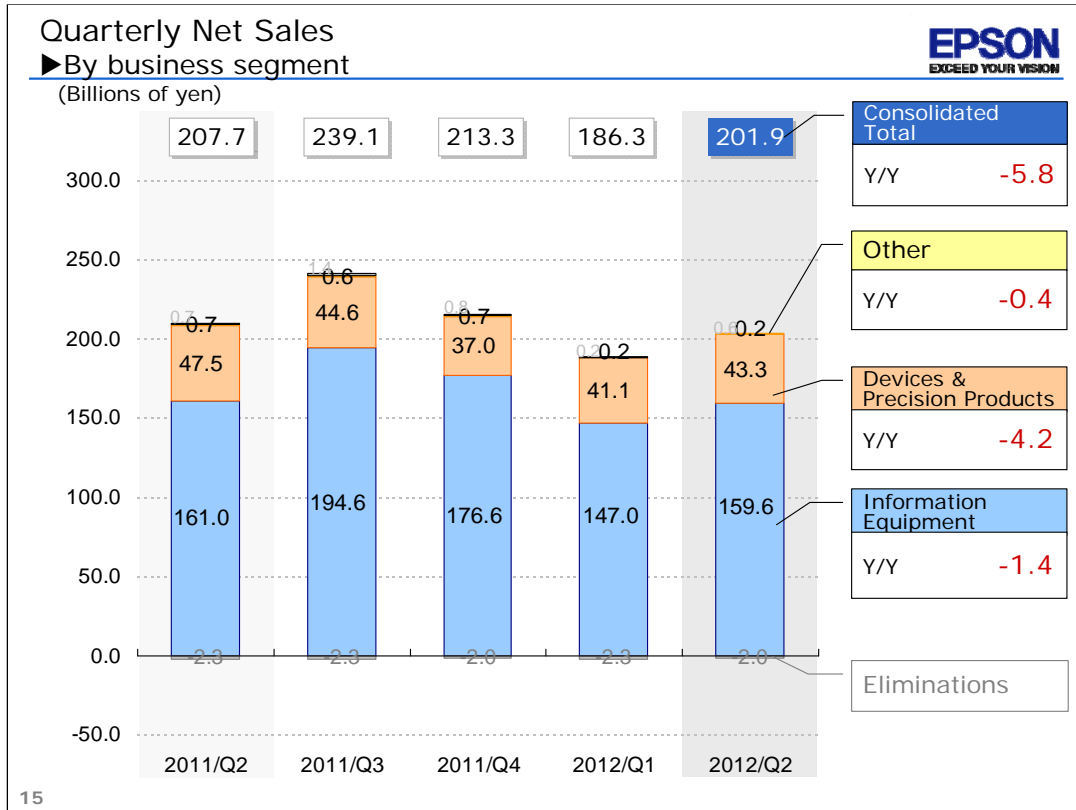


(Billions of yen)	FY2011		FY2012		Change	
	Q2 Actual	%	Q2 Actual	%	Amount	%
Net sales	207.7	-	201.9	-	-5.8	-2.8%
Operating income	3.1	1.5%	1.9	1.0%	-1.1	-37.2%
Ordinary income	3.7	1.8%	2.2	1.1%	-1.4	-39.1%
Net Income <small>Before Income Taxes</small>	-0.4	-0.2%	2.2	1.1%	+2.6	-
Quarterly Net Income	-1.1	-0.6%	-0.9	-0.5%	+0.1	-
EPS	-¥5.75		-¥5.48			
Exchange Rate	USD	¥77.89	¥78.63			
	EUR	¥110.19	¥98.36			

14

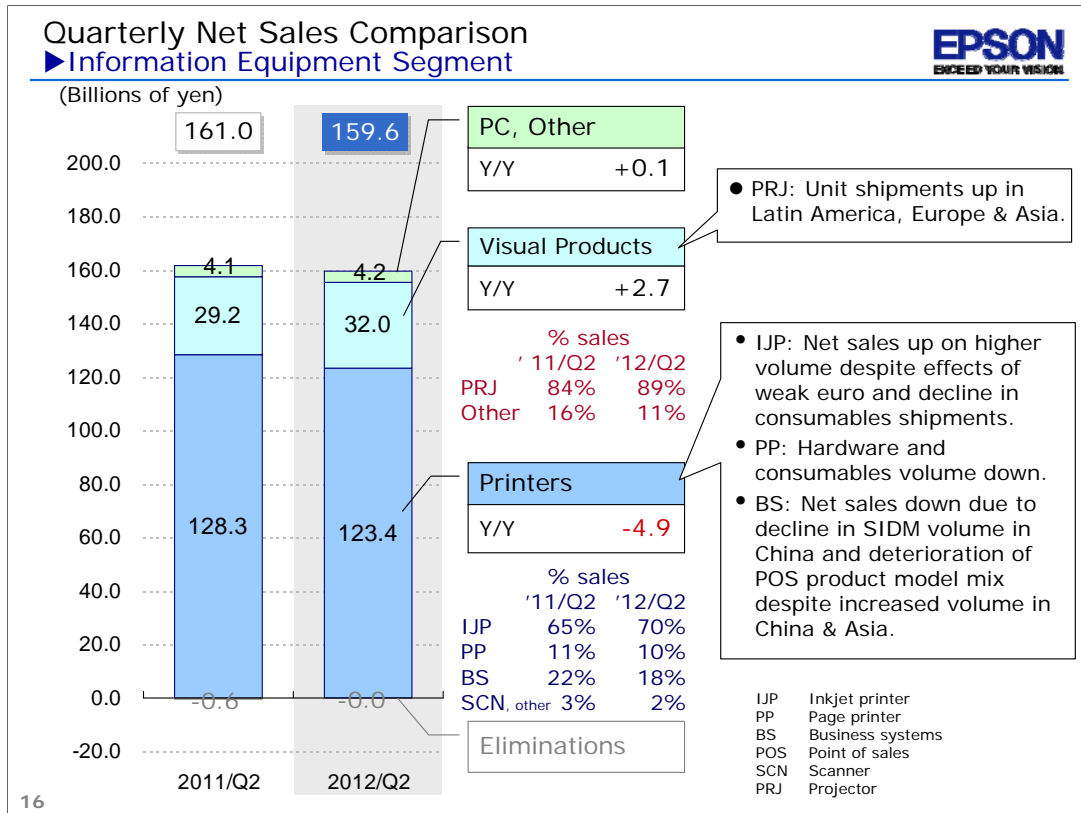
■ FY2012 second-quarter financial highlights

- Net sales were ¥201.9 billion, down ¥5.8 billion year over year. Operating income was ¥1.9 billion. We recorded a net loss of ¥900 million.

