

Third Quarter Financial Results
Fiscal Year 2016
(Ending March 2017)

January 31, 2017
SEIKO EPSON CORP.

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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.

■ Note regarding business profit

Business profit is calculated by deducting cost of sales and SGA expenses from revenue.

Although not defined in the statement of consolidated comprehensive income, this indicator is very similar to the concept of operating income under J-GAAP. Epson will present this information as a reference, as the Company believes users of financial statements will find it useful when evaluating Epson's financial performance.

■ Numerical values presented herein

Numbers are rounded down to the unit indicated. Percentages are rounded off to one decimal place.

1) FY2016 Q3 Financial Results

2) FY2016 Financial Outlook

Financial Highlights (Through First 9 Months)							EPSON EXCEED YOUR VISION		
(Billions of yen)	FY2015		FY2016		Change				
	First 9 Months	%	First 9 Months	%	Amount	%			
Revenue	837.4	-	765.8	-	-71.5	-8.5%			
Business profit	72.7	8.7%	54.0	7.1%	-18.7	-25.7%			
Profit from operating activities	81.9	9.8%	57.2	7.5%	-24.6	-30.1%			
Profit before taxes	80.3	9.6%	57.3	7.5%	-22.9	-28.6%			
Profit for the period	55.2	6.6%	47.0	6.1%	-8.1	-14.7%			
EPS*	¥153.64		¥132.93		Exchange difference (Billions of yen)				
Exchange rate	USD	¥121.70	¥106.63		USD	EUR	Other	Total	
	EUR	¥134.36	¥118.02		Revenue	-33.2	-17.0	-41.4	-91.7
					Business profit	+6.0	-12.0	-17.0	-23.0

* Basic earnings per share for the period

■ FY2016 results through first 9 months

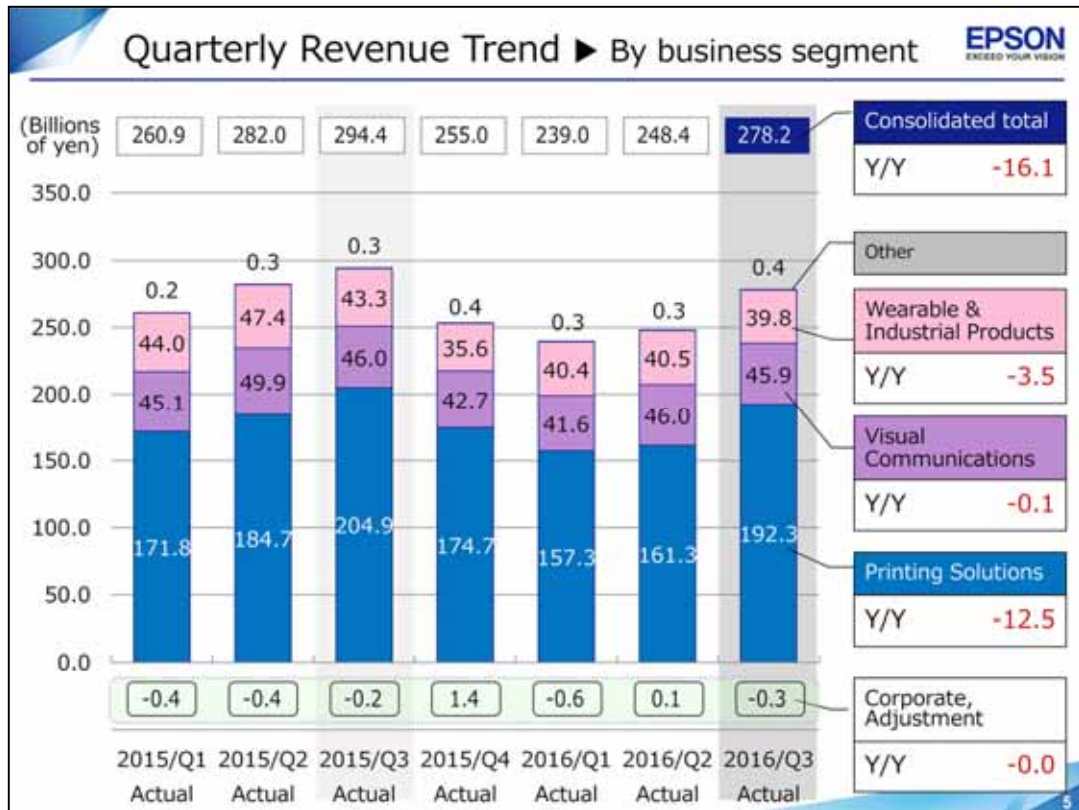
- Revenue was ¥765.8 billion, down ¥71.5 billion compared to the same period last year. Business profit was ¥54.0 billion, down ¥18.7 billion. Profit for the period was ¥47.0 billion, down ¥8.1 billion.
- In the first three quarters of FY2016, forex fluctuations negatively impacted revenue by ¥91.7 billion and business profit by ¥23.0 billion. In light of this substantial adverse effect, revenue and business profit underperformed the same nine-month period a year earlier.
- However, if you eliminate the impact of foreign exchange we achieved steady growth compared to the previous year. Although we carried out strategic investments in line with the Epson 25 Mid-Range Business Plan to sustain growth moving forward, which included gearing up for new product launches and strengthening our production base. Performance was underpinned in part by an increase in sales of strategic products.

Financial Highlights (Third Quarter)							EPSON EXCEED YOUR VISION		
	FY2015		FY2016		Change				
	Q3 Actual	%	Q3 Actual	%	Amount	%			
(Billions of yen)									
Revenue	294.4	-	278.2	-	-16.1	-5.5%			
Business profit	32.5	11.0%	28.3	10.2%	-4.1	-12.9%			
Profit from operating activities	40.1	13.7%	29.5	10.6%	-10.6	-26.6%			
Profit before taxes	40.2	13.7%	30.3	10.9%	-9.8	-24.6%			
Profit for the period	29.0	9.9%	28.4	10.2%	-0.5	-2.0%			
EPS*	¥80.89		¥81.03		Exchange difference (Billions of yen)				
Exchange rate	USD	¥121.50	¥109.30		USD	EUR	Other	Total	
	EUR	¥132.95	¥117.78		Revenue	-8.8	-6.1	-10.8	-25.9
					Business profit	+1.2	-4.4	-4.3	-7.4

