

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

October 26, 2017
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.

- **1. Overview**

- 2. Details

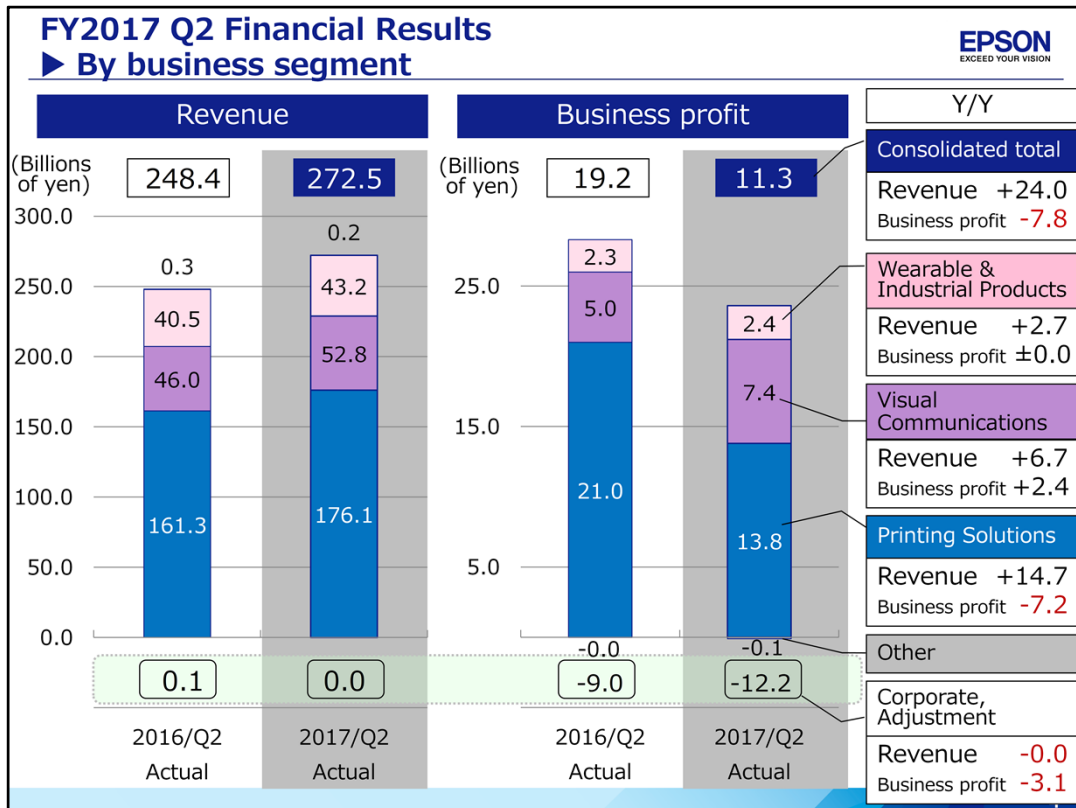
Financial Highlights (Second Quarter)

	FY2016		FY2017		Change		
	Q2 Actual	%	Q2 Actual	%	Amount	%	
(Billions of yen)							
Revenue	248.4	-	272.5	-	+24.0	+9.7%	
Business profit	19.2	7.8%	11.3	4.2%	-7.8	-40.9%	
Profit from operating activities	20.7	8.4%	9.0	3.3%	-11.7	-56.7%	
Profit before taxes	20.7	8.3%	8.5	3.1%	-12.1	-58.7%	
Profit for the period	14.4	5.8%	4.8	1.8%	-9.5	-66.3%	
EPS*	¥40.66		¥13.58		Exchange difference (Billions of yen)		
Exchange rate	USD	¥102.44	¥111.00		Revenue	Business profit	
	EUR	¥114.28	¥130.36		USD	+6.6	-2.0
					EUR	+4.9	+3.0
					Other	+6.8	+3.4
					Total	+18.4	+4.4

* Basic earnings per share for the period

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- FY2017 second-quarter financial highlights
- We had ¥272.5 billion in revenue, a year-on-year increase of ¥24.0 billion. Business profit came in at ¥11.3 billion, down ¥7.8 billion year-on-year. We had ¥4.8 billion in profit for the period, a decline of ¥9.5 billion.
- Currency volatility had an ¥18.4 billion positive effect on revenue for the quarter, and a ¥4.4 billion positive effect on business profit.



