

Third Quarter Financial Results Fiscal Year 2017 (Ending March 2018)

January 31, 2018
SEIKO EPSON CORP.

■ 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.

- Please take a look at the disclaimer statement regarding the information contained in today's financial release materials.

- **1. FY2017 Q3 Financial Results**
- 2. FY2017 Financial Outlook

Financial Highlights (through first 9 months)



	FY2016		FY2017		Change		
	First 9 Months	%	First 9 Months	%	Amount	%	
Revenue	765.8	-	833.4	-	+67.6	+8.8%	
Business profit	54.0	7.1%	58.4	7.0%	+4.3	+8.1%	
Profit from operating activities	57.2	7.5%	52.2	6.3%	-5.0	-8.8%	
Profit before taxes	57.3	7.5%	51.0	6.1%	-6.3	-11.1%	
Profit for the period	47.0	6.1%	34.7	4.2%	-12.3	-26.3%	
EPS*	¥132.93		¥98.12		Exchange difference (Billions of yen)		
Exchange rate	USD	¥106.63	¥111.67		Revenue	Business profit	
	EUR	¥118.02	¥128.48		USD	+11.5	-3.1
					EUR	+11.0	+7.2
					Other	+12.4	+6.5
					Total	+35.1	+10.5

* Basic earnings per share for the period

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- Epson's consolidated results for the first nine months were as follows.
- Revenue was ¥833.4 billion, up ¥67.6 billion year-on-year. Business profit was ¥58.4 billion, up ¥4.3 billion. Profit for the period was ¥34.7 billion, down ¥12.3 billion.
- The decrease in profit for the period was caused by a decline in profit from operating activities due to a loss on forward exchange contracts this quarter compared to a profit in the third quarter of last year. We also had an increase in tax expenses due to the impact of tax reform in the U.S. compared to the previous year when tax expenses decreased accompanying a merger of domestic subsidiaries.
- Currency volatility in the first nine months had a ¥35.1 billion positive effect on revenue and a ¥10.5 billion positive effect on business profit.

Financial Highlights (Third Quarter)

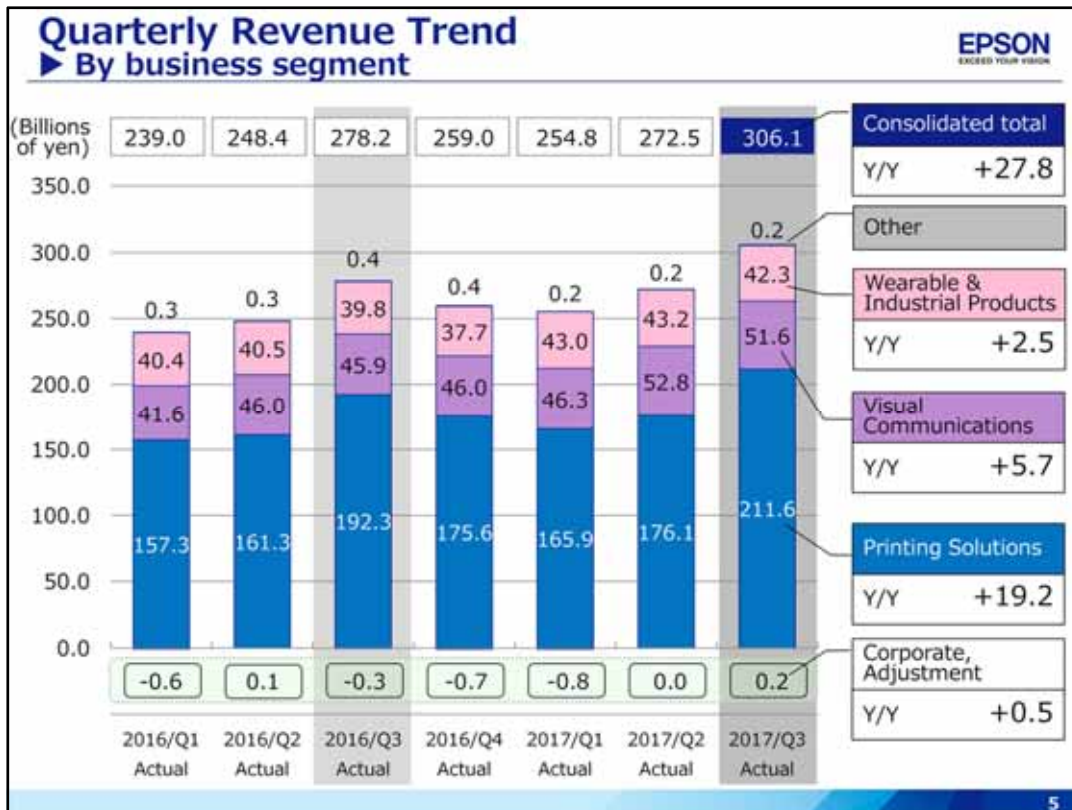
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	FY2016		FY2017		Change	
	Q3 Actual	%	Q3 Actual	%	Amount	%
(Billions of yen)						
Revenue	278.2	-	306.1	-	+27.8	+10.0%
Business profit	28.3	10.2%	30.3	9.9%	+1.9	+6.9%
Profit from operating activities	29.5	10.6%	28.5	9.3%	-0.9	-3.3%
Profit before taxes	30.3	10.9%	28.0	9.2%	-2.2	-7.5%
Profit for the period	28.4	10.2%	19.5	6.4%	-8.9	-31.3%
EPS*	¥81.03		¥55.57			
Exchange rate	USD	¥109.30	¥112.92			
	EUR	¥117.78	¥132.96			
				Exchange difference (Billions of yen)		
					Revenue	Business profit
				USD	+2.8	-0.7
				EUR	+6.0	+4.2
				Other	+4.6	+2.1
				Total	+13.5	+5.5

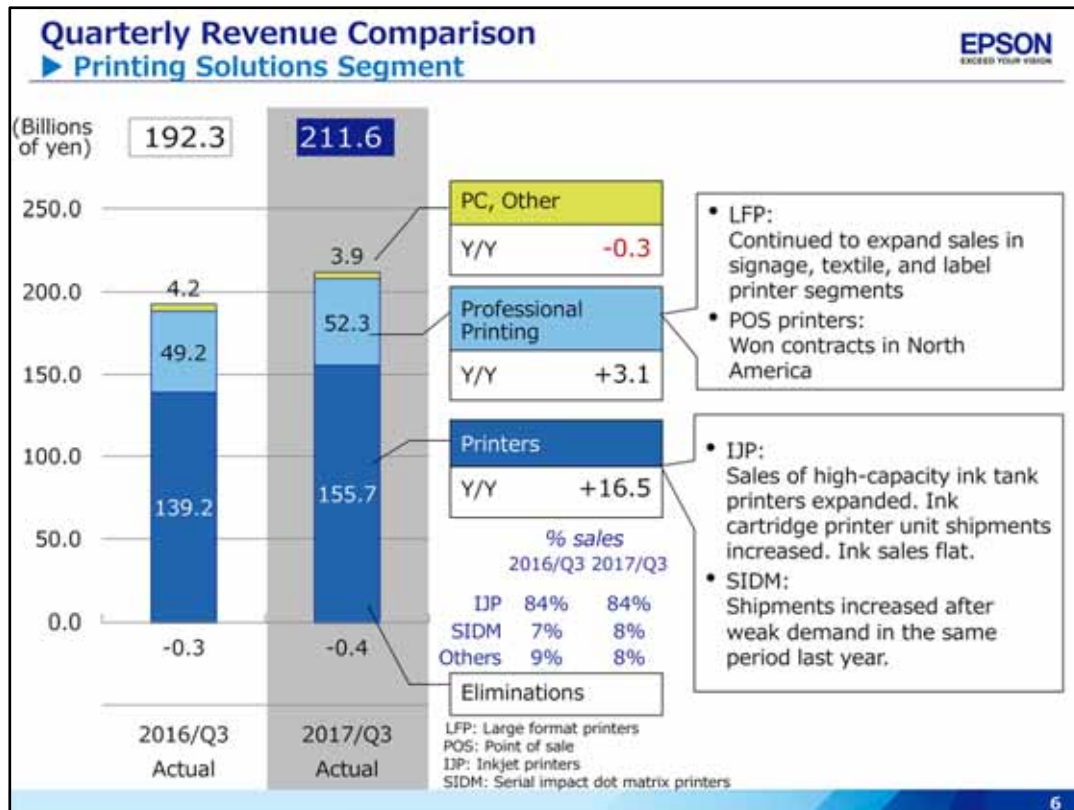
* Basic earnings per share for the period