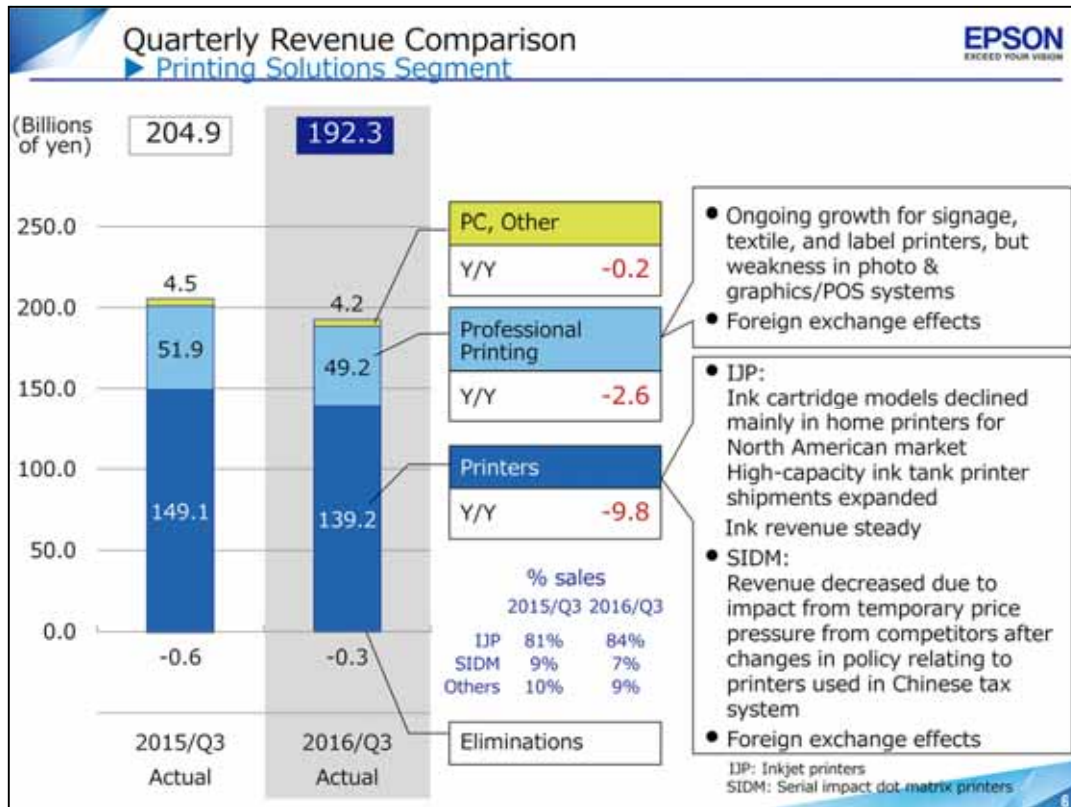
* Basic earnings per share for the period

■ FY2016 Q3 results

- Revenue was ¥278.2 billion, down ¥16.1 billion compared to the same period last year. Business profit was ¥28.3 billion, down ¥4.1 billion. Profit for the period was ¥28.4 billion, down ¥0.5 billion.
- Foreign exchange had a ¥25.9 billion negative effect on revenue for the quarter, and a ¥7.4 billion negative effect on business profit.

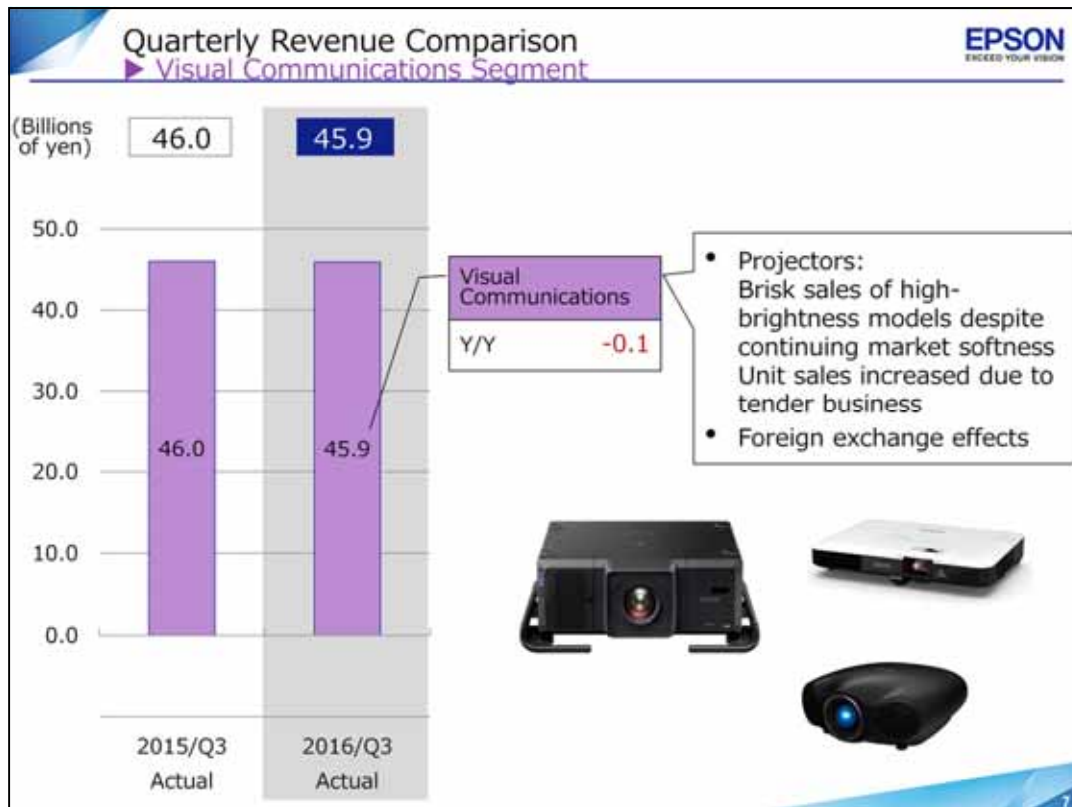


- Quarterly revenue by segment over last five quarters



■ Quarterly revenue in printing solutions

- In printers, unit sales of ink cartridge printers declined in a sluggish market, and performance was negatively impacted by promotions carried out by a competitor in North America mainly for low-end home inkjet printers. However, in Japan, despite contraction of the home inkjet printer market, unit sales were flat year-on-year and average selling prices rose, owing in part to the launch of new products.
- We had some concern that competition from rivals would adversely impact demand for our high-capacity ink tank printers. However, sales for our products remained steady in all regions owing to a market expansion and a recovery in the pace of sales growth in Latin America, following a temporary period of sluggish sales in FY2015 due to a depreciation in the value of local currencies.
- Furthermore, revenue from ink also trended steadily, driving a steady expansion in the inkjet printer business.
- Meanwhile, SIDM revenue declined. In China, the government changed its policy relating to printers used in the tax system, prompting rivals to temporarily implement low-price sales, while some industries have introduced electronic invoices.
- Moreover, there was negative forex impact. All in all, overall printer business revenue declined year-on-year.
- In professional printing, revenue dropped year-on-year. We posted steady growth in demand in new markets such as those for signage, textile, and label printers—but demand for photo and graphics and POS systems was hindered by lethargic markets, and overall performance was dented by impact from forex fluctuations.