- FY2017 second-quarter revenue and business profit broken down by segment
- The decline in profit compared to the same period last year was due primarily to a fire at a parts supplier's facility that interfered with production and sales in the printing solutions business, and to a change in ink cartridge printer production that resulted in increased costs. There were no major changes in the business environment itself.
- Revenue and business profit exceeded our internal plan, which is based on the financial outlook presented on July 27. Weaker than anticipated yen exchange rates versus the US dollar, euro, and some other currencies were a factor.
- The results in the printing solutions segment as a whole were basically in line with the plan, excluding currency effects. Sustained sales demand for our high-capacity ink tank printers and other products was a key factor, as this demand offset a slight shortfall in sales of ink cartridge printers and the effects of competition on some of our large-format printers.
- Excluding currency impact, visual communications results were also in line with the plan, while in wearable products & industrial solutions, watch and crystal device results were slightly short of the plan.

Financial Highlights (First Half)

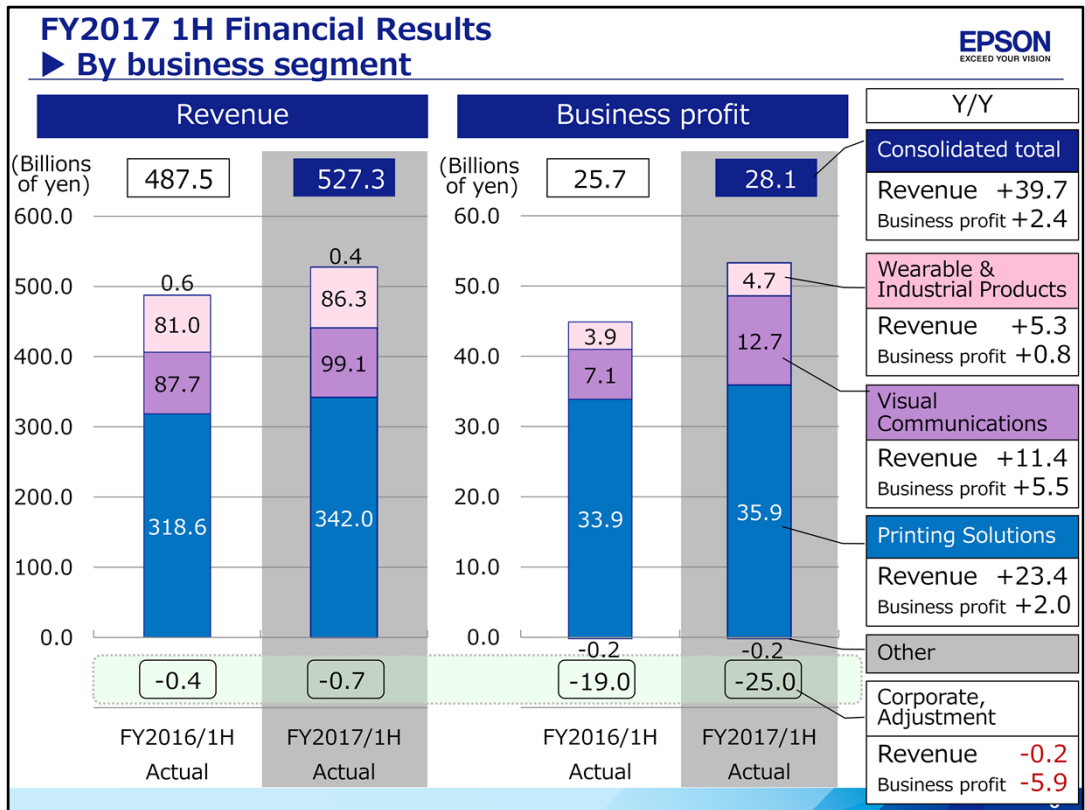
	FY2016		FY2017		Change (amount, %)		
	1H Actual	%	1H Actual	%			
(Billions of yen)							
Revenue	487.5	-	527.3	-	+39.7	+8.2%	
Business profit	25.7	5.3%	28.1	5.3%	+2.4	+9.4%	
Profit from operating activities	27.7	5.7%	23.6	4.5%	-4.0	-14.7%	
Profit before taxes	27.0	5.6%	23.0	4.4%	-4.0	-15.0%	
Profit for the period	18.6	3.8%	15.1	2.9%	-3.4	-18.5%	
EPS*	¥52.09		¥42.55		Exchange difference (Billions of yen)		
Exchange rate	USD	¥105.29	¥111.04		Revenue	Business profit	
	EUR	¥118.15	¥126.24		USD	+8.7	-2.4
					EUR	+4.9	+3.0
					Other	+7.8	+4.3
					Total	+21.5	+5.0