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- Epson's third-quarter results for the 2017 fiscal year were as follows.
- Revenue was ¥306.1 billion, up ¥27.8 billion compared to the same period last year. Business profit was ¥30.3 billion, up ¥1.9 billion. Profit for the period was ¥19.5 billion, down ¥8.9 billion.
- Currency volatility for the quarter had a ¥13.5 billion positive effect on revenue and a ¥5.5 billion positive effect on business profit.



- This graph depicts the revenue trend in each business over the past six quarters.
- Revenue showed substantial growth in every business in the third quarter, owing to positive foreign exchange effects in addition to continued sales growth.



- This is a year-on-year comparison of quarterly revenue in printing solutions.
- In the printer business, sales of high-capacity ink tank printers continued to expand in both emerging and advanced markets.
In addition, unit shipments of ink cartridge printers for the home decreased in Japan, but shipments of office models increased in Western Europe and North America, in part because of our response to competitors' promotions. Overall unit shipments increased slightly.
Ink revenue was flat year on year, partly because positive foreign exchange effects offset the effects of temporary channel inventory adjustments in Japan and North America and a decline in the home printer install base.
- SIDM printer unit shipments increased compared to the same period last year, when sales temporarily declined due to a policy change in China's tax collection systems.
- In the printer business as a whole, positive foreign exchange effects also contributed to revenue growth.
- In professional printing, sales of large format printers continued to expand in the signage, textile, and label segments but decreased in the photo and graphics segment amid stepped-up competition from rivals.
POS printer sales remained strong primarily thanks to contract wins in North America.
Positive foreign exchange effects also contributed to revenue growth in the professional printing business as a whole.

Expansion of High-Capacity Ink Tank Printers

- The global market for high-capacity ink tank printers is steadily expanding, and they have established a presence in the A4 printer* market.
- Epson's unit shipments have continued to grow even after competitors entered the market.



- Here is a summary of the sales situation for high-capacity ink tank printers and high-speed linehead inkjet multifunction printers.
- The graph on the left shows the composition of the global market for A4 printers and multifunction units.
- In ascending order, there are high-capacity ink tank printers, ink cartridge inkjet printers, laser printers that print up 21 pages per minute or more, and laser printers that print up to 20 pages per minute.
- As you can see, unit shipments of high-capacity ink tank printers are steadily growing and now exceed 10% of the global A4 printer market.
- The graph on the right shows high-capacity ink tank printer unit shipments by manufacturer.
- The blue bars show Epson's unit shipments. As you can see, unit shipments of Epson's high-capacity ink tank printers have continued to grow steadily after competitors entered the market.

High-Speed Linehead Inkjet MFP Initiatives

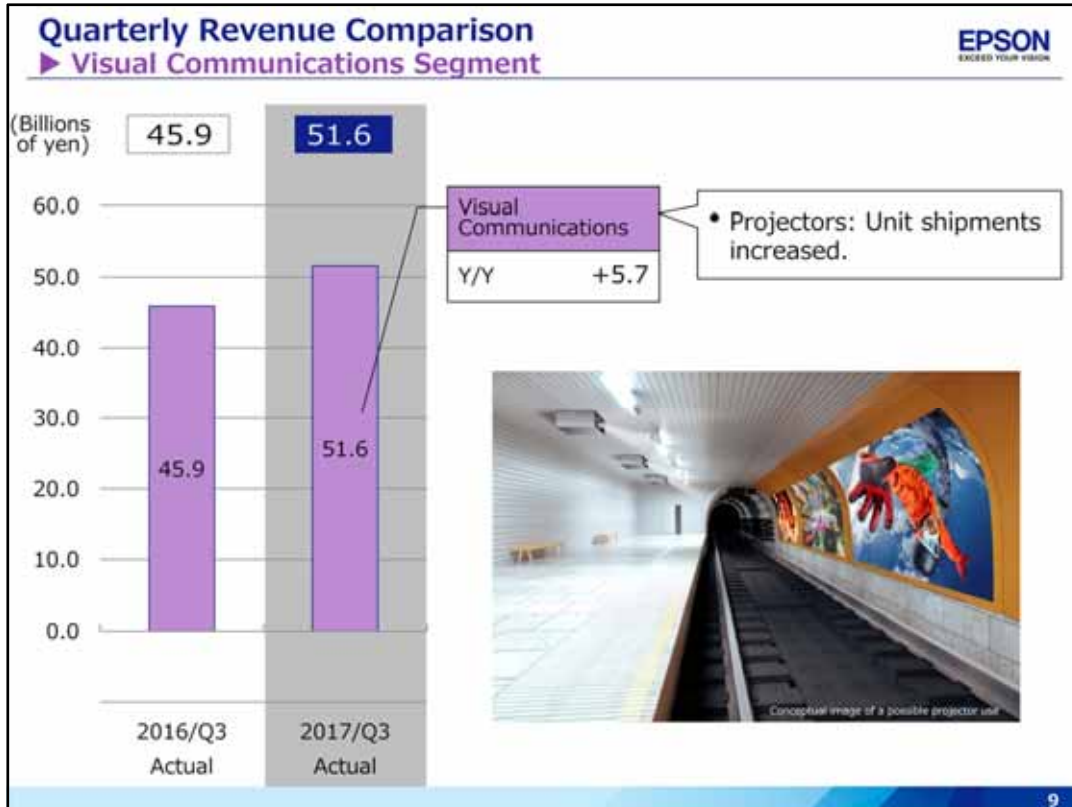
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- Global launch completed by December
- Continue to strengthen the sales organization and promotions in every region.
 - Hire specialist sales and support staff.
 - Create more opportunities to demonstrate performance.
 - Strengthen relationships with dealers/distributors.
- Respond to new customer needs.
 - Effectively promote environmental benefits to growing number of companies interested in reducing office environmental impacts.
 - Add functions requested by customers.