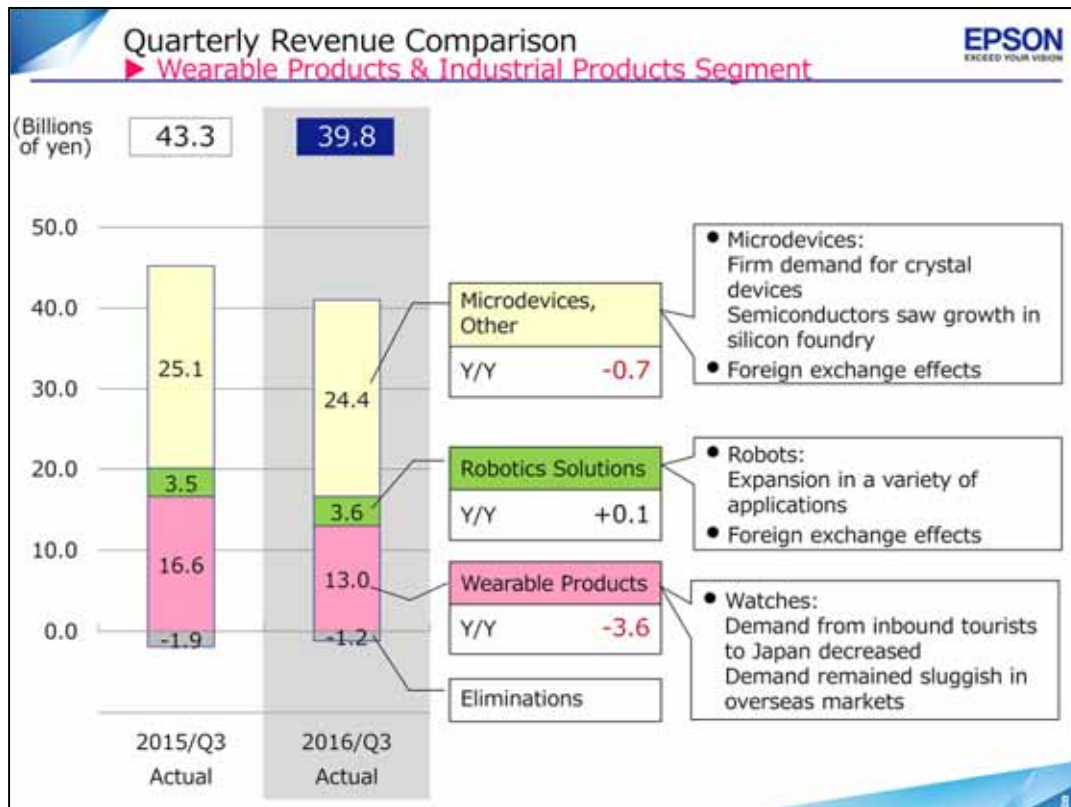


■ Quarterly revenue in visual communications

➤ In visual communications, amid a soft projector market, we promoted sales activities that leveraged the features of our 3LCD projectors and our rich product lineup.

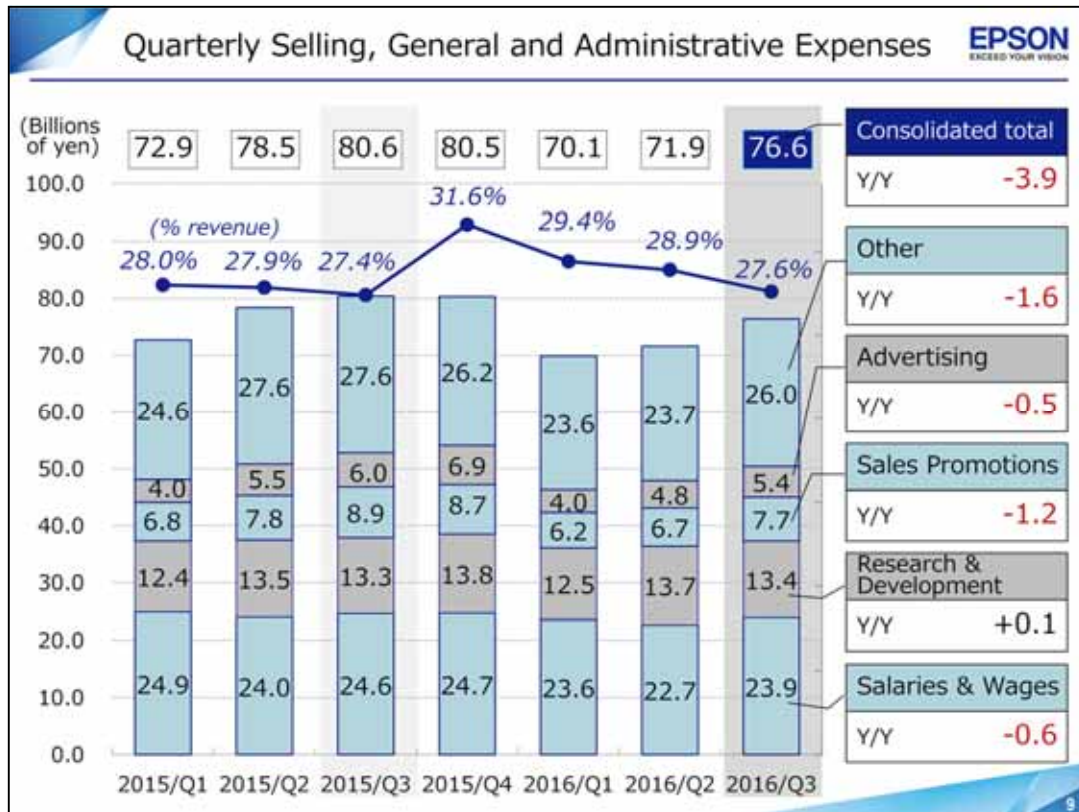
Against this backdrop, sales were brisk for newly launched high-brightness laser projectors, which were highly acclaimed by users including major rental companies. In addition, unit sales increased owing to a steady flow of tender business, especially from the education sector in Europe and Asia.

Consequently, segment revenue was on a par with a year earlier, as the positive factors offset the negative impact from forex fluctuations.