* Basic earnings per share for the period

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■ FY2017 first half financial highlights

- We had ¥527.3 billion in revenue, a year-on-year increase of ¥39.7 billion. Business profit came in at ¥28.1 billion, up ¥2.4 billion year-on-year. We recorded ¥15.1 billion in profit for the period, a decrease of ¥3.4 billion.
- Currency volatility had a ¥21.5 billion positive effect on revenue for the period, and a ¥5 billion positive effect on business profit.



- FY2017 first half revenue and business profit broken down by segment
- As you can see, we steadily grew profit in the first-half even as we aggressively spent on future growth. In addition to the effects of a weaker yen, profit benefited from increased revenue, mainly from sales of strategic products in each business.

FY2017 Financial Outlook



(Billions of yen)	FY2016		FY2017				Change (amount, %)	
	Actual	%	7/27 Outlook	%	10/26 Outlook	%	Y/Y	Vs. 7/27 outlook
Revenue	1,024.8	-	1,070.0	-	1,070.0	-	+45.1 +4.4%	+0.0 +0.0%
Business profit	65.8	6.4%	79.0	7.4%	79.0	7.4%	+13.1 +20.0%	+0.0 +0.0%
Profit from operating activities	67.8	6.6%	76.0	7.1%	76.0	7.1%	+8.1 +11.9%	+0.0 +0.0%
Profit before taxes	67.4	6.6%	76.0	7.1%	76.0	7.1%	+8.5 +12.6%	+0.0 +0.0%
Profit for the year	48.4	4.7%	58.0	5.4%	58.0	5.4%	+9.5 +19.8%	+0.0 +0.0%
EPS ^{*1}	¥136.82		¥164.67		¥164.67		Exchange rate assumptions from Q3 onward	
Exchange rate	USD	¥108.38	¥109.00	¥110.00	USD		¥108	
		EUR			¥118.79	¥123.00	¥125.00	EUR
	Exchange sensitivity *2		Revenue	Business profit	USD		-3.0	+0.4
EUR		-1.5	-1.0	Other		-2.8	-1.1	

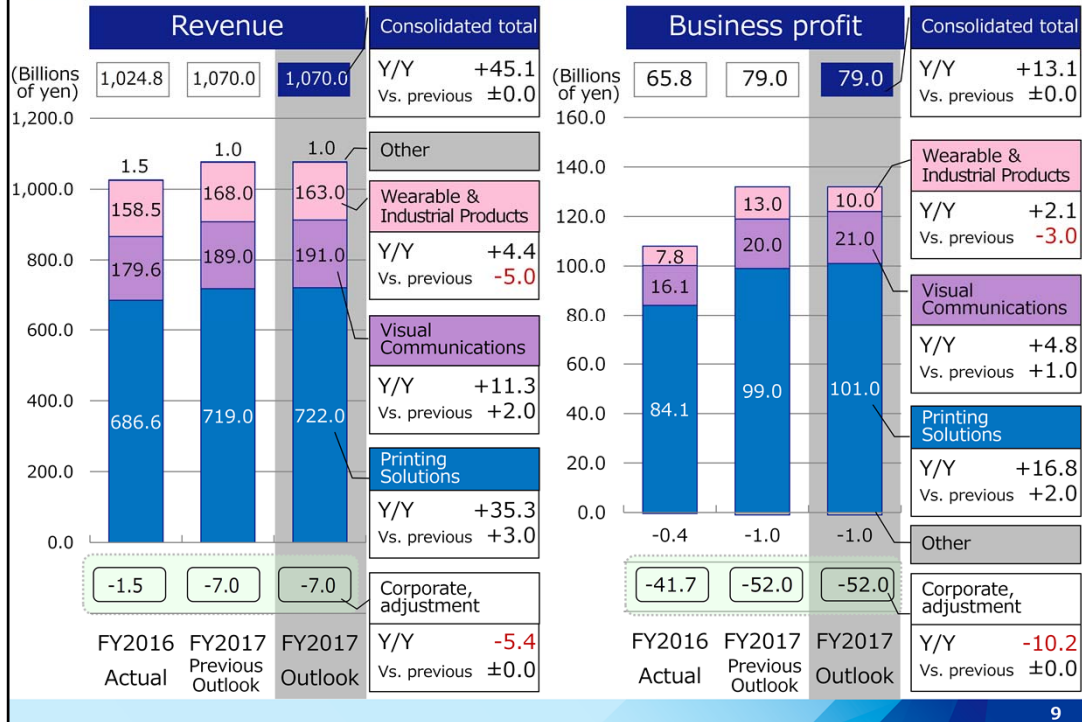
*1: Basic earnings per share for the year
 *2: Annual impact of a 1-yen increase in the value of the yen versus the USD & EUR (in billions of yen)
 Annual impact of a 1% increase in the value of the yen versus other currencies (in billions of yen)