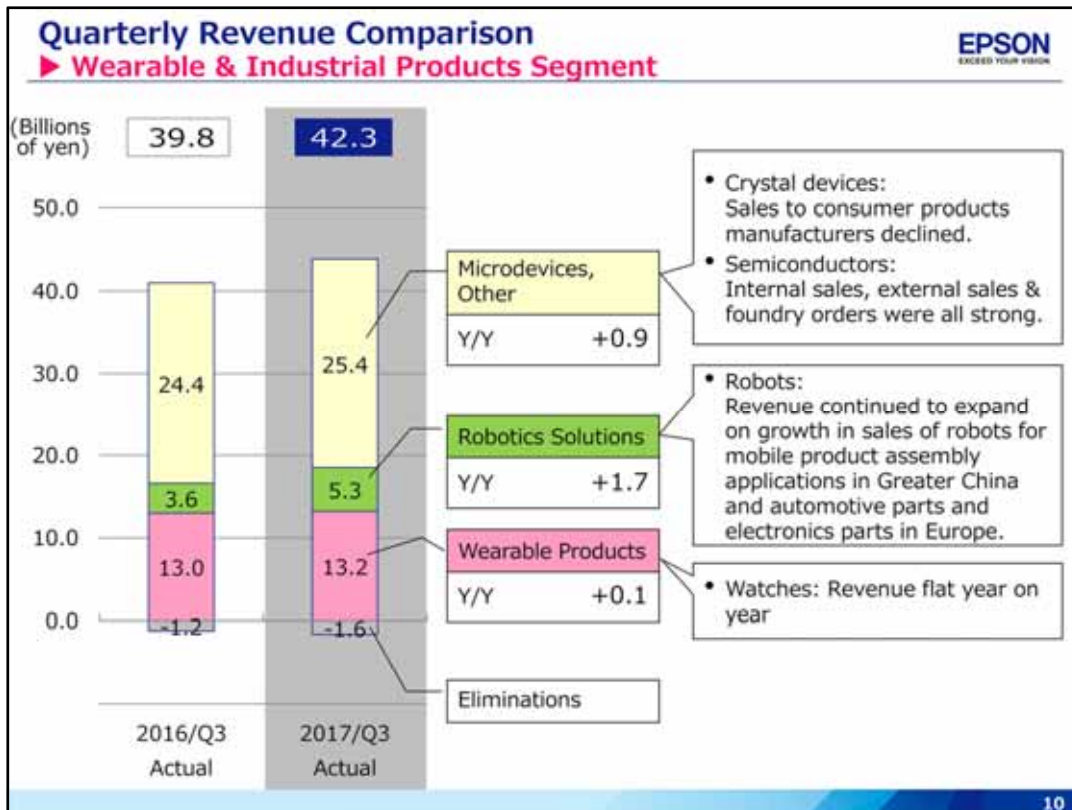


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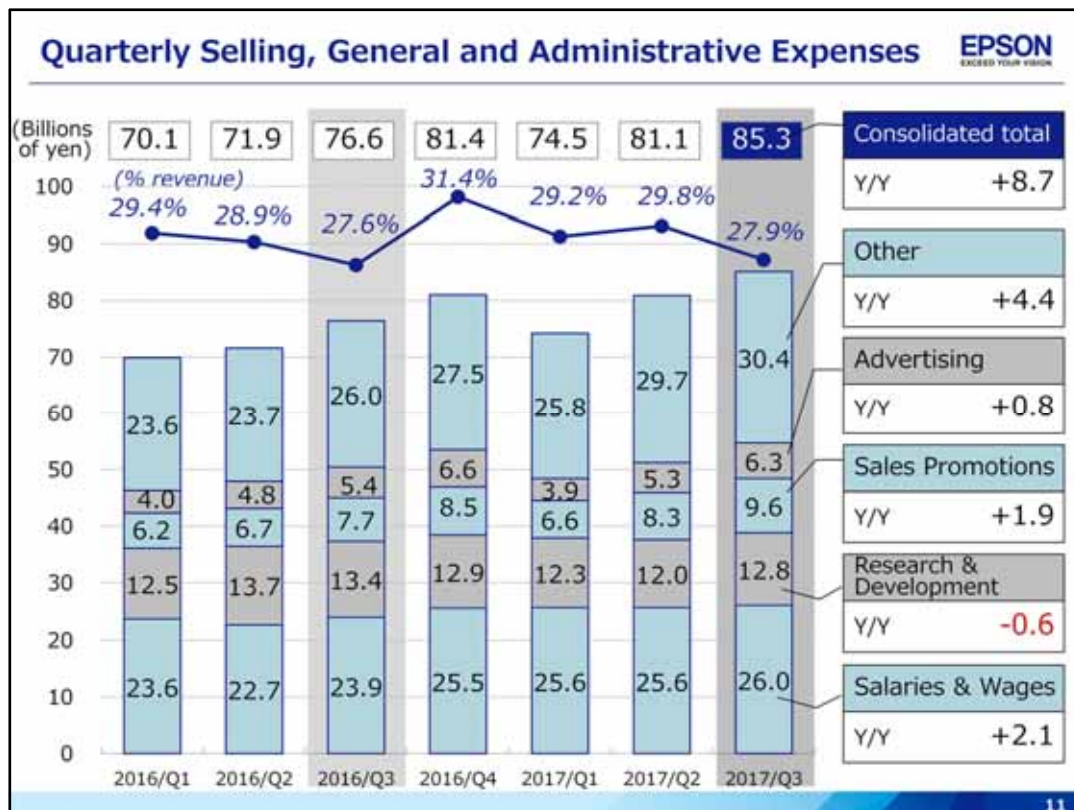
- We launched these products in June last year, first in Japan, Europe, and North America, and later, by the end of the year, in China and other Asian markets.
- We will improve our regional sales organizations and strengthen our promotional campaigns to finally put us in a position for a full-scale global roll-out.
- At the same time, we will respond to new customer needs that become apparent as we talk more and more to customers.
- For example, a lot of companies are looking to reduce their offices' environmental impacts. And we have seen that an effective way of marketing Epson's high-speed linehead inkjet multifunction printers is to highlight their low power consumption and other substantial environmental performance advantages.
- Not only do these printers print up to 100 pages per minute with outstanding image quality, they use only a fraction of the energy of a laser printer. Environmental performance advantages such as these will be a focus of our product communications going forward.
- We have also added functions in response to customer needs, such as serverless authentication that is unique to the Japanese market.



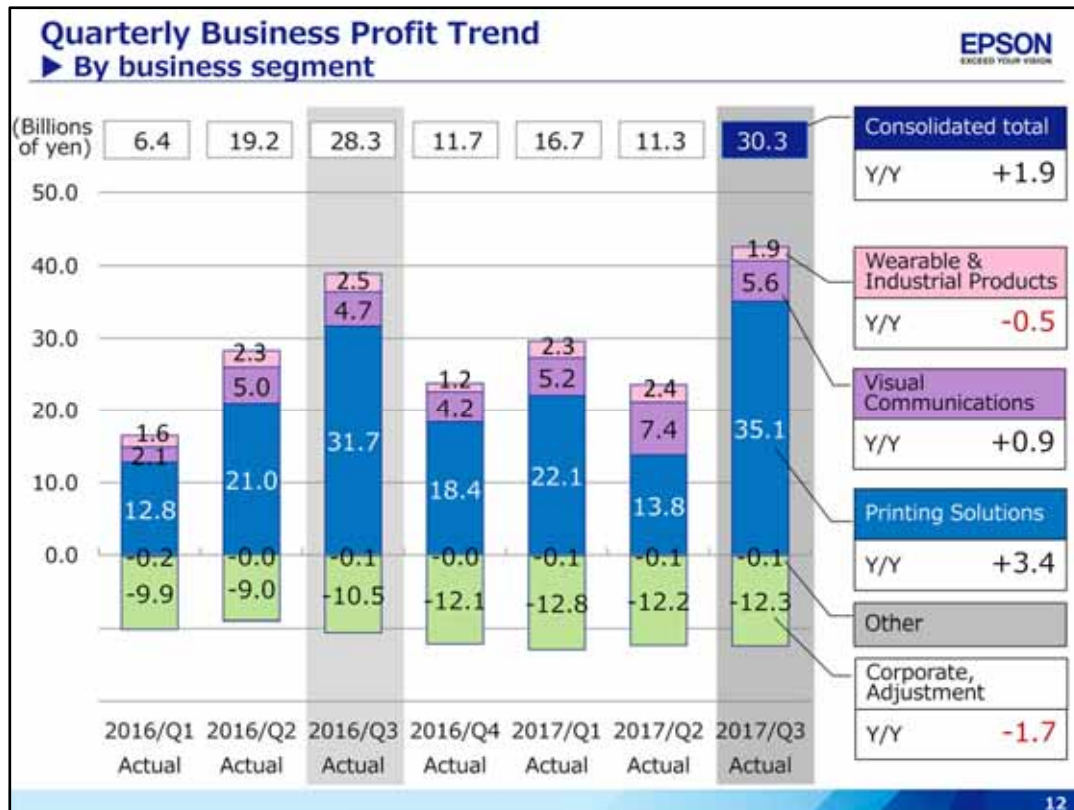
- Visual communications revenue increased. In the absence of substantial growth in the projector market as a whole, Epson expanded unit shipments in every category of projector, from high-brightness and ultra-short throw projectors to standard and home projectors. Revenue also benefited from foreign exchange effects.