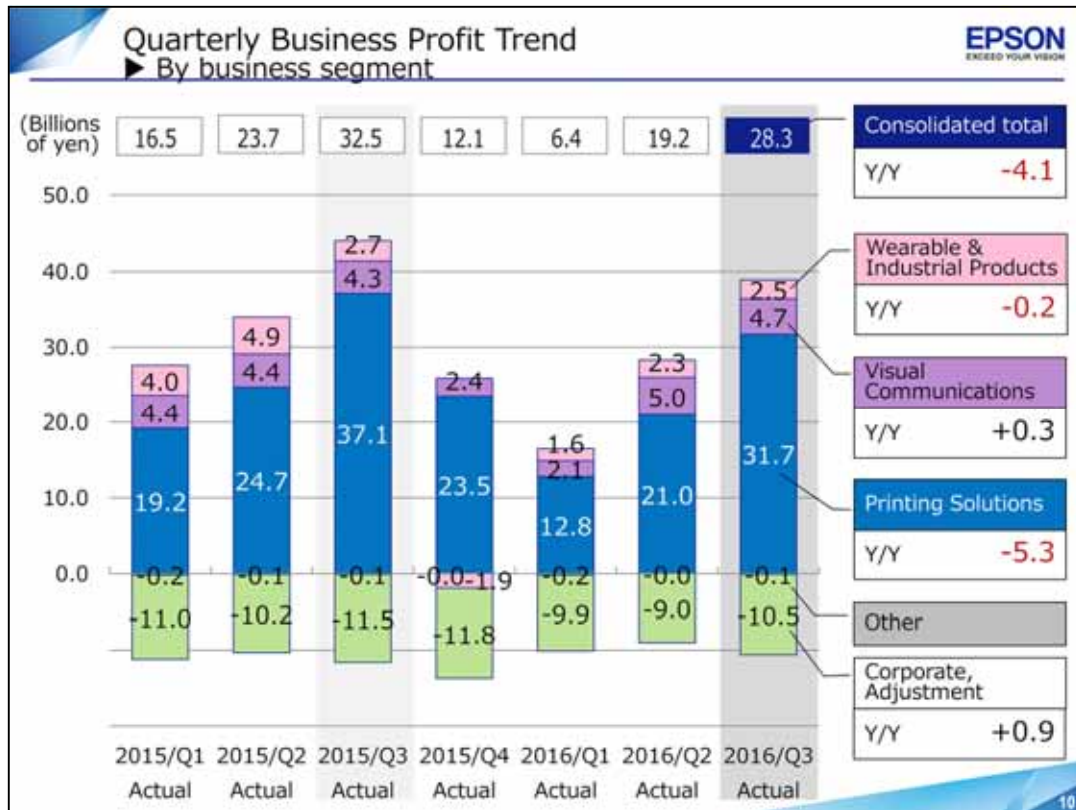


■ Quarterly revenue in wearable & industrial products

- In wearable products, revenue declined compared with the same period a year earlier due to a slowdown in demand for watches in Japan from inbound tourists as well as continued sluggish demand in overseas markets, and negative impact from forex fluctuations.
- In robotics solutions, revenue was flat year-on-year. We reaped positive benefit from the broad range of uses for our robots including the use of robots for mobile device and electronic machinery parts assembly in the Greater China region, and the use of robots for auto parts assembly in the U.S. and Europe. We also benefitted from increased shipments to customers. This positive benefit offset the adverse affect from forex fluctuations.
- In microdevices, we saw some positive performance although revenues retreated compared to a year earlier due to negative forex impact. In crystal devices, revenue grew steadily owing to an increase in demand mainly from the industrial sector, despite soft demand for personal electronics products. In semiconductors, revenue from the foundry business was brisk.

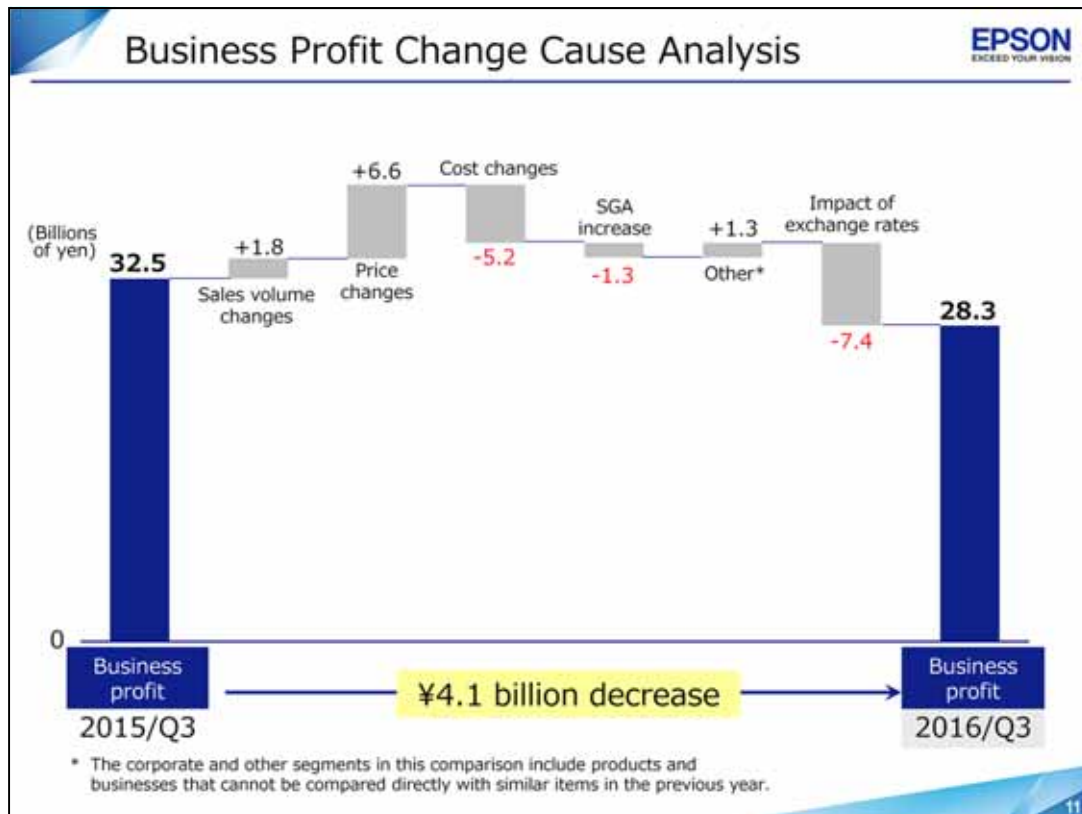


- Quarterly selling, general and administrative expenses
 - Total SGA expenses decreased by ¥3.9 billion compared to the same period last year due to currency translation losses.