- FY2017 full-year financial outlook
- We are forecasting ¥1,070.0 billion in revenue, ¥79.0 billion in business profit, and ¥58.0 billion in profit for the 2017 fiscal year.
- We revised the outlook in each segment and business based on the results for the first two quarters and the latest forecasts. However, the overall financial outlook has not changed since the previous outlook.
- Our foreign exchange assumptions for the remainder of the fiscal year also have not changed since the previous outlook.

- Steady progress in advancing the core strategies of the mid-range business plan
 - High-capacity ink tank printer shipments to further expand
 - Signage and textile printers, label presses, projectors, and robots to steadily expand
- Factored in business situation changes
 - Changes in the competitive environment for some products and in the product mix for some contracts
 - ✓ Large-format photo and graphics printers, POS printers, watches, crystal devices
 - Prices for raw materials to soar
- Full-year profit expected to grow steadily in line with the mid-range business plan

- Key factors shaping FY2017 financial outlook
 - First, we expect to make steady progress in advancing the core strategies of the mid-range business plan.
 - High-capacity ink tank printers have been driving near-term growth and are expected to expand further. We raised our forecast for annual shipments by 400,000 plus units, from 7.4 million units to more than 7.8 million units. This represents a growth rate of nearly 30% year on year. High-capacity ink tank printers are projected to account for more than 45% of our total inkjet printer unit shipments this year.
 - We also forecast steady growth in sales of products such as signage and textile printers, label presses, projectors, and robots.
 - On the other hand, we have factored in changes in the business situation that have emerged since we presented our previous outlook.
 - In printing solutions, we lowered the outlook for professional printing. The outlook reflects the competitive environment for some large-format photo and graphics printers, as well as a change in the product mix for POS printer contracts in the second-half.
 - The outlook in wearable products & industrial solutions reflects sluggish demand in the U.S. for finished watches, a slow near-term recovery in the domestic Japanese market, and weaker than anticipated demand for crystal devices due to slower than expected growth of the Chinese mobile products market.
 - Raw materials prices in each of our business are expected to soar.
 - So, although there have been some changes in the operating environment, we are forecasting steady profit growth for the full year based on the Epson 25 Mid-Range Business Plan.

FY2017 Financial Outlook ▶ By business segment



- FY2017 full-year revenue and business profit outlooks for different segments

Mid-Range Business Plan Progress

EPSON
EXCEED YOUR VISION

■ Inkjet innovation

- Capturing office print demand
 - ✓ Expanded sales of high-capacity ink tank printers
 - ✓ Released high-speed linehead inkjet MFPs
- Building strength in new commercial and industrial printing segments
 - ✓ Continued expansion in signage, textile, and label printing



■ Visual innovation

- Strengthening of high added value products
 - ✓ Grew sales of high-brightness projectors
 - ✓ Reinforced the product lineup



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■ Mid-range business plan progress