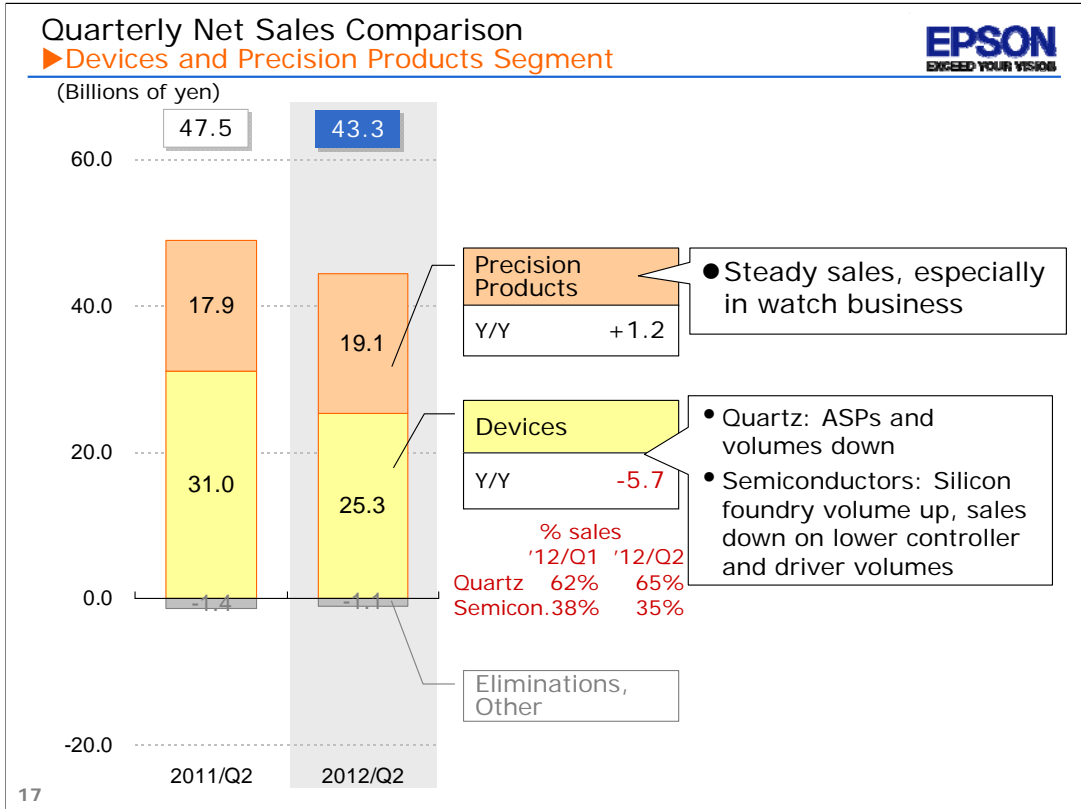


■ Net sales in each segment over the last five quarters

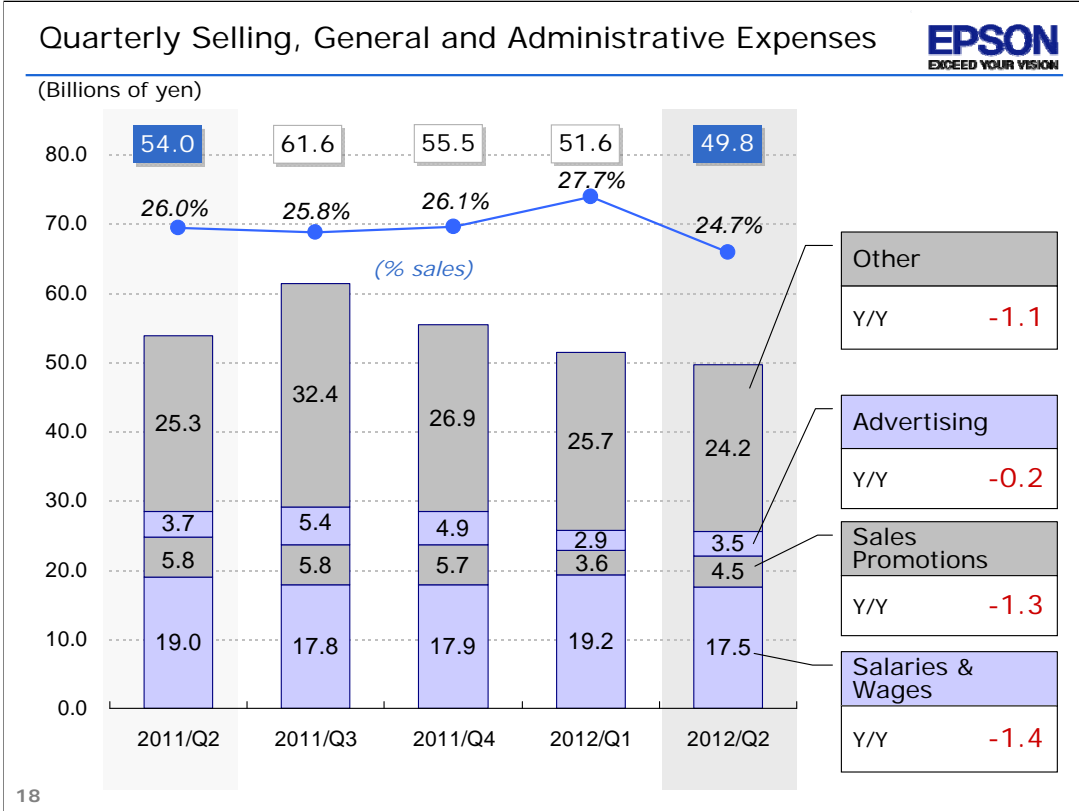
- In the information-related equipment segment, net sales declined by ¥1.4 billion year over year. Devices and precision products net sales declined by ¥4.2 billion.
- Foreign exchange effects resulted in an approximately ¥3.9 billion decrease in net sales for the quarter, mostly in the information-related equipment segment.