- This slide shows revenue for the quarter in wearable & industrial products.
- Wearable products revenue was flat year on year.
- Robotics solutions revenue increased. In addition to positive foreign exchange effects, revenue rose owing to growth in robots used for mobile product assembly applications in Greater China and in the transport and assembly of automotive and electronic parts in Europe.
- Microdevices and other revenue increased compared to the same period last year. Although the quartz business reported lower sales to smartphone manufacturers and the like in Greater China, overall revenue increased because, in addition to positive foreign exchange effects, the semiconductor business sustained strong internal sales, external sales, and foundry orders. Meanwhile, sales in superfine alloy powders and surface finishing and other businesses were also solid.



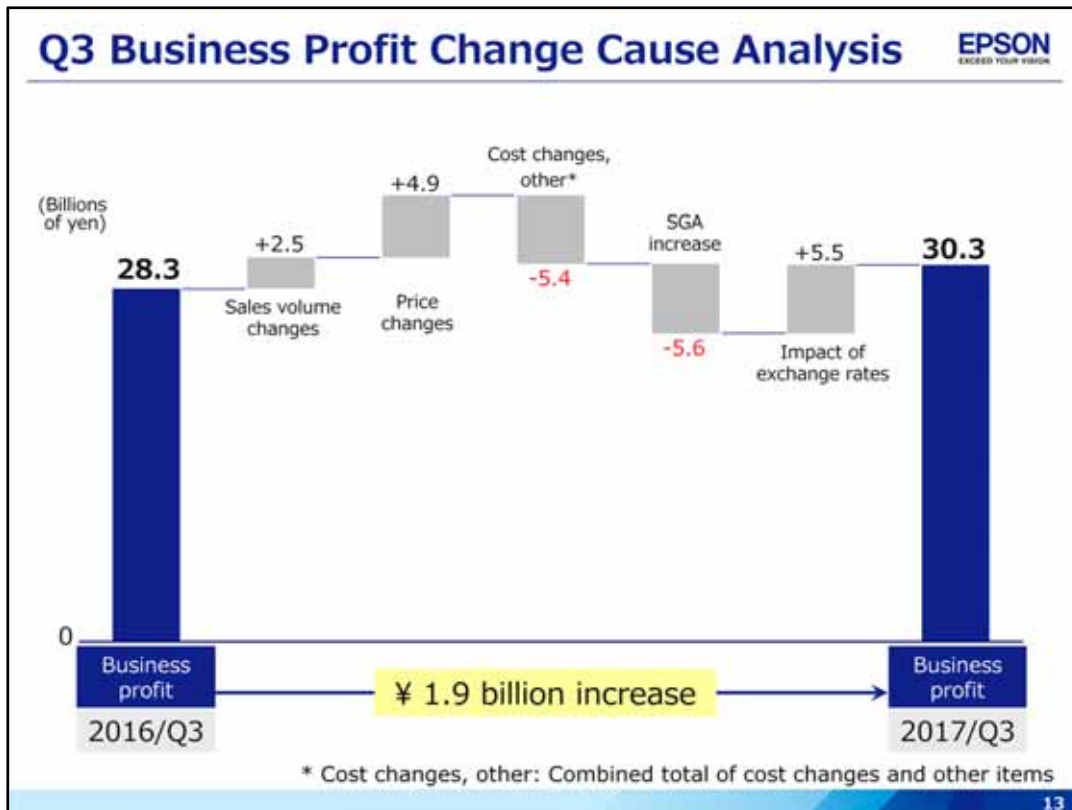
- Quarterly selling, general and administrative expenses were as shown here.
- SGA expenses increased by ¥8.7 billion compared to the same period last year partly due to the effects of a weaker yen.
- Salaries and wages, sales promotion expenses, and advertising expenses increased mainly because we reinforced our sales organization and increased our promotional campaigns for strategic products.
- Expenses in the Other category increased. The increase was mainly because of the reallocation of some intellectual property-related expenses to this account.



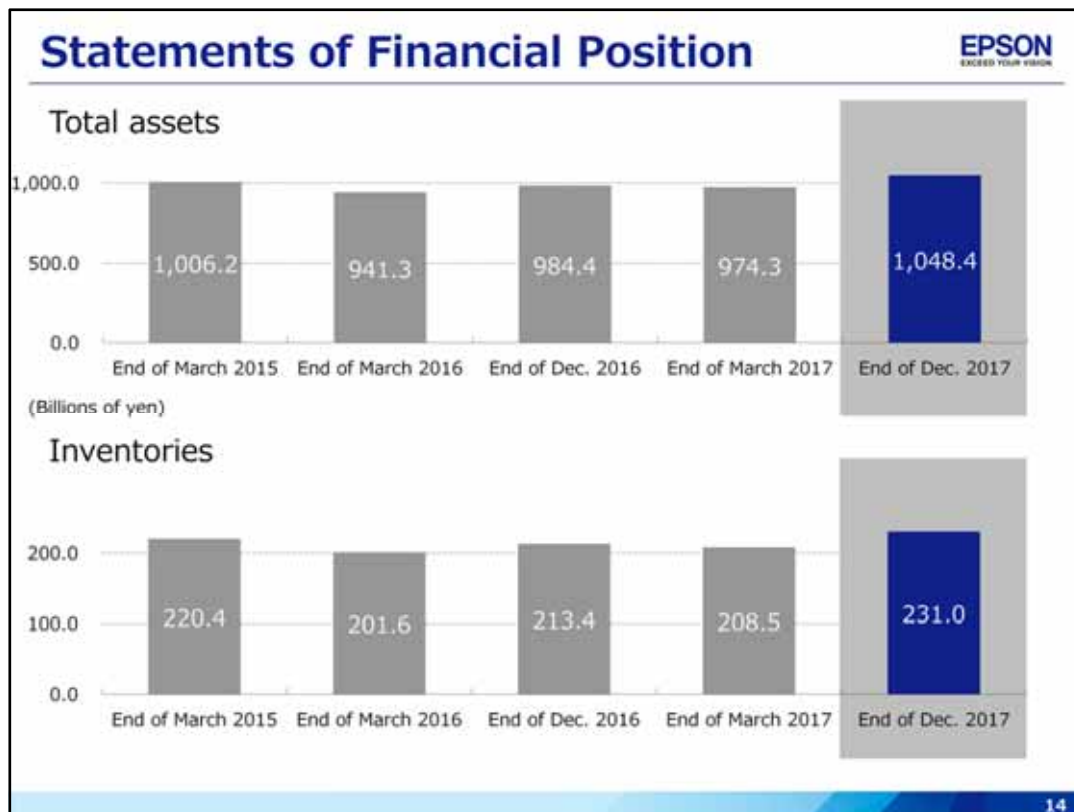
- This slide shows the trend in quarterly business profit by segment.
- The printing solutions segment as a whole recorded year-on-year profit growth. Although we proactively invested to fortify our sales infrastructure for strategic products such as high-speed linehead inkjet multifunction printers and saw our expenses increase due to the rising cost of procuring electronic parts, materials, and so forth, profit increased on higher revenue and the positive effects of foreign exchange.
- Visual communications profit increased in response to projector revenue growth and positive foreign exchange effects.
- Profit in the wearable & industrial products segment as a whole decreased despite revenue growth mainly because of changes in the crystal device model mix and increased expenses.
- Corporate expenses and adjustments increased partially because of a change in the category where we recognize some intellectual property-related expenses.