- Under this plan, we have expanded sales in key areas and have laid foundations for future growth with the aim of driving technological innovation in four areas: inkjet, visual communications, wearables, and robotics. Our efforts have included strengthening new product development and production systems.
- In the printer business we are making moves to capture office print demand.
- High-capacity ink tank printers are driving market expansion in emerging markets. Meanwhile, recognition of these printers is also growing in advanced economies, where they are steadily increasing as a percentage of total Epson printer sales.
- High-speed linehead inkjet multifunction printers will drive future growth, and the units that we launched in June are off to a smooth start, with steadily growing installations at sites where customers see the benefits of linehead inkjet MFPs in terms of factors such as printing and environmental performance.
- In professional printing, we are stepping up our efforts in the digital signage, textile, and label segments, and sales continue to expand.
- In visual communications, the high-brightness laser projectors we released in the 2016 fiscal year have been well received. Epson's share in the market for replaceable-lens projectors, which fell short of 15% in the 2015 fiscal year, immediately before the current mid-range business plan, has steadily grown and is now within striking distance of 20%.
- At the same time, we have continued to strengthen our lineup of projectors outside the high-brightness category, and are seeing continued unit growth and improvement in the model mix.

Mid-Range Business Plan Progress

■ Wearables innovation

- Leveraging existing assets to expand the customer base
 - ✓ New Trume watch brand



■ Robotics innovation

- Developing the business to meet expanded demand
 - ✓ Increased space usage efficiency with compact robots
 - ✓ Used sensing technology to expand applications



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■ Mid-range business plan progress

- In the wearable products business we capitalized on our existing assets to maximize the customer base.
- In addition to reinforcing products for existing customers, we launched the first products in the distinctive new Trume brand of watches, a line of analog watches with sensor functions.
- In robotics solutions, we made the compactness, space usage efficiency, and precision of our robots, as well as our force sensors and other added-value accessories, key selling points. This enabled us to capture opportunities to expand the market and significantly grow sales. Sales in the business as a whole are projected to grow by nearly 50%, from the ¥15.4 billion in fiscal 2015 to ¥22.0 billion this year.

Mid-Range Business Plan Progress

■ Strengthening business infrastructure

- Strengthening the R&D and design organizations
 - ✓ Building up our global operations (in Italy, Canada, and Indonesia)
- Building up production capacity in preparation for increased sales
 - ✓ Operations started at a new factory in the Philippines
 - ✓ Will expand facilities at the Hirooka Office (Japan)
- Strengthening the office products sales organization
 - ✓ New staff hires/ realigned organization



New factory in the Philippines



Inkjet printhead production & development functions to be strengthened in Hirooka (under construction)



Commercial and industrial printer functions to be strengthened in Hirooka (construction planned)

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■ Mid-range business plan progress

- We also plan to aggressively strengthen our business infrastructure under the mid-range business plan.
- We have basically consolidated our research, development, and design engineering functions in Japan to maximize efficiency, but we are also building out our global organization to play a complementary role. For example, we have established sites in strategically optimal locations, including a textile R&D center in the Como region of Italy, a software development center in Toronto, Canada, and a printer design center in Jakarta, Indonesia.
- We are also building up our production sites in preparation for expanded sales over the next few years.
- We completed construction work on a new factory in Indonesia last year. In addition, we began inkjet printer production at a new factory in the Philippines this quarter. The lines in the new factory have been engineered to maximize manufacturing efficiency and handle comparatively large products, the number of which will increase in the future.
- We are also improving and expanding our facilities at our Hirooka Office in Japan. We are building up our infrastructure for producing and developing inkjet printheads and commercial and industrial printers.
- We have also been steadily improving our sales organization.
- To prepare for the market launch of high-speed linehead inkjet multifunction printers, Epson sales companies in Japan, the US, and Europe are reinforcing their operations by hiring talent and realigning their organizations around the office printing market in line with the plan.
- Having finished the second quarter, we are now more than halfway through the Epson 25 Mid-Range Business Plan. We see our strategies steadily bearing fruit, and we will continue to pursue them to achieve the goals of the Epson 25 Corporate Vision.