- Quarterly net sales in the businesses making up the information-related equipment segment
 - The printer business as a whole saw net sales decline by ¥4.9 billion.
 - Inkjet printer net sales increased on higher unit shipments, though net sales were moderated by a decline in consumables volume and the effects of a weak euro.
 - By region, Epson experienced inkjet unit shipment growth in the Americas, Europe, and Japan even as the European and U.S. printer markets shrank.
 - Page printer net sales declined as both printer and consumables unit shipments fell due to postponement of and a reduction in large orders.
 - Business systems net sales decreased. Net sales were hurt by a decline in SIDM printer unit shipments compared to the previous year, when there was robust demand for units used in tax collection systems in China. POS product shipments in China and Asia increased, but the bulk of sales were in low-end models.
 - Visual products net sales increased by ¥2.7 billion year over year. In addition to unit growth in business and education projectors in South America, Europe, and Asia, net sales benefited from an improved model mix, the result of expanded sales of ultra-short-throw lens projectors in Japan and elsewhere.
 - The comparison with the plan was as explained earlier.

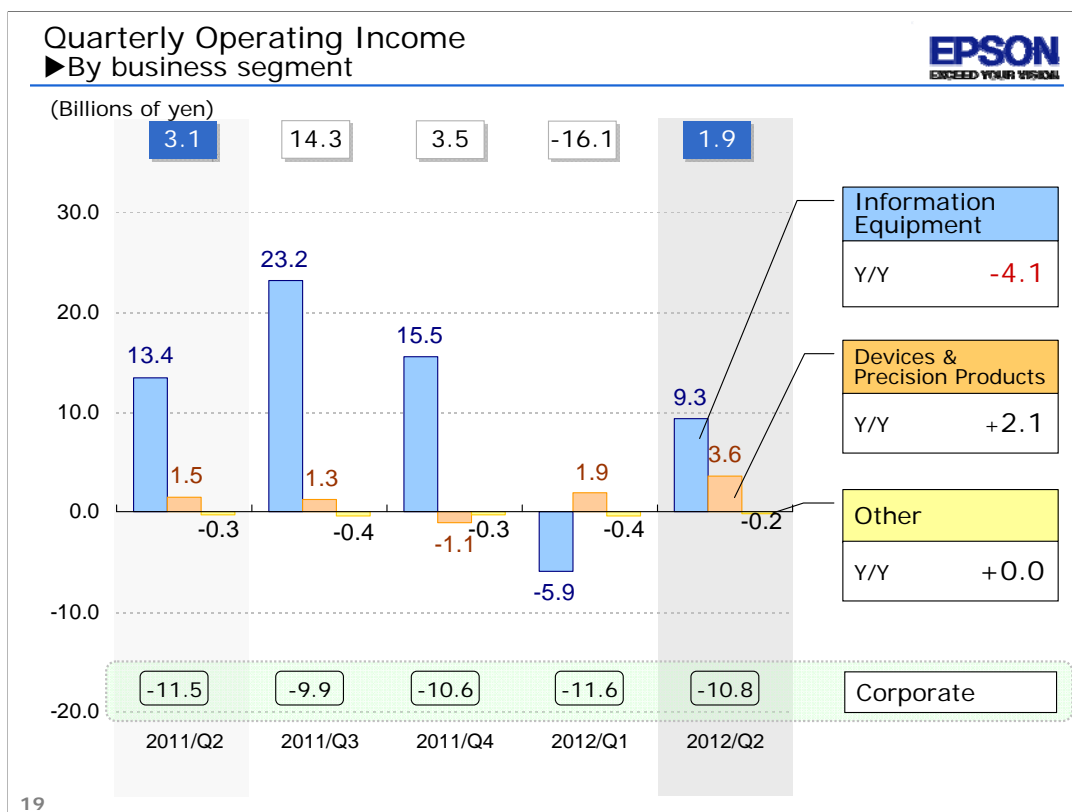


- Quarterly net sales in the Devices and Precision Products Segment compared against the results from the same period last year
- Net sales in our devices businesses decreased. Falling average selling prices and slack demand due to the economic slowdown put a dent in quartz device net sales. Semiconductor net sales decreased despite an increase in silicon foundry volume because controller and driver unit shipments declined.
- Precision products reported an increase in net sales, largely owing to firm demand in the watch business, which saw strong sales on the high end and in Japan.
- Net sales in both devices and precision products were right in line with the plan.



■ Quarterly selling, general and administrative expenses

- These expenses declined compared to the same period last year as a result of efforts to maximize efficiency in spending, especially in sales promotions.



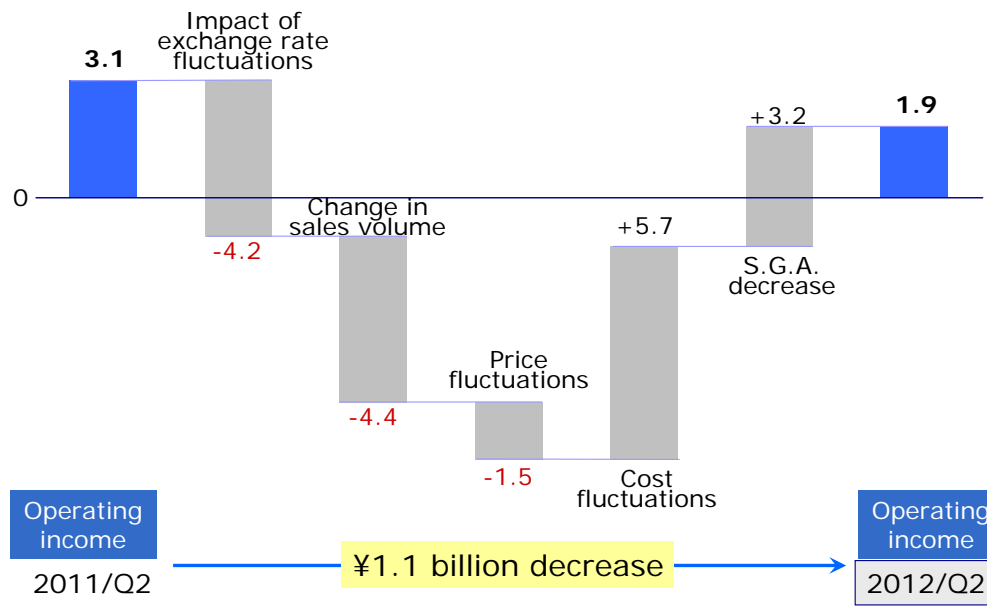
■ Breakdown of quarterly operating income by segment