Continuation from slide 12

- Next, we would like to explain our progress with respect to our internal plan for the third quarter, which serves as the basis for our previous disclosure.
- Revenue exceeded the plan because positive foreign exchange effects outweighed a shortfall against the sales plan in some segments. Business profit, on the other hand, ended slightly below the plan despite positive foreign exchange effects, because we fell short of our sales plan in some segments and saw expenses increase.
- The printing solutions segment as a whole fell short of the revenue plan for several reasons. First, we had to reprice inkjet printers in Western Europe and North America in response to competitors' price promotions. Second, some planned ink sales slipped into the fourth quarter due to a period of channel inventory adjustments in addition to a shortfall in printer unit shipments. And third, a portion of sales of high-capacity ink tank printers slipped out to the fourth quarter due to a delay in delivery of some supplier parts.
- Business profit fell below the plan mainly because revenue fell short and because of procurement price increases in electronic parts, materials, and so forth. Meanwhile, the impact on profitability of changes in ink cartridge printer production was basically as expected.
- The visual communications business was in line with the plan.
- In wearable & industrial products, we fell short of both our revenue and business profit plans because sales of crystal devices to smartphone assemblers in Greater China disappointed, as did sales of some new wearable products.



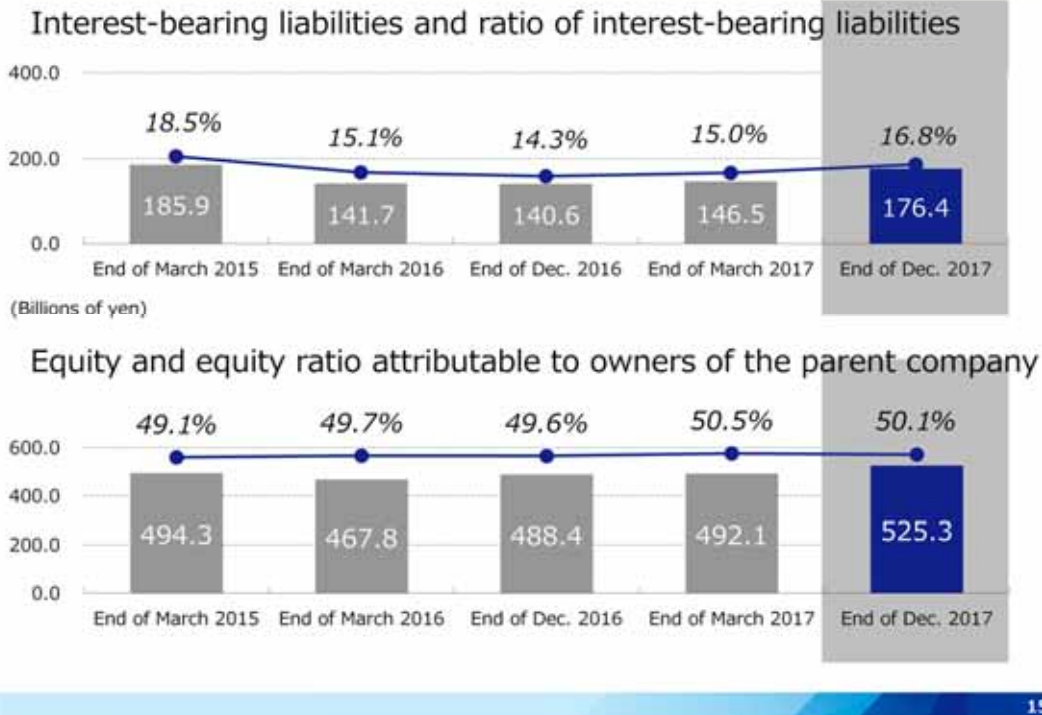
- This slide shows a cause analysis of the ¥1.9 billion increase in consolidated quarterly business profit compared to the same period last year.
- Volume changes positively affected business profit. Home ink cartridge printers and large-format printers for photos and graphics had a negative effect, but this was surpassed by the positive contributions from high-capacity ink tank printers, projectors, semiconductors, and robots.
- Price changes had a positive effect on business profit. Although profit was hurt by factors such as price erosion in microdevices, and a decline in hardware prices for ink cartridge models in Western Europe and the U.S., price fluctuations had an overall positive effect because of changes in the ink cartridge and projector mixes and other factors.
- Cost changes hurt profit due to an increase in high added value products and soaring raw materials costs.
- The increase in selling, general and administrative expenses was chiefly the result of spending on strengthening the sales force.



- Next, let's look at some of the major items on the statements of financial position.
- Total assets were ¥1,048.4 billion, an increase of ¥74.0 billion compared to the end of last fiscal year. This increase is primarily due to an increase in trade and other receivables, inventories, and an increase in property, plant and equipment due to the completion of a new factory in the Philippines.
- Inventories increased by ¥22.5 billion from the end of the previous fiscal year, ending at ¥231.0 billion.

Statements of Financial Position

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- Interest-bearing liabilities were ¥176.4 billion, an increase of ¥29.9 billion compared to the end of the previous fiscal year. The ratio of interest-bearing liabilities to total assets was 16.8%.
- Net cash was ¥47.2 billion.
- Equity attributable to owners of the parent company was ¥525.3 billion, up ¥33.1 billion compared to the previous fiscal year-end. The equity ratio attributable to owners of the parent company was 50.1%.