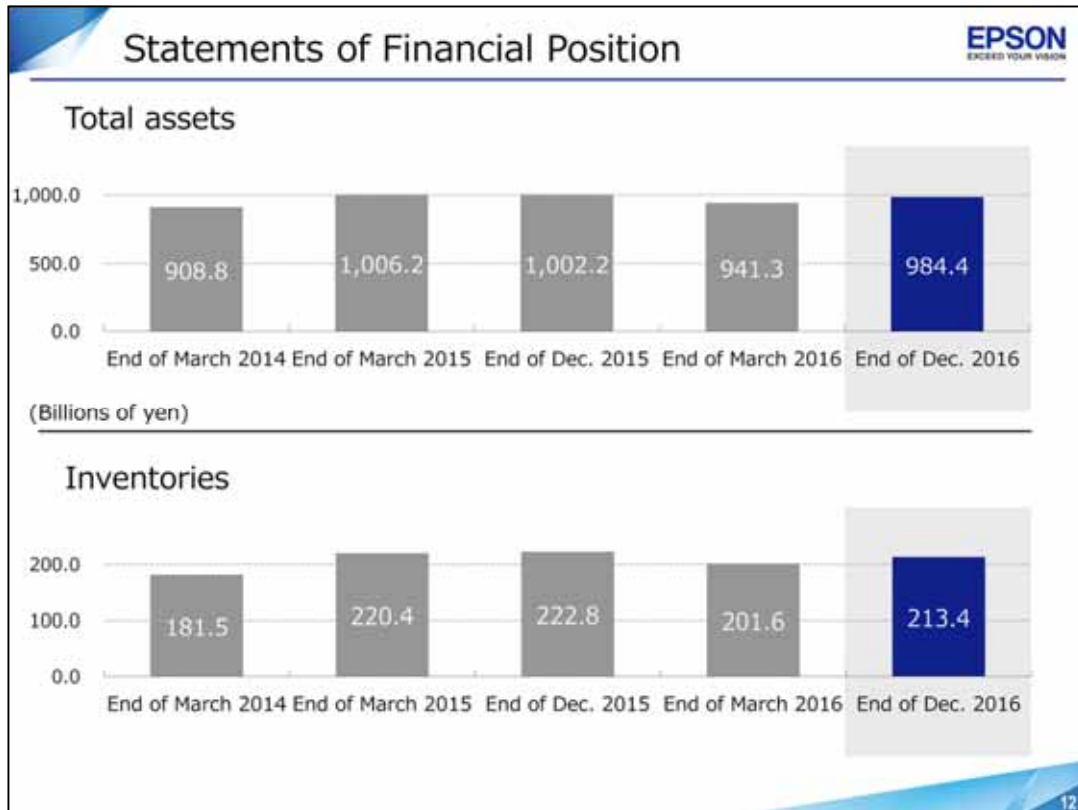


■ Breakdown of quarterly business profit by segment

- In the quarter under review, business profit in printing solutions declined year-on-year due to lower unit sales of SIDM printers and negative forex impact.
- In visual communications, performance was brisk but business profit was nearly on a par with a year earlier due to negative forex impact.
- In wearable & industrial products, business profit was flat compared with the previous year. Although performance was steady in microdevices and other businesses, business profit was hurt by a sluggish watch market and negative forex impact.
- However, although performance varied by business, we were able to steadily reap the benefits of our strategies. If you eliminate the impact of foreign exchange, we achieved year-on-year profit growth during Q3, which is our peak period for business.
- I would now like to compare our performance with our internal Q3 forecast, which is based on the full-fiscal year outlook we released on October 27, 2016.
- In printers, which are in the printing solutions segment, SIDM printer demand was negatively impacted by a change in China's tax revision policy. Meanwhile, the unit price for high-capacity ink tank printers was higher than expected, despite concerns of impact from market entry by competitors. In professional printing, demand trended solidly. Furthermore, forex fluctuations worked in our favor. In printing solutions overall, revenue and business profit slightly outperformed our internal outlook.
- In visual communications, revenue and business profit were slightly higher than our internal outlook reflecting solid demand for projectors and positive forex benefit.
- In wearable & industrial products, revenue and business profit were basically in line with our internal outlook. Although a sluggish watch market adversely impacted performance in wearable products, performance was solid in robotics solutions and microdevices. We also benefitted from forex fluctuations.
- Accordingly, our consolidated revenue and business profit marginally outperformed our internal outlook.

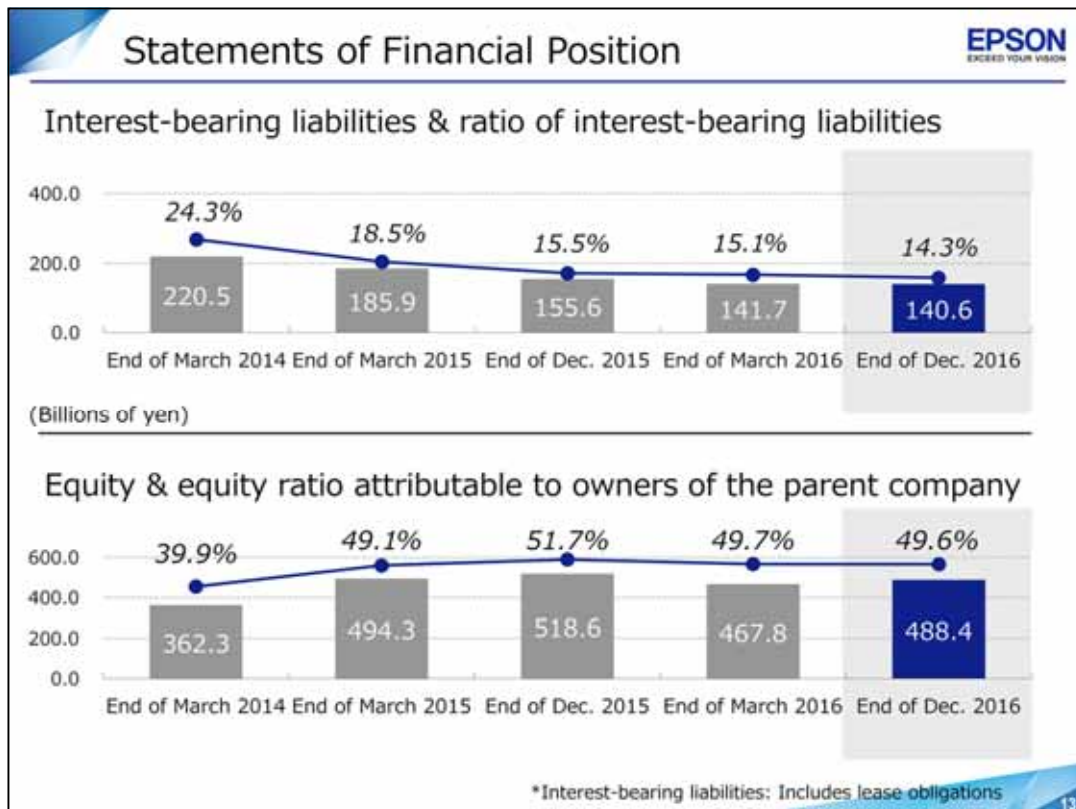


- Cause analysis of the changes in business profit compared to the same period last year
 - This slide shows a cause analysis of the ¥4.1 billion decrease in consolidated business profit compared to the same period last year. Business profit took a ¥7.4 billion hit from foreign exchange fluctuations.
 - Sales volume changes were boosted by growth in high-capacity ink tank printers, large format inkjet printers, projectors, semiconductors, and robots, which outweighed declines of inkjet printer ink, where we are adjusting our product mix, SIDM printers, and watches.
 - Price changes had a positive impact due to increased average selling prices caused by a change in the ink mix, an increase in high brightness projectors, a lull in price competition for inkjet printers in Japan, and a reduction in sales of low-end models in North America. These factors more than compensated for the negative impact caused by changes in product mix in the semiconductor and other businesses.
 - Cost changes negatively affected business profit. Although there was some positive benefit from cost reductions, per-unit cost increased due to an increase in sales of high value-added products.
 - The increase in selling, general and administrative expenses is a result of strengthening our sales organization.



■ Major items on the statements of financial position

- Total assets were ¥984.4 billion, an increase of ¥43.1 billion compared with March 31, 2016. This is primarily attributable to a decrease in cash and cash equivalents, and an increase in other items, including trade and other receivables, inventories, and non-current fixed assets.
- Inventories increased by ¥11.8 billion from the end of the previous fiscal year, ending at ¥213.4 billion.



■ Major items on the statements of financial position

- Interest-bearing liabilities totaled ¥140.6 billion, a reduction of ¥1.1 billion versus the end of the previous fiscal year. This primarily reflects an increase in bonds and repayment of short-term loans. Consequently, the ratio of interest-bearing liabilities to total assets stood at 14.3%.
- Net cash was ¥68.7 billion.
- Equity attributable to owners of the parent company was ¥488.4 billion, up ¥20.5 billion compared to the previous fiscal year-end, largely due to our financial results for the first three quarters. As a result, the equity ratio attributable to owners of the parent company was 49.6%.

1) FY2016 Q3 Financial Results

2) FY2016 Financial Outlook

FY2016 Financial Outlook

	FY2015		FY2016				Change (amount, %)	
	Actual	%	10/27 Outlook	%	1/31 Outlook	%	Y/Y	Vs. 10/27 Outlook
Revenue	1,092.4	-	1,000.0	-	1,020.0	-	-72.4 -6.6%	+20.0 +2.0%
Business profit	84.9	7.8%	60.0	6.0%	64.0	6.3%	-20.9 -24.7%	+4.0 +6.7%
Profit from operating activities	94.0	8.6%	60.0	6.0%	64.0	6.3%	-30.0 -31.9%	+4.0 +6.7%
Profit before taxes	91.5	8.4%	59.0	5.9%	63.0	6.2%	-28.5 -31.2%	+4.0 +6.8%
Profit for the year	46.0	4.2%	46.0	4.6%	48.0	4.7%	+1.9 +4.2%	+2.0 +4.3%
EPS*	¥127.94		¥130.60		¥136.28			
Exchange rate	USD	¥120.14	¥103.00		¥107.00			
	EUR	¥132.58	¥114.00		¥117.00			

* Basic earnings per share

● Exchange rate assumptions from Q4
 USD: ¥110.00
 EUR: ¥115.00

● Exchange rate sensitivity (full year)
 - Effect on business profit of 1-yen rise in yen value
 USD: +¥0.3 bil. / EUR: -0.9 bil.
 - Effect on business profit of 1% rise in yen value
 Currencies other than USD & EUR: -¥1.0 bil.