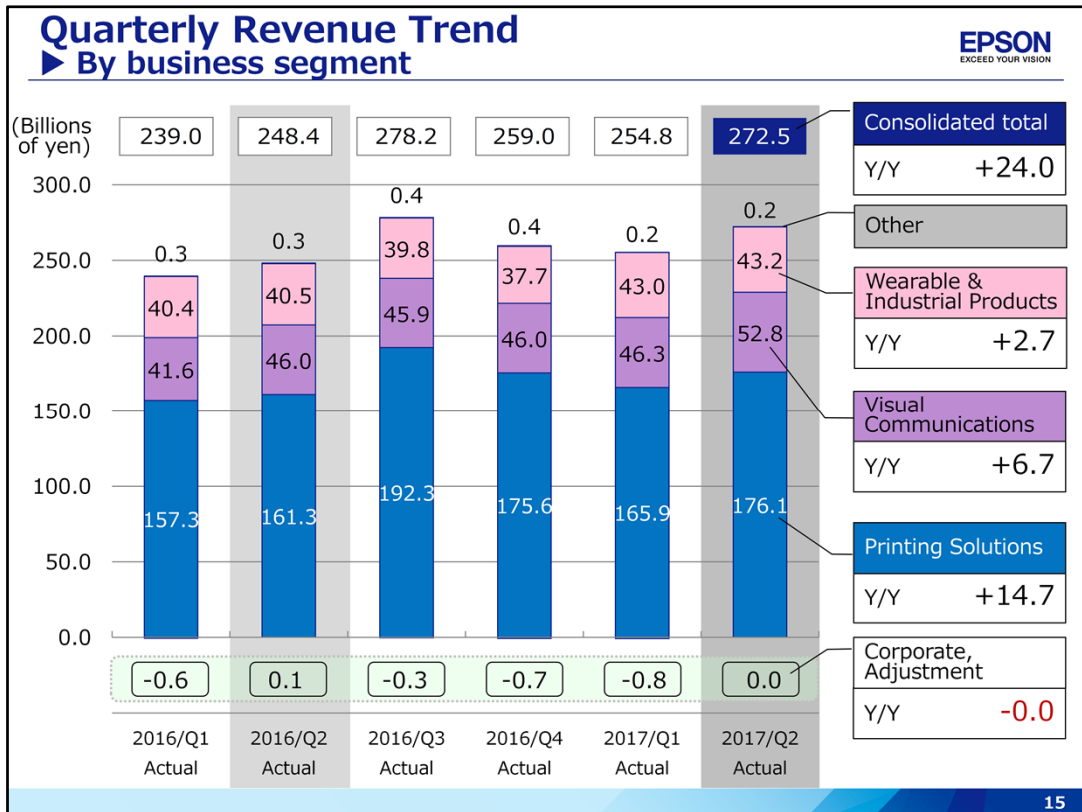
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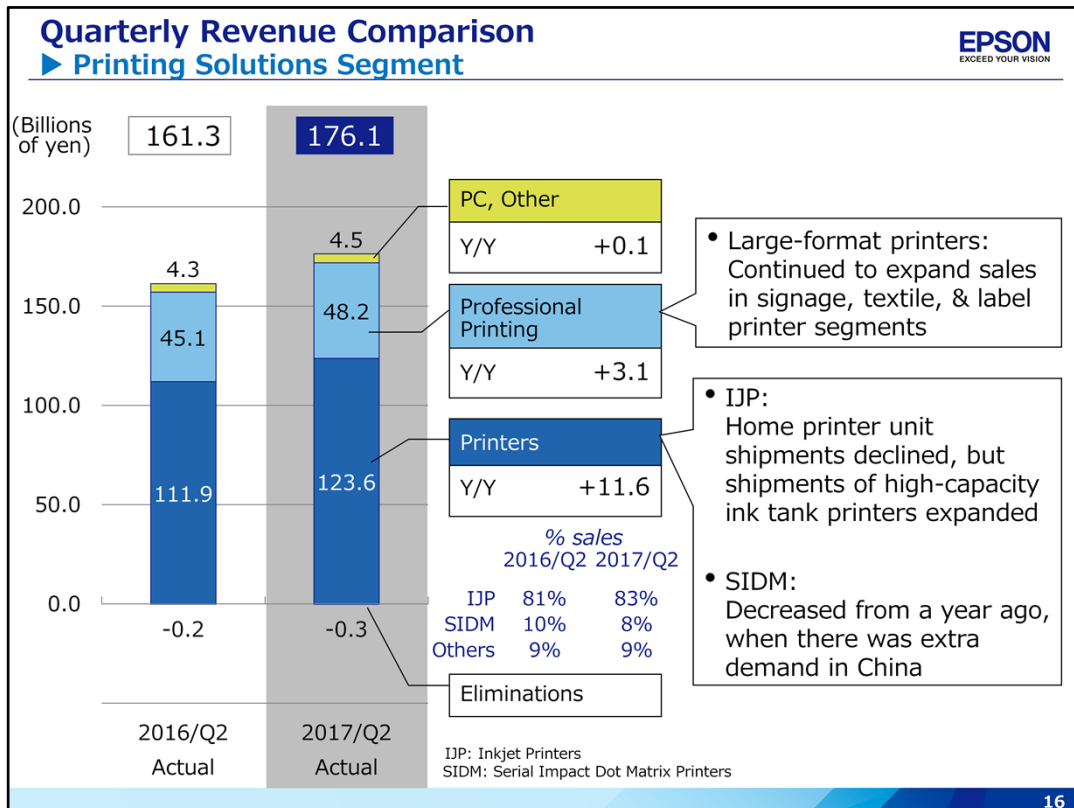
* Basic earnings per share for the period