- 1. FY2017 Q3 Financial Results
- **2. FY2017 Financial Outlook**

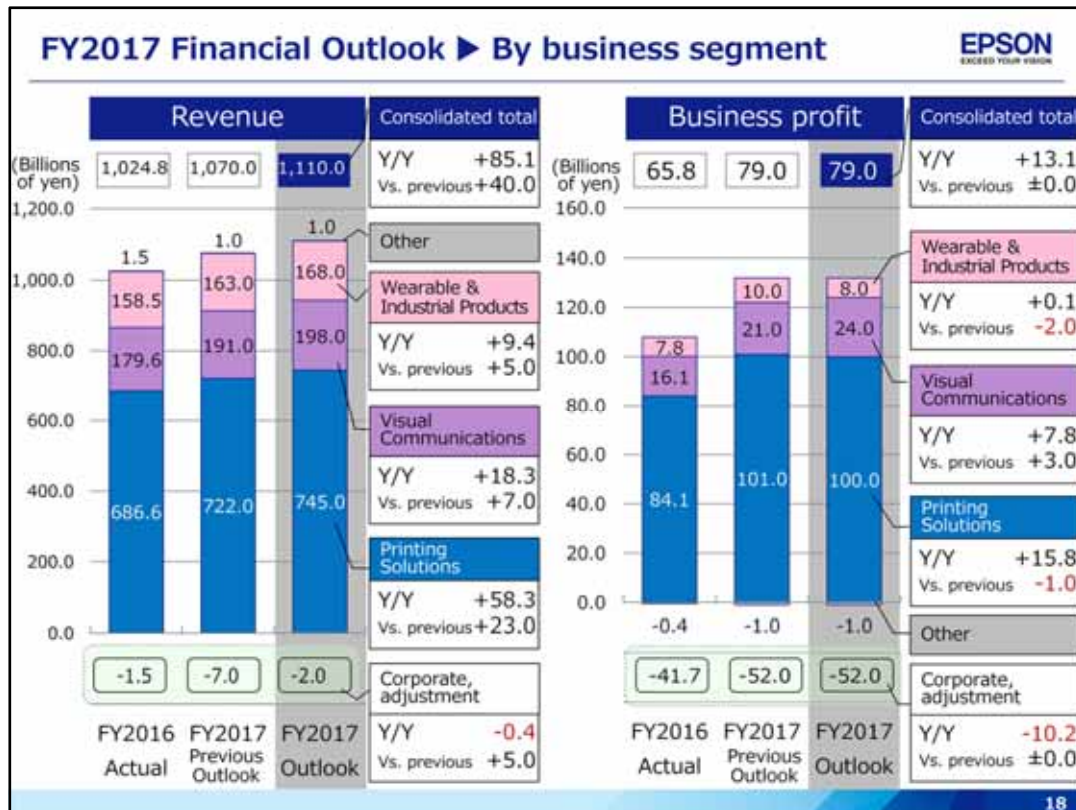
FY2017 Financial Outlook

(Billions of yen)	FY2016		FY2017				Change (amount, %)		
	Actual	%	10/26 Outlook	%	1/31 Outlook	%	Y/Y	Vs. 10/26 outlook	
Revenue	1,024.8	-	1,070.0	-	1,110.0	-	+85.1 +8.3%	+40.0 +3.7%	
Business profit	65.8	6.4%	79.0	7.4%	79.0	7.1%	+13.1 +20.0%	±0 ±0%	
Profit from operating activities	67.8	6.6%	76.0	7.1%	72.0	6.5%	+4.1 +6.1%	-4.0 -5.3%	
Profit before taxes	67.4	6.6%	76.0	7.1%	72.0	6.5%	+4.5 +6.7%	-4.0 -5.3%	
Profit for the year	48.4	4.7%	58.0	5.4%	51.0	4.6%	+2.5 +5.3%	-7.0 -12.1%	
EPS ^{*1}	¥136.82		¥164.67		¥144.79		Exchange rate assumptions from Q4		
Exchange rate	USD	¥108.38	¥110.00		¥111.00		USD	¥110	
	EUR	¥118.79	¥125.00		¥129.00		EUR	¥130	
							Exchange sensitivity *2	Revenue	Business profit
							USD	-3.0	+0.4
							EUR	-1.5	-1.0
							Other	-2.8	-1.1

*1: Basic earnings per share for the year
 *2: Annual impact of a 1-yen increase in the value of the yen versus the USD & EUR (in billions of yen)
 Annual impact of a 1% increase in the value of the yen versus other currencies (in billions of yen)

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- Our fiscal 2017 full-year outlook is as follows.
- We are forecasting ¥1,110.0 billion in revenue, ¥79.0 billion in business profit, and ¥51.0 billion in profit for the period.
- We revised our foreign exchange assumptions given the recent low level of the yen and now anticipate rates of 110 yen to the US dollar and 130 yen to the euro.



➤ The full-year revenue and business profit outlooks for the different segments are shown here.

- Progress in initiatives to drive growth
 - Continued expansion in sales of high-capacity ink tank printers
 - Launched high-speed linehead inkjet MFPs globally
 - Sales growth in signage, textile & label LFPs, projectors, and robots
- Changes in business environment factored in
 - Foreign exchange assumptions revised (Q4:USD ¥110/EUR ¥130)
 - Prices for parts and materials to rise further
 - Printers: Environmental changes to affect ink cartridge printer and ink sales
 - Microdevices (quartz): Fluctuating demand from mobile device manufacturers in China
 - Wearable products: Sluggish sales for some new products

The business environment has changed but growth-generating revenue is expanding, and we will continue to invest in future growth.

- This slide explains the key factors that shaped the full-year outlook for fiscal 2017.
- We are making steady progress in initiatives to drive growth.
- High-capacity ink tank printers are driving revenue and profit. Although some sales slipped into the fourth quarter, there is sustained strong demand in every region, and we further increased the outlook for annual unit shipments. It now stands at over 7.9 million units.
- We began rolling out high-speed linehead inkjet multifunction printers globally.
- We anticipate continued sales growth in large-format printers for signage, textiles, and labels, as well as in projectors and robots.

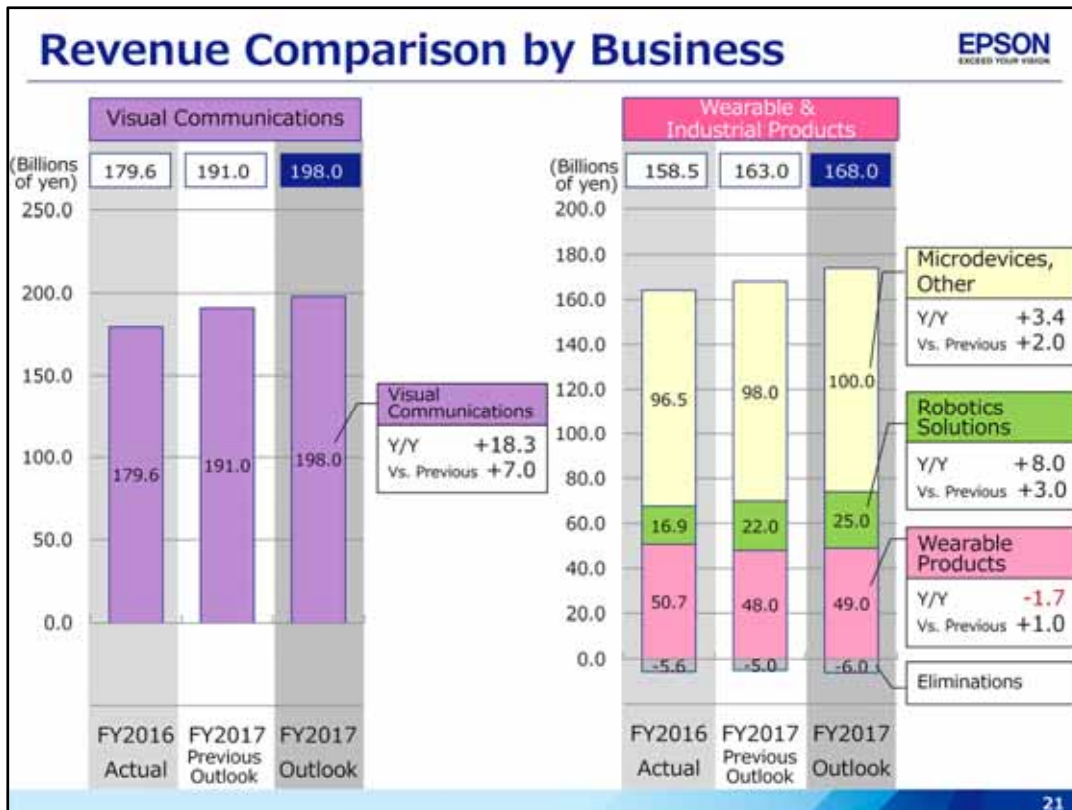
- We expect Epson's initiatives to continue to yield results. On the other hand, there have also been some changes in the business environment recently, and these were also factored into the latest financial outlook.
- We changed our assumptions about fourth quarter foreign exchange rates in view of the current exchange levels.
- We expect prices for supplier parts and materials to rise further from our previous outlook.
- In the printer business, we expect to have to respond to our competitors' price promotions in ink cartridge printers. We also expect ink sales to be hurt by a decline in the home printer install base.
- We forecast a decrease in crystal devices in the quartz business due to fluctuating demand from mobile device manufacturers in China.
- In wearable products, we factored in sluggish sales for some new products.

- To sum up, there are changes in the business environment, but revenue is steadily expanding and laying a foundation for growth. We thus intend to spend and invest in future growth in accordance with our mid-range business plan.
- Given our strategic direction, we will expand business sites overseas to reinforce future production and will increase the capital expenditure forecast for this fiscal year.

