

FY2016 Third-Quarter Financial Results Presentation

Q&A

- Overall

Q: Given factors like the sustained weakness of the yen, you raised your current full-year business profit outlook by 4 billion yen compared to the previous outlook. Do you expect forex to have a greater positive effect on business profit in the third quarter or fourth quarter? Also, does the amount by which third-quarter business profit improved versus the previous outlook closely match the benefits reaped from foreign exchange?

A: Foreign exchange effects will likely have a somewhat larger impact in the third quarter, which is our peak period for business.

Although performance will vary by business, third-quarter consolidated business profit will be in line with our internal plan when foreign exchange effects are excluded. You could therefore say that the amount by which business profit exceeded the plan is equivalent to foreign exchange effects.

Q: Price changes had a positive year-on-year impact on business profit according to the cause analysis on slide 11 of your presentation. Meanwhile, the average selling prices of products shown on slide 24 are shown going down. Why is this?

A: Slide 11 shows the effect on business profit of price changes after the elimination of foreign exchange effects.

Slide 24 shows the changes in average selling prices in yen equivalents.

The unit prices in yen equivalents show that average selling prices declined year-on-year due to foreign exchange effects. However, price changes had a positive effect after the elimination of foreign exchange effects because the prices for most products were stable and because sales of high-added-value products were firm.

- **Printing solutions**

Q: You said that sales of high-capacity ink tank printers expanded in every region, but are the markets of Europe, the U.S., and Japan driving overall growth?

A: Sales in places such as Western Europe, North America, and Japan grew steadily in line with the plan, but high-capacity ink tank printers as a percentage of total unit sales in developed countries is less than 10%, so emerging markets continued to drive growth.

Q: What action are you taking to increase production capacity of PrecisionCore printheads?

A: We began construction on a new factory for PrecisionCore print chips (the front-end process) at our Hirooka Office (in Shiojiri, Nagano). The new factory will increase our production capacity and strengthen our research and development functions.

We have already augmented our production lines at Akita Epson and Tohoku Epson (in Yuzawa, Akita Prefecture, and Sakata, Yamagata Prefecture, both in Japan), where the printhead assembly (back-end process) is performed.

PrecisionCore print chips are the building blocks of our printheads. Assembling the print chips in

various configurations allows us to produce heads that offer different levels of performance, to meet the demands of products from office printers to large format printers.

We plan to expand sales of these printer products in the future. So, to accommodate higher volume, we are also building up our production capacity of the core components in these products, PrecisionCore printheads.

Reference: News release about the construction of a new inkjet printhead factory at the Hirooka Office

http://global.epson.com/newsroom/2016/news_20161028.html