■ FY2016 full-year outlook

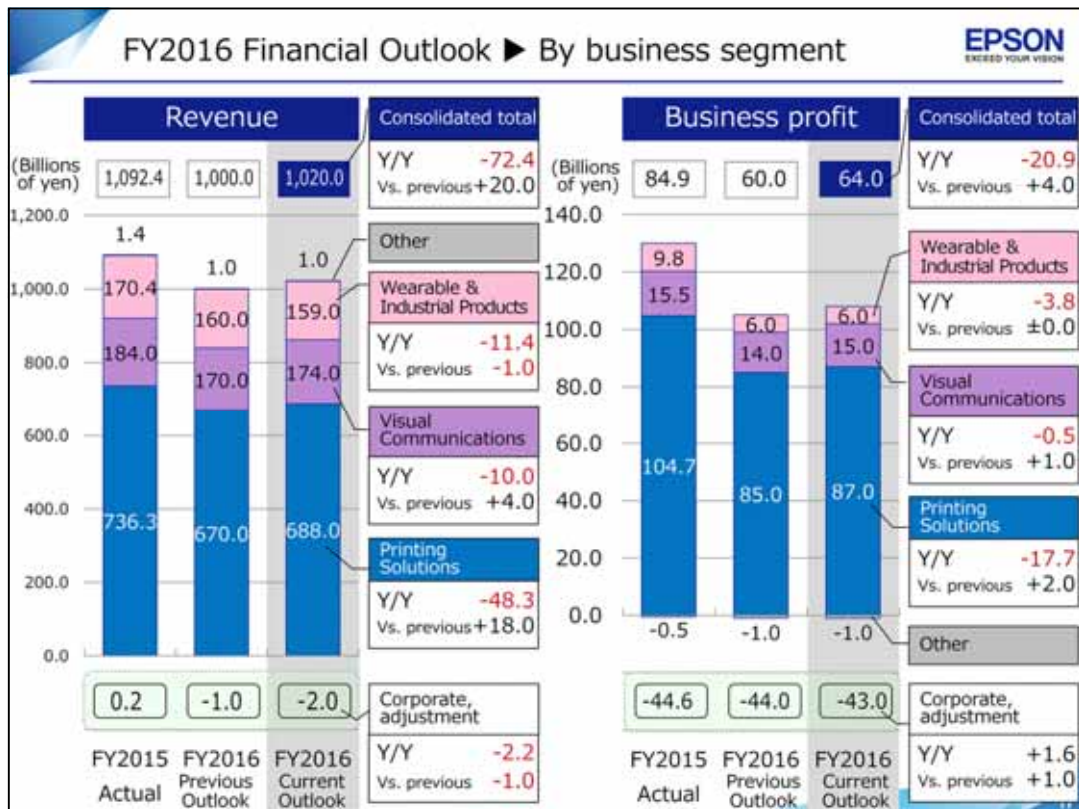
- We upwardly revised our forecast for revenues ¥20.0 billion to ¥1.02 trillion. We raised our business profit forecast ¥4.0 billion to ¥64.0 billion, and hiked our forecast for the profit for the period ¥2.0 billion to ¥48.0 billion.
- We set our forex assumption for Q4 at ¥110 and ¥115 to the US dollar and euro, respectively, given the recent instability in forex rates.
- The US dollar's correlation to other foreign currencies has weakened and we have set assumptions for these currencies on the basis of a decline versus the dollar.

Main Factors Affecting the FY2016 Outlook

- Change in exchange rate assumptions (Q4: ¥110/USD, ¥115/EUR)
 - ✓ Positive impact of ¥20 billion on revenue and ¥4 billion on business profit in second half
- Revenue and business profit on a constant currency basis are the same as the previous outlook after factoring in the performance of each business and Q3 business situation into the full-year outlook
 - Printing Solutions
 - ✓ High-capacity ink tank printer prices to remain steady
 - ✓ Ink cartridge printer unit shipments to decline mainly in consumer markets
 - ✓ SIDM printer unit shipments to decrease in China
 - Visual Communications
 - ✓ Steady demand forecast to continue into Q4
 - Wearable & Industrial Products
 - ✓ Watch unit shipments to decrease due to slow markets
 - Corporate
 - ✓ Fixed costs to decline
- Sales of strategic products will expand and steady progress will be made in laying the foundations for growth

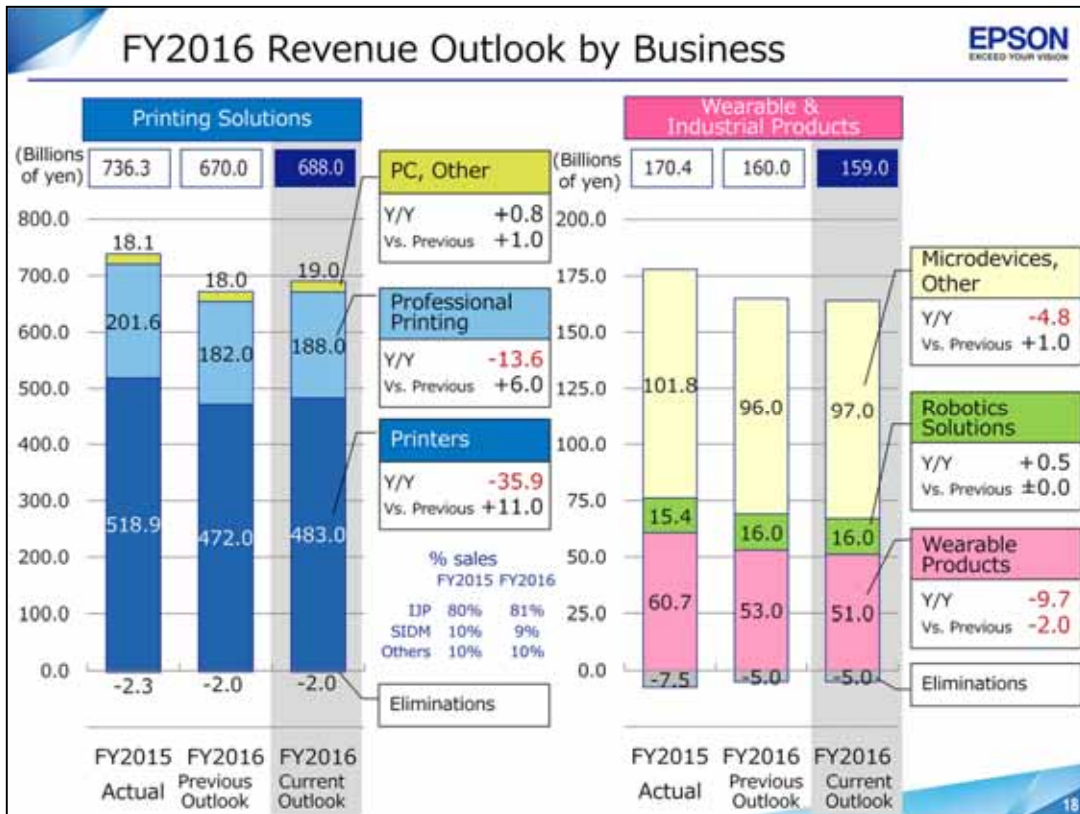
■ Main factors affecting the FY2016 outlook