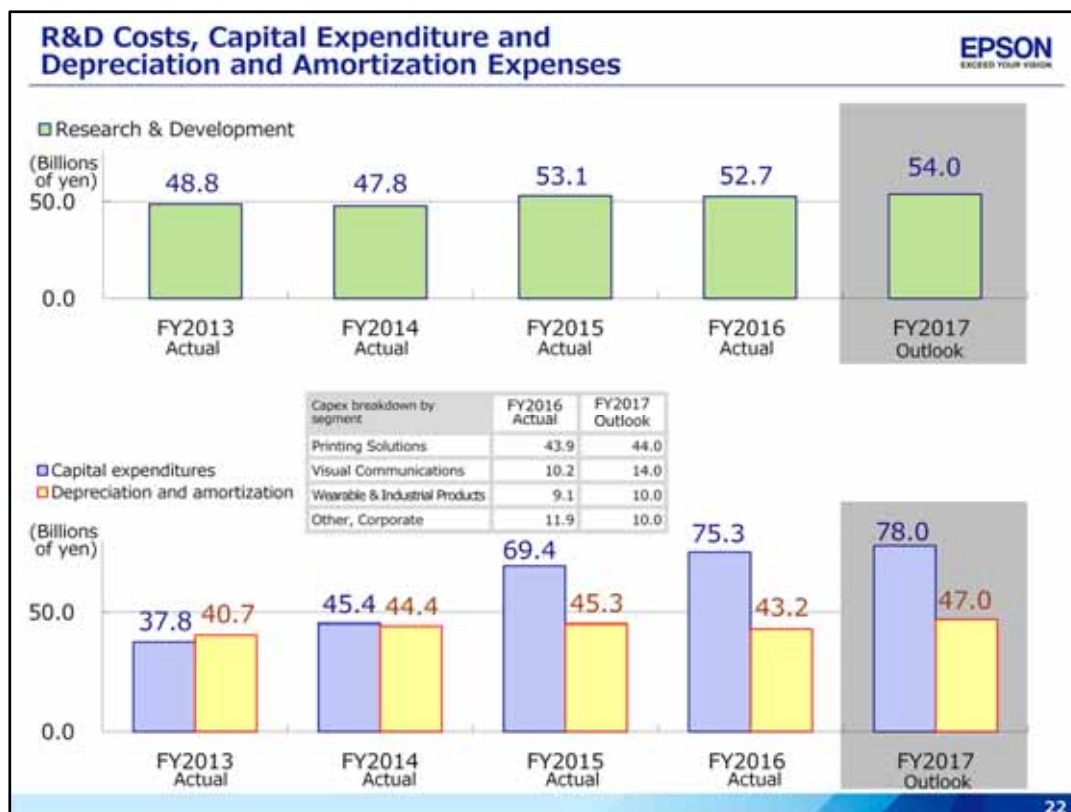
Revenue Comparison by Business



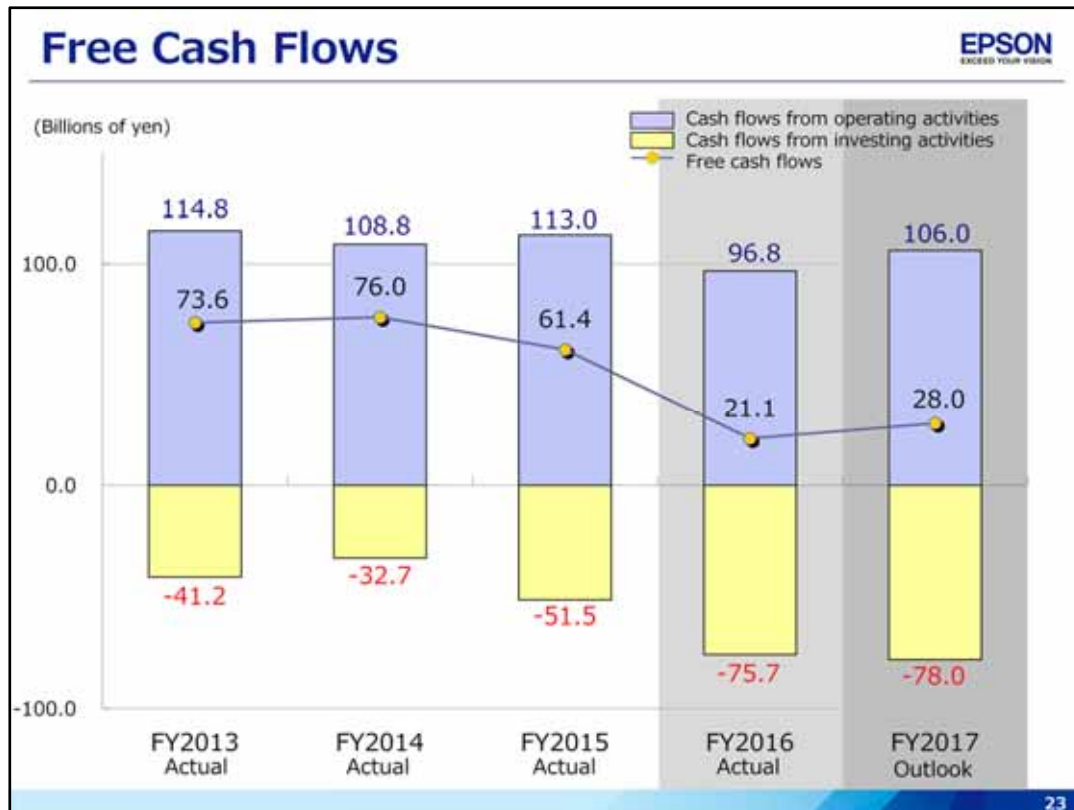
- Here, the revenue outlook in printing solutions is broken out by business.
- As said earlier, in the printer business we anticipate seeing ink cartridge printer promotions by competitors affect our results, and expect ink sales to decrease. On the other hand, we also expect further unit shipment growth in high-capacity ink tank printers, and the current outlook reflects this.
- In professional printing, we forecast solid sales, mainly of POS printers.
- Given the foregoing considerations, combined with positive foreign exchange effects, we upwardly revised the outlook for printing solutions as a whole.



- Here, the revenue outlook in visual communications and in wearable & industrial products is broken out by business.
- In visual communications, we upwardly revised the outlook because, as in the previous outlook, we are planning on steady projector unit volume growth as well as on increased sales of high-brightness models and other high added value products, which will improve the model mix. Foreign exchange should also work in our favor.
- We also raised the outlook in wearable & industrial products as a whole. The outlook reflects an anticipated decrease in crystal device sales, as well as sluggish sales of some new wearable products. However, it also reflects solid sales in robotics solutions and semiconductors, as well as positive foreign exchange effects.