- Foreign exchange effects had an approximately ¥4.2 billion negative impact on operating income for the quarter, mostly in information-related equipment.
- Information-related equipment posted operating income of ¥9.3 billion, a decline of ¥4.1 billion, year over year.
- Inkjet printer operating income decreased because, in addition to lower revenue from consumables, our expenses shot up in connection with a steep increase in printer production volume compared to last year, when production suffered disruptions from the earthquake.
- Business systems net sales receded, leading to lower operating income.
- Visual products operating income increased on higher net sales. Page printer operating income increased due to fixed cost reductions.
- The comparison against the plan was as explained earlier.
- Devices and precision products reported operating income of ¥3.6 billion, an increase of ¥2.1 billion. Although quartz and semiconductor net sales fell, operating income benefited chiefly from precision product revenue growth and from reductions in fixed costs that accompanied cost-cutting efforts and personnel reassignments.
- Devices and precision products operating income exceeded our internal plan mainly because of improvements in the product mix and the effect of fixed cost reductions.

Operating Income Fluctuation Cause Analysis



(Billions of yen)



20

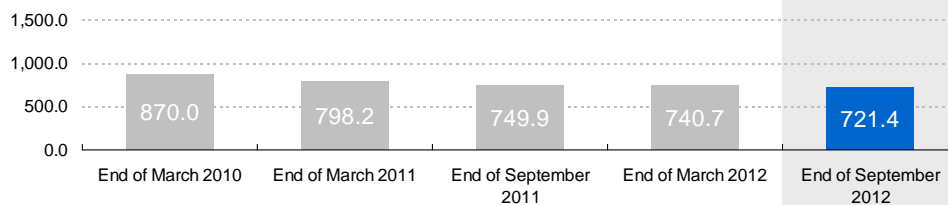
- Cause analysis of the ¥1.1 billion decrease in operating income compared to the same period last year
- Operating income for the quarter was ¥1.9 billion compared to an operating income of ¥3.1 billion in the second quarter of fiscal 2011. While cost fluctuations and lower SGA costs contributed positively to operating income, volume fluctuations, exchange rate effects, and price fluctuations had a negative effect on operating income.

Statistics of Balance Sheet Items

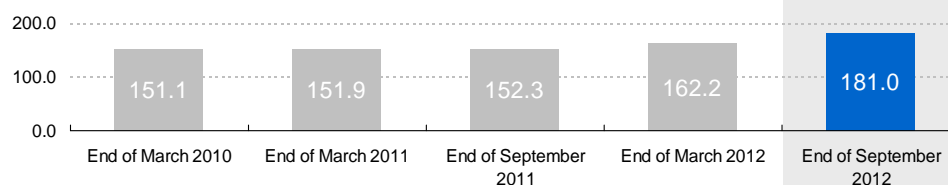


(Billions of yen)

Total assets



Inventories



21

■ Major items on the balance sheet

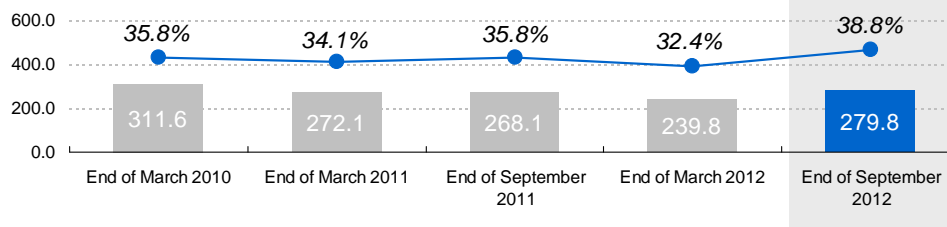
- Total assets decreased by ¥19.2 billion compared to the end of March 2012. While inventory increased due to lower than expected unit sales and production increases as we gear up for the year-end shopping season, total assets decreased due to declines in items such as cash reserves and notes and accounts receivable.

Statistics of Balance Sheet Items

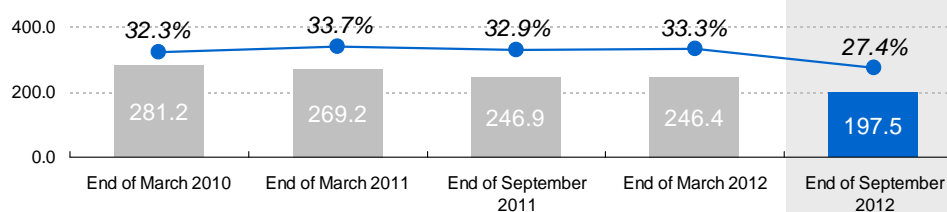


(Billions of yen)

Interest-bearing liabilities & ratio of interest-bearing liabilities



Shareholder's equity & equity ratio



*Lease obligations are included in interest-bearing liabilities

*Shareholder equity: Total net assets - minority interests in subsidiaries

22

■ Statistics of balance sheet items

- Interest-bearing liabilities increased by ¥39.9 billion compared to the end of March 2012 largely due to a corporate bond issue in September. The ratio of interest-bearing liabilities to total assets was 38.8%. Net interest-bearing liabilities were ¥156.1 billion.
- Shareholders' equity fell by ¥48.8 billion compared to the end of March 2012 due to factors such as the first-half financial results and effects of foreign currency translations. As a result, the equity ratio was 27.4%.