- In light of this, our revised financial outlook is positive owing to the revision to our forex assumptions.
- After reviewing the latest forecasts in each business, revenue and business profit outlooks were basically the same as our previous outlook when you remove the impact of foreign exchange.
- In printers, we factored in our expectation for a decline in demand for ink cartridge printers, mainly home-use models, and a decline in unit sales of SIDM printers. At the same time, selling prices for high-capacity ink tank printers will exceed our previous assumption and continue to remain steady.
- In visual communications we forecast solid performance, the same as in our previous outlook.
- In wearable & industrial products, we anticipate negative impact to demand for wearable products due to a sluggish watch market.
- Corporate expenses will decrease due to a careful examination of costs, including the timing for executing R&D spending.
- Our outlook for each segment factors in fluctuations in the external environment. We plan to move steadily forward with our plans to expand sales of strategic products and to build a foundation for future growth.
- In printing, we started constructing a new plant with the goal of boosting production capacity for PrecisionCore print heads, a core component, and to strengthen R&D.
- In December, we launched in Japan sales of PaperLab, an in-office dry paper recycler that produces new paper from waste paper.
- We also set plans to launch a linehead model inkjet printer for office use.
- We aim to deliver value to customers that was not previously provided by Epson to steadily undertake initiatives that will make us an indispensable company worldwide.

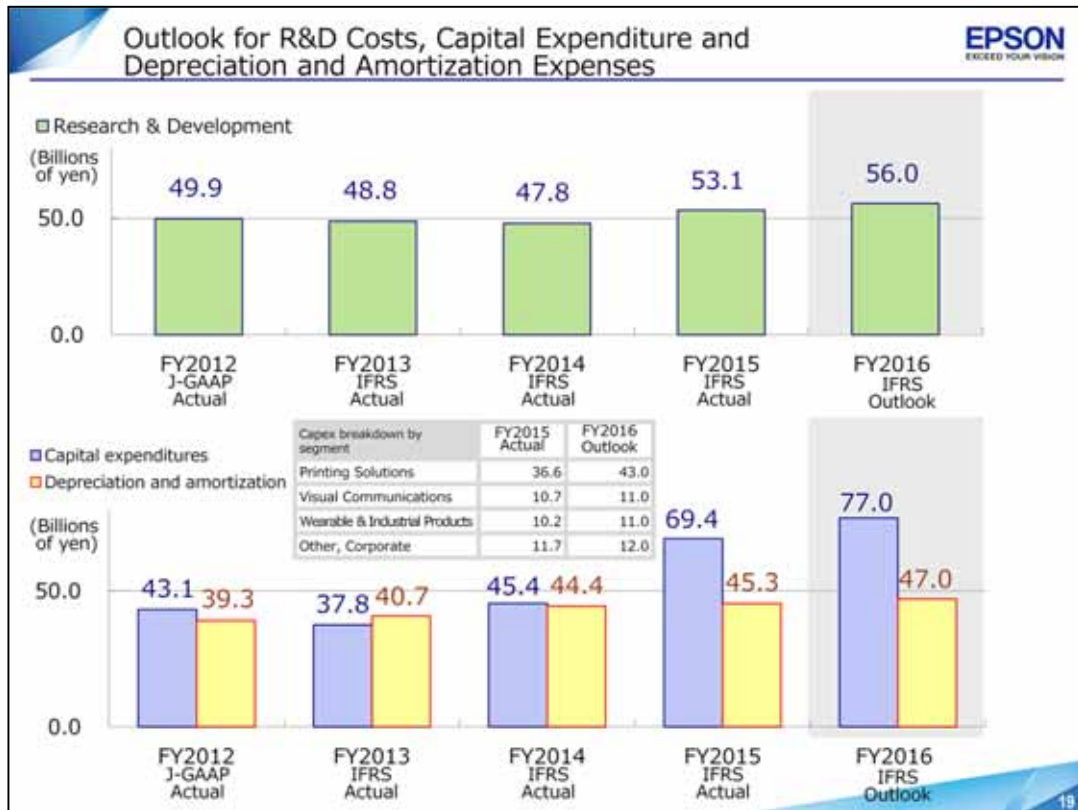


■ Revenue and business profit broken out by segment

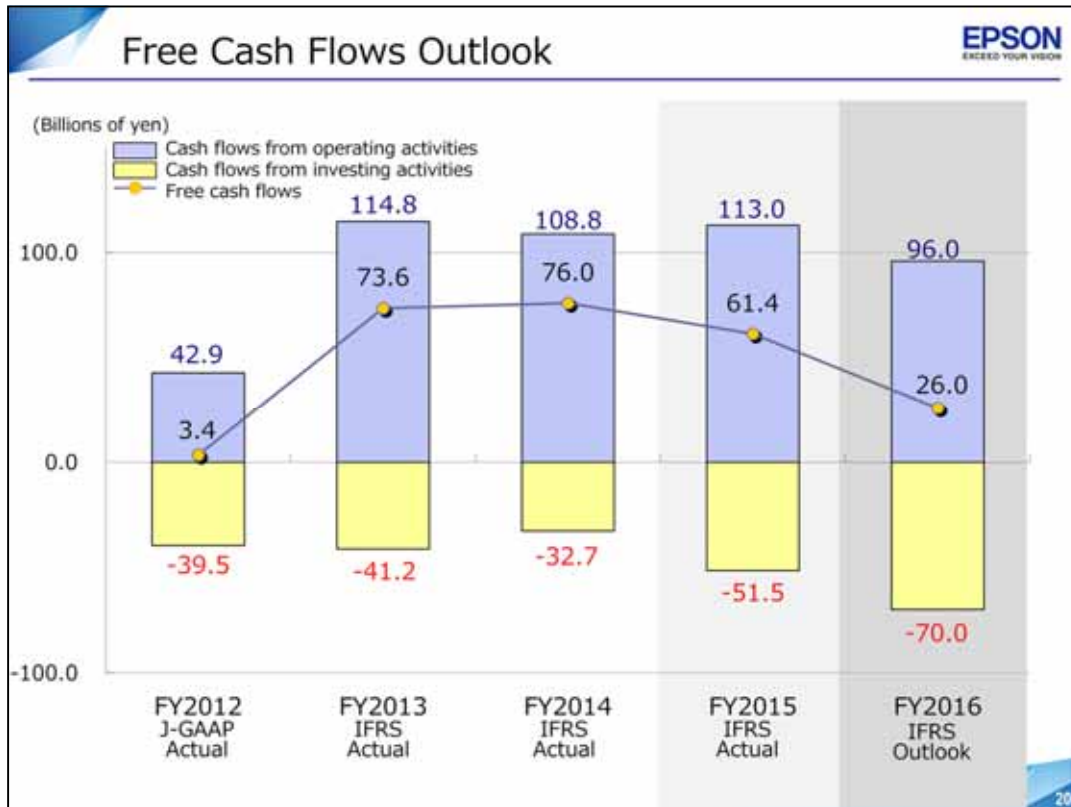
- In printing solutions, we upwardly revised our outlook for revenue by ¥18.0 billion and for business profit by ¥2.0 billion to reflect potential benefit from forex. Although we expected mixed performance at businesses in this segment, our overall outlook is basically in line with the previous one.
- In visual communications, we upwardly revised our outlook for revenue by ¥4.0 billion and for business profit by ¥1.0 billion. We anticipate solid sales of Epson products and also factored in impact from forex trends.
- Wearable & industrial products will benefit from foreign exchange effects. We downwardly revised our outlook for revenue by ¥1.0 billion but retain our business profit outlook on expectations of a decline in fixed costs. Although performance in robotics solutions and microdevices is on a par with our outlook, we expect demand for wearable products to be affected by ongoing sluggishness in the watch market.
- As for corporate expenses, we factored in ¥1.0 billion in business profit from fixed cost reductions.