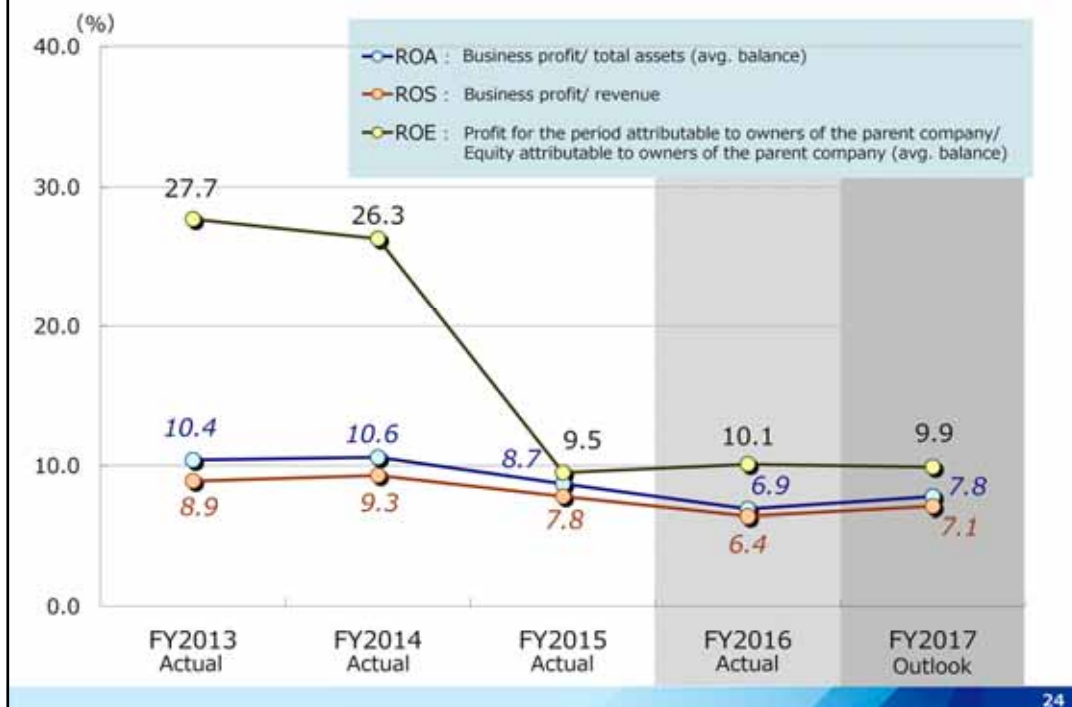


- The outlook for research and development expenses has not changed from the previous outlook.
- We forecast an additional ¥2.0 billion in capital expenditures from the previous outlook, putting the total at ¥78.0 billion.
- We expect ¥47.0 billion in depreciation and amortization expenses, up ¥2.0 billion from the previous outlook, mainly because of the weak yen trend.



- The outlook for fiscal 2017 cash flows looks like this. We are reiterating our previous outlook of ¥106.0 billion in cash flows from operating activities, but we will revise the forecast for cash flows used in investing activities to ¥78.0 billion. As a result, we anticipate ¥28.0 billion in free cash flows.

Main Management Indicators

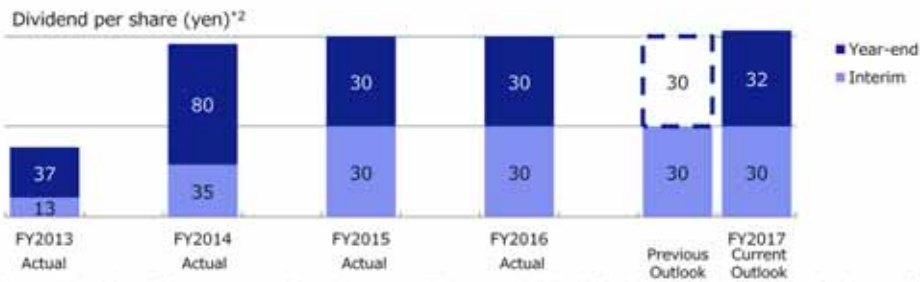


- Here are our major financial management performance indicators for the 2017 fiscal year. We expect a 7.1% return on sales, a 7.8% return on assets, and a 9.9% return on equity.

Shareholder Returns

- Epson's first priority is to invest in growth, but we are also striving to build a robust financial structure that is capable of withstanding changes in the business environment and to proactively reward shareholders.
- Epson has set a consolidated dividend payout ratio*¹ in the range of 40% as a medium-term target. We intend to be more active in giving back to shareholders by agilely repurchasing shares as warranted by share price, the capital situation, and other factors.
- Dividends

FY2017 annual dividend outlook 62 yen
(30-yen interim dividend & 32-yen year-end dividend outlook)



*1: The ratio is based on profit after an amount equivalent to the statutory effective tax rate is deducted from business profit, a profit category that shows profit from the Company's main operations (and which is very similar to the concept of operating income under J-GAAP both conceptually and numerically).

*2: Epson declared a 2-for-1 stock split, effective April 1, 2015. The graph height shows the level after the split.

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- We have not changed our shareholder returns policy nor our medium-term goals. They remain as shown in the mid-range business plan.
- The interim dividend was 30-yen per share as forecast at the start of the period. However, we raised the year-end dividend outlook from 30 to 32 yen per share after taking into account factors such as the consolidated dividend payout ratio and capital situation, since we anticipate year-on-year growth in both revenue and profit this period. This is due to strategic progress made in addition to foreign exchange effects and other factors.
- We are therefore planning to pay an annual dividend of ¥62 per share.

Reference

Main Product Sales Trends



■ Results & outlook vs. previous fiscal year ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2016 Full year (Actual)	FY2017/Q1 (Actual)	FY2017/Q2 (Actual)	FY2017/Q3 (Actual)	FY2017 Full year (Outlook)
Exchange rate	USD / EUR	¥108.38 / ¥118.79	¥111.08 / ¥122.12	¥111.00 / ¥130.36	¥112.92 / ¥132.96	¥111.00 / ¥129.00
IJP	Volume	+5%	+7%	+4%	+13%	+10%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20%/ Approx. 40%	-	-	-	Less than 20%/ Less than 50%
	ASP	- high single-digit %	+ low teen %	+ mid-teen %	+ low teen %	+ mid-teen %
	Revenue	- low single-digit %	+ high teen %	Around +20%	+ mid 20%	+ high 20%
IJP ink	Volume (packs)	-4%	-2%	-3%	-7%	-
	ASP	- low single-digit %	+ mid-single-digit %	+ high single-digit %	+ high single-digit %	-
	Revenue	- mid-single-digit %	+ low single-digit %	+ mid-single-digit %	Flat YoY	+ low single-digit %
SIDM printers	Volume	+4%	-25%	-15%	+19%	-9%
	ASP	- high teen %	+ low single-digit %	+ high single-digit %	Flat YoY	+ low single-digit %
	Revenue	- mid-teen %	- low 20%	- high single-digit %	+ high teen %	- high single-digit %
Projectors	Volume	+6%	-2%	+1%	+5%	+3%
	ASP	- high single-digit %	+ mid-teen %	+ mid-teen %	+ high single-digit %	+ high single-digit %
	Revenue	- low single-digit %	+ low teen %	+ mid-teen %	+ low teen %	Around +10%

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

Major Business Indicators

(Billions of yen)					(Billions of yen)			
	Category	FY2016 Actual	FY2017 Outlook	FY2018 Target	Category	FY2016 Actual	FY2017 Outlook	3-year cumulative (FY2016-18 business plan)
Exchange rate	USD	¥108.38	¥111.00	¥115.00	USD	¥108.38	¥111.00	¥115.00
	EUR	¥118.79	¥129.00	¥125.00	EUR	¥118.79	¥129.00	¥125.00
Printing Solutions	Revenue	686.6	745.0	805.0	Operating CF	96.8	106.0	Approx. 330.0
	Business profit	84.1	100.0	-		FCF	21.1	28.0
Visual Communications	Revenue	179.6	198.0	200.0	Capital expenditure		75.3	78.0
	Business profit	16.1	24.0	-		R&D costs	52.7	54.0
Wearable & Industrial Products	Revenue	158.5	168.0	195.0				
	Business profit	7.8	8.0	-				
Other	Revenue	1.5	1.0	0.0				
	Business profit	-0.4	-1.0	-				
Corporate, Adjustment	Revenue	-1.5	-2.0	0.0				
	Business profit	-41.7	-52.0	-				
Consolidated total	Revenue	1,024.8	1,110.0	1,200.0				
	Business profit	65.8	79.0	96.0				
	ROS	6.4%	7.1%	8%				
	ROE	10.1%	9.9%	Sustain at at least 10%				

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