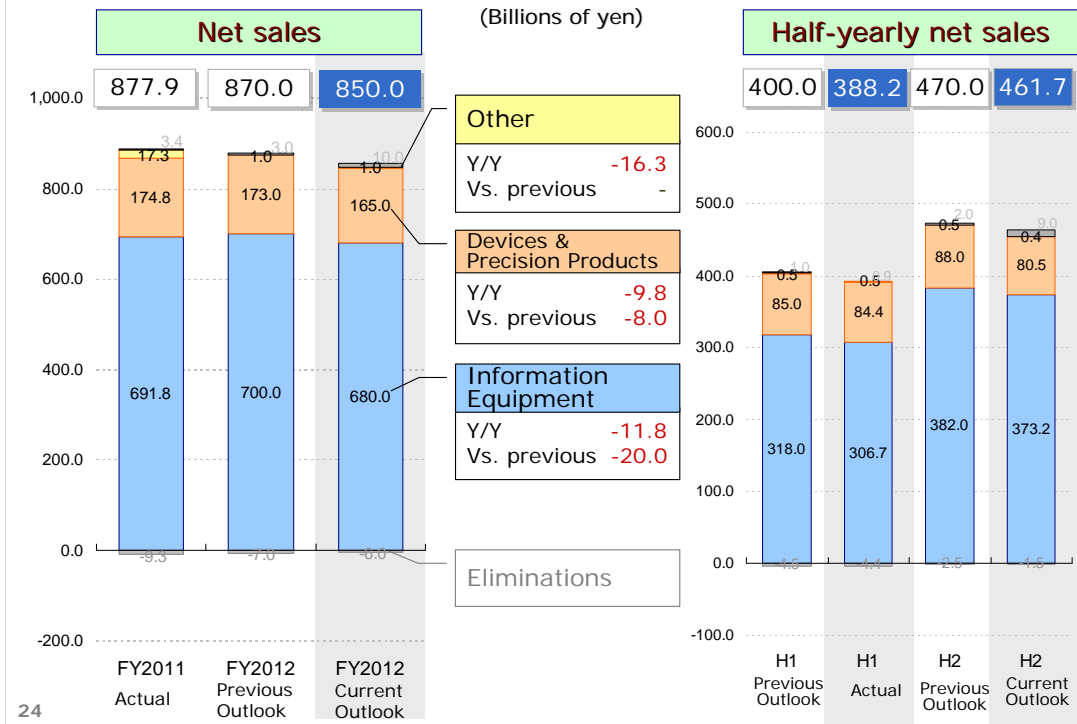
1) FY2012 Q2 Financial Results

2) FY2012 Financial Outlook

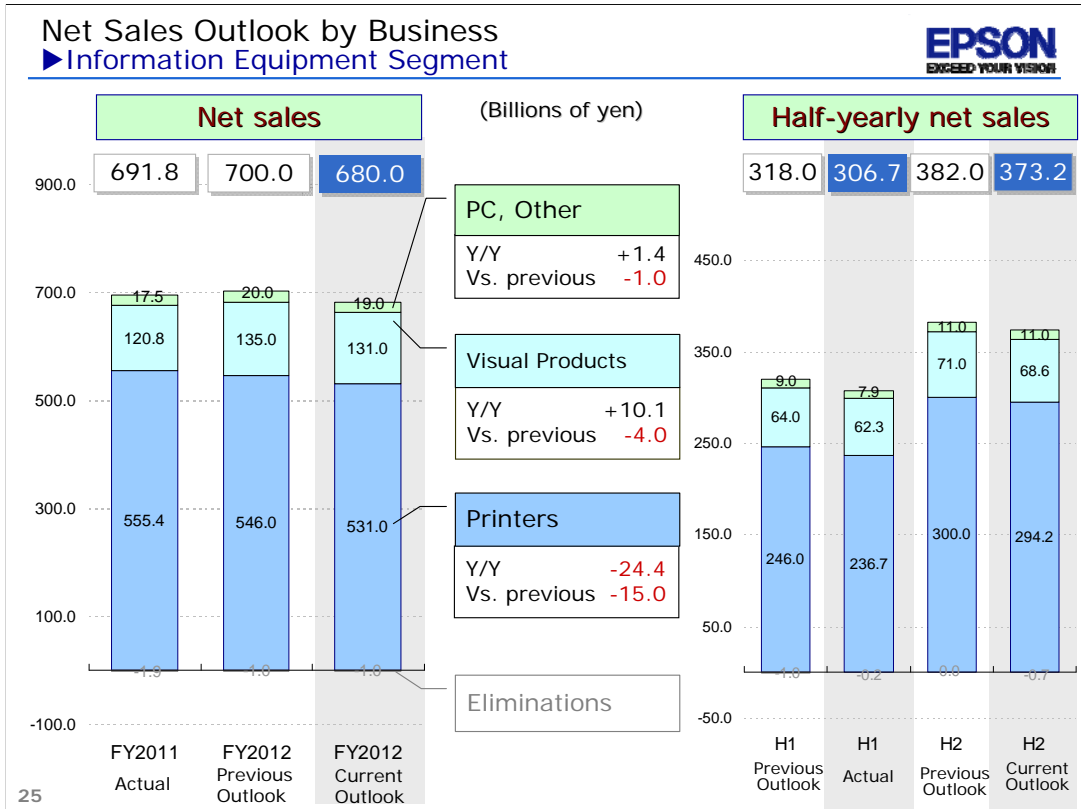
23

- Fiscal 2012 financial outlook

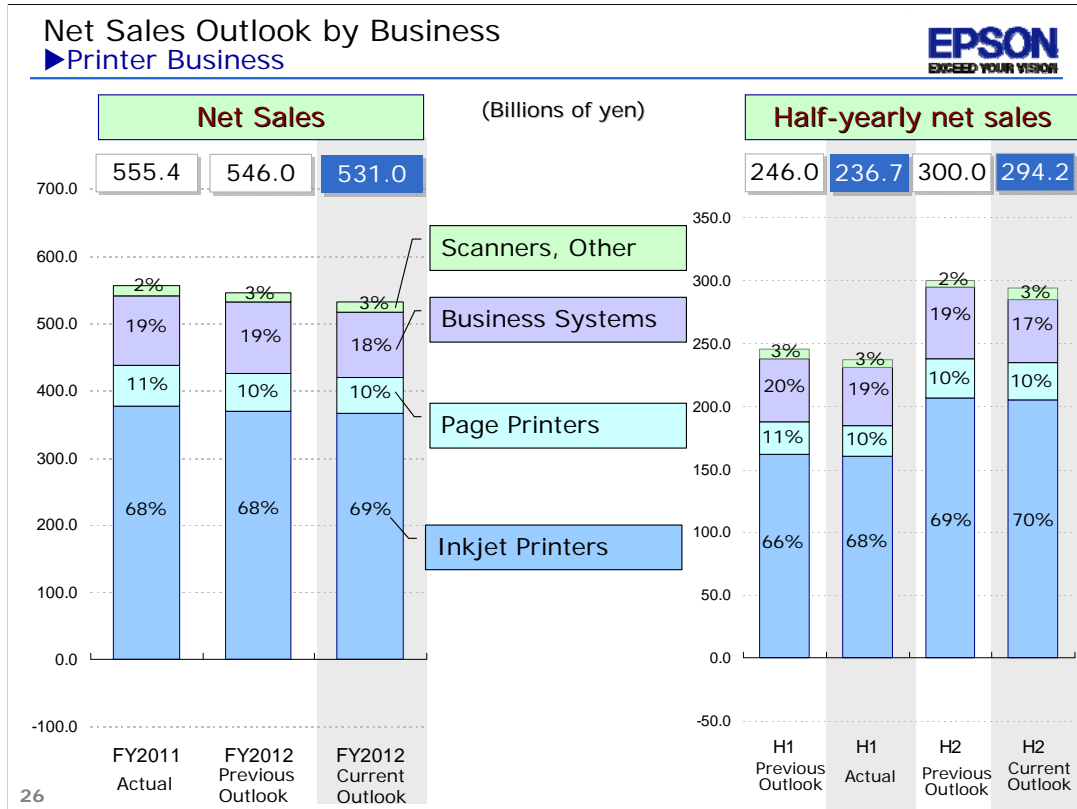
FY2012 Financial Outlook (Net Sales)
 ▶ By business segment