- Revenue forecasts for the businesses in printing solutions and in wearable & industrial products

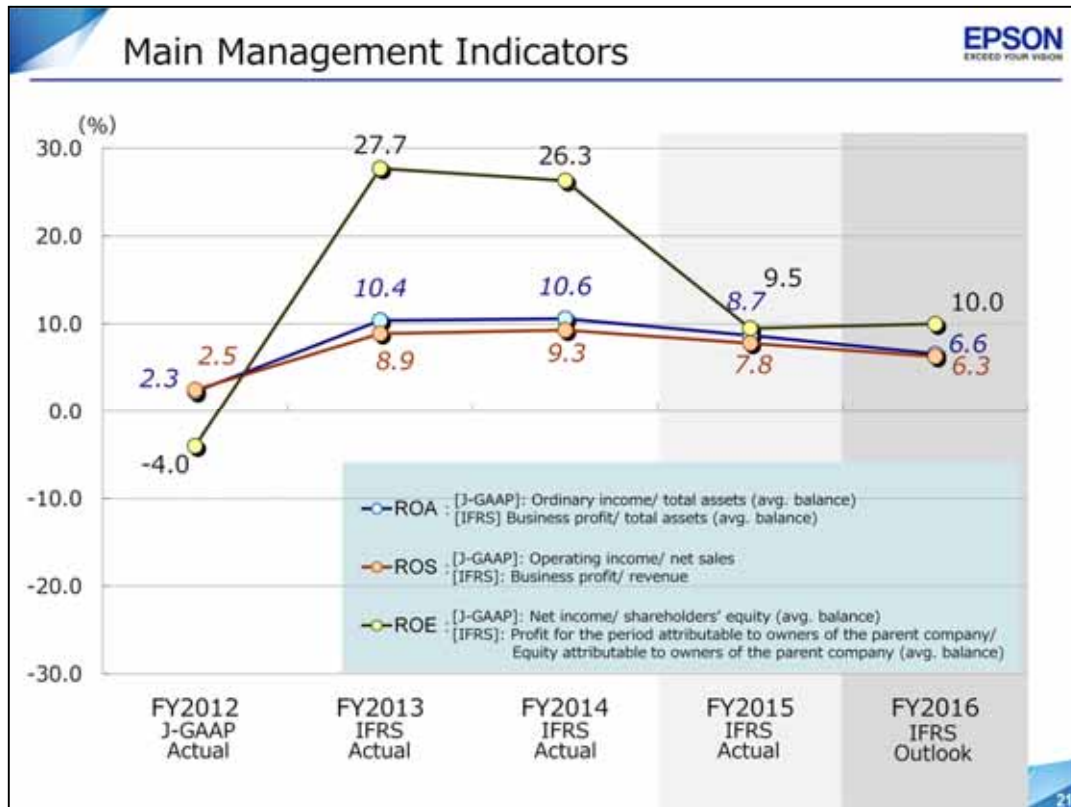


- Outlook for R&D costs, capital expenditures and depreciation and amortization expenses
 - We plan to invest in R&D and facilities for future growth.



■ Cash flows

- Free cash flow is projected to be ¥26.0 billion, after revising our cash flows from operating activities.



■ Major management performance indicators

- We expect a 6.3% return on sales, 6.6% return on assets, and 10.0% return on equity.

Reference

Major Business Indicators

(Billions of yen)					(Billions of yen)			
		FY2015 Actual	FY2016 1/31 Outlook	FY2018 Targets	Category	FY2015 Actual	FY2016 1/31 Outlook	3-year cumulative (FY2016-18 business plan)
Printing Solutions	Revenue	736.3	688.0	805.0	Operating CF	113.0	96.0	Approx. 330.0
	Business profit	104.7	87.0	-				
Visual Communications	Revenue	184.0	174.0	200.0	FCF	61.4	26.0	Approx. 120.0
	Business profit	15.5	15.0	-				
Wearable & Industrial Products	Revenue	170.4	159.0	195.0	Capital expenditure	69.4	77.0	Approx. 210.0
	Business profit	9.8	6.0	-				
Other	Revenue	1.4	1.0	0.0	R&D costs	53.1	56.0	Invest aggressively
	Business profit	-0.5	-1.0	-				
Corporate, Adjustment	Revenue	0.2	-2.0	0.0	Exchange rate			
	Business profit	-44.6	-43.0	-		FY2015 Actual	FY2016 1/31 Outlook	FY2016-18 business plan
Consolidated total	Revenue	1,092.4	1,020.0	1,200.0	USD	¥120.14	¥107.00	¥115.00
	Business profit	84.9	64.0	96.0	EUR	¥132.58	¥117.00	¥125.00
	ROS	7.8%	6.3%	8%				
	ROE	9.5%	10.0%	Sustain at at least 10%				

Main Product Sales Trends



FY2015 result (vs. FY2014) and FY2016 result/ forecast (vs. FY2015)

ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2015 Full year	FY2016 Q1	FY2016 Q2	FY2016 Q3	FY2016 Full year (outlook)
IJP	Volume	+1%	+8%	+5%	+2%	+7%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20%/ Approx. 35%	-	-	-	Approx. 20%/ Approx. 40%
	ASP	+ low single-digit %	Around -10%	- mid 10%	- low single-digit %	- high single-digit %
	Revenue	+ low single-digit %	- low single-digit %	- low teen %	Flat YoY	Flat YoY
IJP ink	Volume (packs)	0%	-3%	-7%	-2%	-
	ASP	+ mid-single-digit %	- low single-digit %	- high single-digit %	- low single-digit %	-
	Revenue	+ mid-single-digit %	- mid-single-digit %	- mid-teen %	- mid-single-digit %	- high single-digit %
SIDM printers	Volume	-6%	+19%	+10%	-13%	+3%
	ASP	+ low single-digit %	- mid 20%	- mid 20%	- mid teen %	- low 20%
	Revenue	- low single-digit %	Around -10%	- high teen %	- high 20%	- high 10%
Projectors	Volume	+2%	+9%	+8%	+7%	+6%
	ASP	+ low single-digit %	- mid-teen %	- mid-teen %	- high single-digit %	- low teen %
	Revenue	+ mid-single-digit %	- high single-digit %	- high single-digit %	Flat YoY	- mid-single-digit %

The indicators in this document are based on values tracked internally by Epson.

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