- Net sales outlook for fiscal 2012 with figures broken down by segment and by first half and second half
- We revised the second-half net sales forecasts for both information-related equipment and devices and precision products.

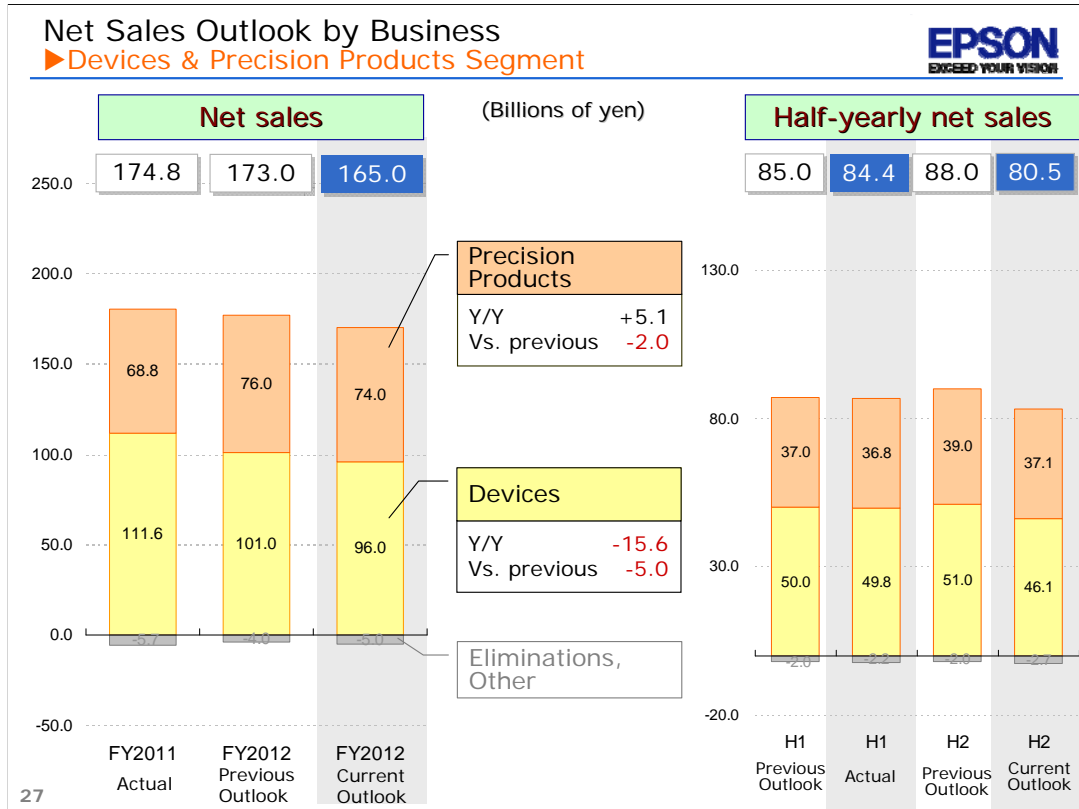


- Breakdown of projected net sales by business in the information-related equipment segment
- The visual products business reduced its unit shipment forecast mostly because of a slowing of the growth rate in the Chinese market, which we had been counting on as a source of growth. Nevertheless, we will continue to aim for unit shipment growth that outstrips the growth rate of the market by expanding sales of competitive strategic products, including our competitive high-lumen projectors and ultra-short-throw projectors.

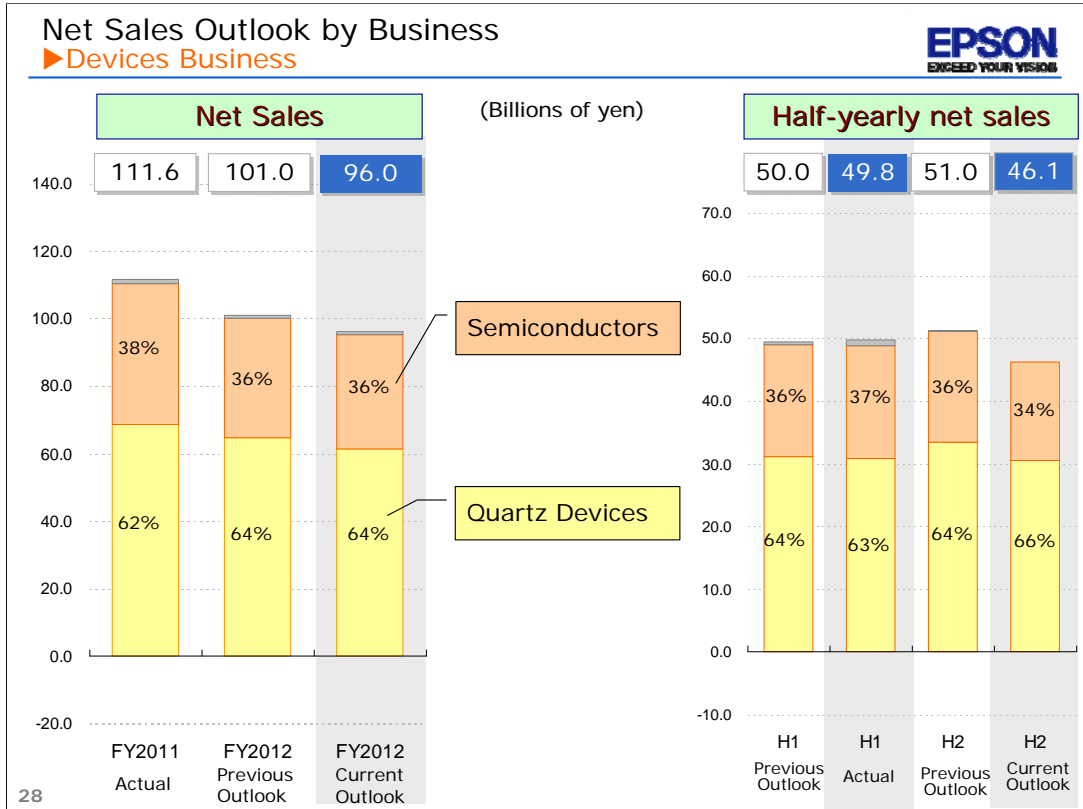


■ Breakdown of the printer business outlook by product category

- In printers we are forecasting full-year net sales of ¥531 billion, or ¥15 billion less than the previous outlook.
- In inkjet printers, we will not chase volume in the second half. Instead, we will concentrate on maintaining prices with our new products, improving the model mix, and improving the composition of the install base. Given this strategy, we lowered our printer unit shipment outlook to 14.6 million units, which is about the same as in fiscal 2011.
- We also revised the consumables net sales outlook.
- We also lowered our large-format printer unit shipment estimate, as the slow economic recovery is expected to impact the willingness of businesses to spend.
- We lowered the outlook for business systems given the slow economic recovery in Europe and the U.S. and the postponement of SIDM orders in China until next year.

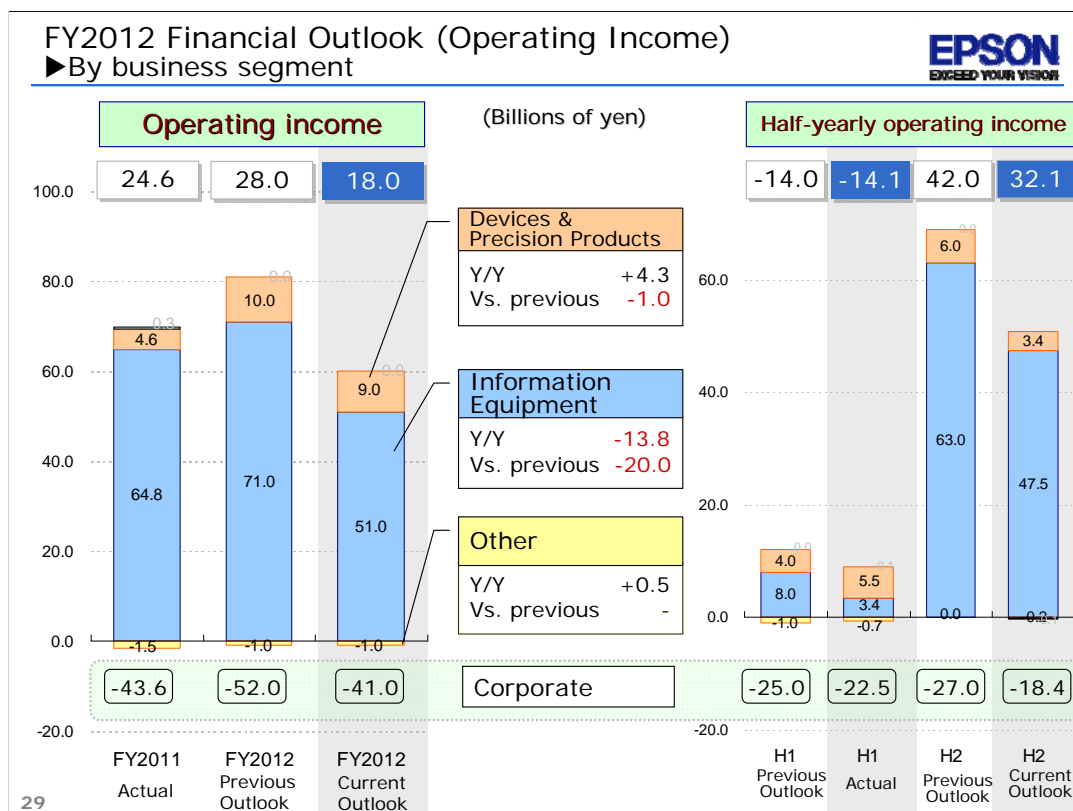


- Breakdown of projected net sales by business in the devices and precision products segment
- We revised our net sales outlook downward for both the devices business and the precision products business.
- The outlook for precision products business factors in a lot of variables. For example, in the watch business, although we anticipate solid sales of products such as solar radio-controlled watches, we also see signs of a slowdown in the movements business. Meanwhile, in factory automation products, we anticipated automotive-related demand in the China region, as well as in Europe and America, but IC handler demand is expected to be sluggish.



■ Breakdown of the net sales outlook in the devices business

- We lowered our net sales estimates for both the quartz business and the semiconductor business because demand for finished products such as digital home electronics, mobile phones, and smartphones is seen softening and because a slow or delayed economic recovery is likely to weaken demand for crystal and semiconductor products.

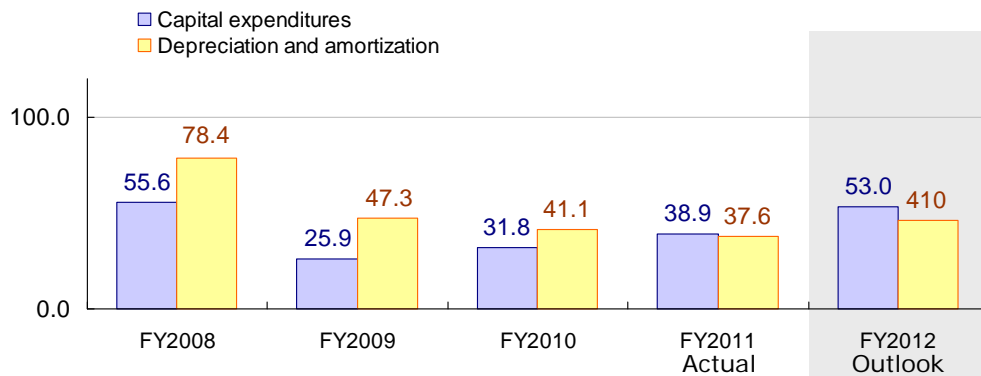


- Fiscal 2012 full-year operating income outlook, with figures broken down by segment and by half
- In information-related equipment, we lowered our outlook for inkjet printer operating income after cutting the consumables net sales forecast and revising our second-half cost reduction plan. However, in the second half of FY2012 we anticipate significantly improved income compared to the same period last year. This is because we are gradually beginning to see the effects of reduced costs associated with the higher ratio of compact printer production, which increased in the latter part of the second quarter.
- We revised the business systems and visual products operating income outlook downward along with net sales expectations.
- We also lowered the devices and precision products operating income outlook because, although operating income is being helped by fixed cost reductions and variable cost improvements in our quartz and semiconductor businesses, these will not completely offset the effects of the lowered net sales outlook.
- We expect to record upwards of 80% of the estimated ¥32.1 billion in second-half operating income in the third quarter.

Outlook for Capital Expenditure and Depreciation & Amortization Expenses



(Billions of yen)



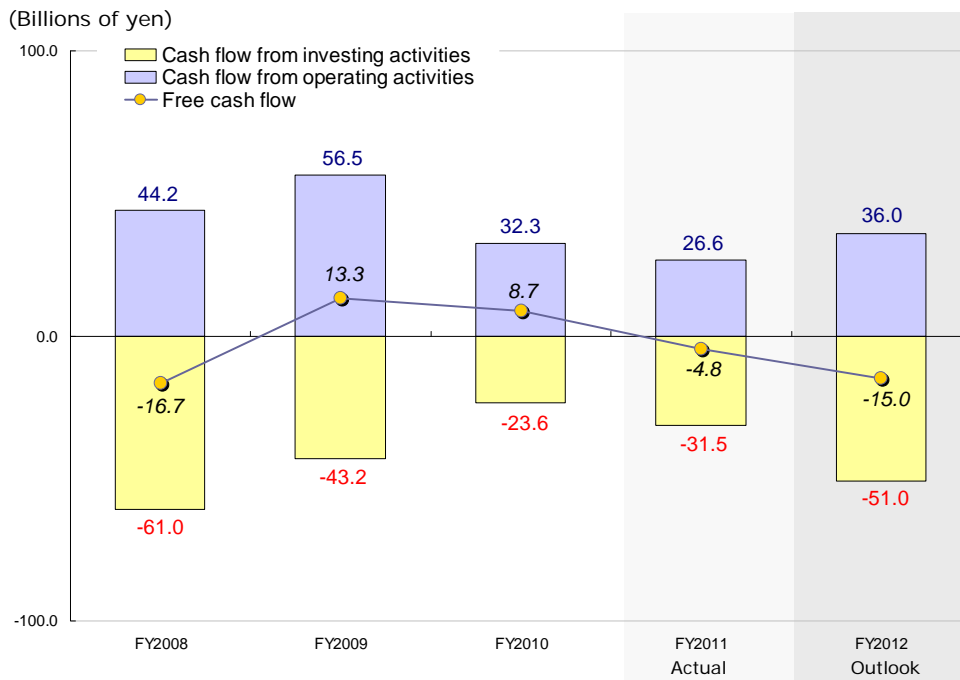
Breakdown by segment	FY2011 Actual		FY2012 Outlook	
	Cap. Ex.	D & A	Cap. Ex.	D & A
Information Equipment	29.5	22.7	40.0	27.0
Devices & Precision Products	6.8	10.1	10.0	9.0
Other/Adjustments	2.5	4.6	3.0	5.0

30

■ Outlook for capital investment and depreciation expenses

- We reduced the capital investment outlook to ¥53 billion by being selective about where to invest. The revised depreciation outlook, which stands at ¥41 billion, reflects the postponement of investment.

Free Cash Flow Outlook

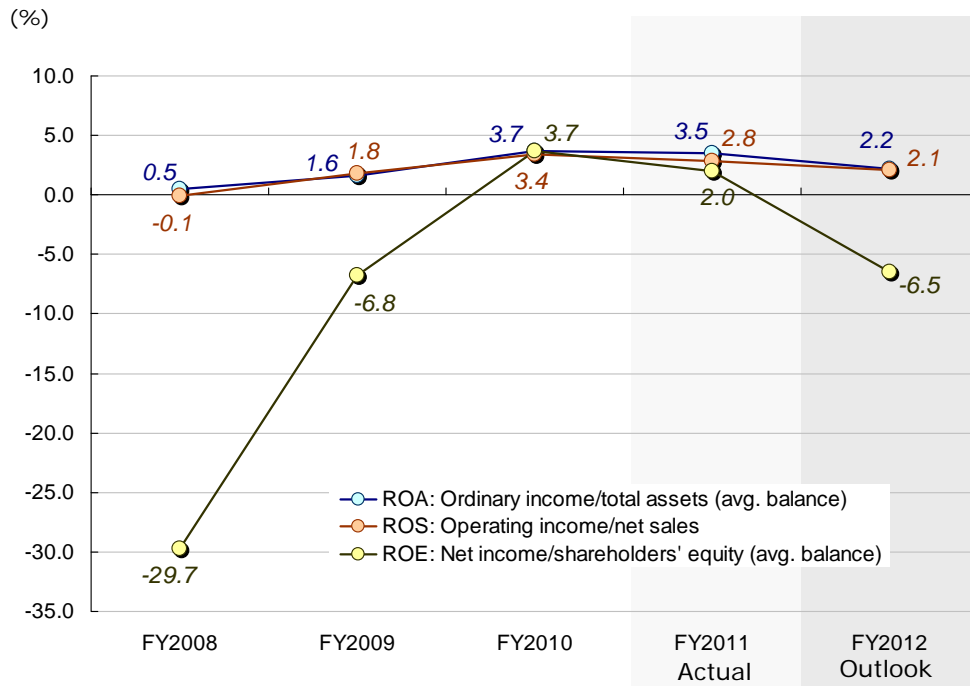


31

■ Cash flows

- We reduced the free cash flow outlook in line with the revised financial outlook.

Main Management Indicators



■ Major management performance indicators

➤ ROS of 2.1 %, ROA of 2.2 %, and ROE of -6.5 %.

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