■ FY2017 second-quarter financial highlights



■ Revenue trend by business segment

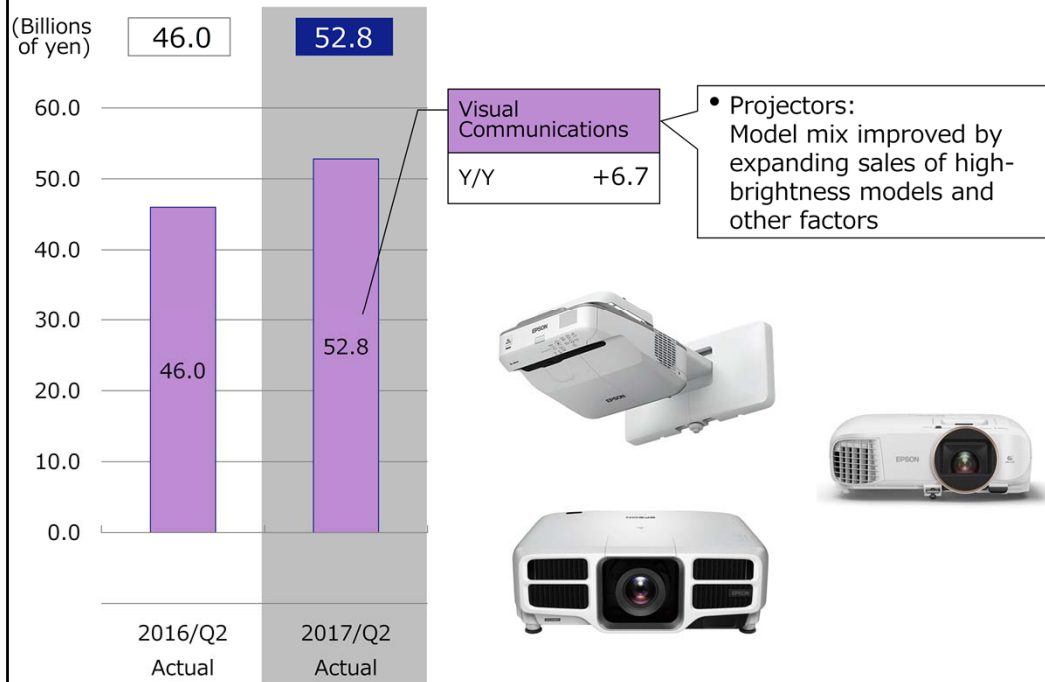
- For the second consecutive quarter, second quarter revenue in the printing solutions, visual communications, and wearable products & industrial solutions segments grew year-on-year.
- While second quarter revenue did benefit from currency effects, we think we are also seeing the strategies we have been executing in each segment yield positive results.



- Quarterly revenue in printing solutions segment
- Printer business revenue increased primarily due to a combination of foreign exchange effects and strong sales of high-capacity ink tank printers in both emerging and advanced economies. These factors more than offset a decline in SIDM printers compared to the same period last year, when changes in the tax system generated extra demand; a decline in ink cartridge printers resulting from the shrinking home printer market and a parts shortage following a fire at a supplier's facility in the first quarter; and a decline in sales in Western Europe due to channel ink cartridge inventory adjustments that continued into the second quarter.
- Professional printing revenue as a whole grew despite the impact of competition for some large-format photo and graphics printers. Revenue benefited from foreign exchange effects, but it also increased because we continued to expand sales by driving strategic advances in the signage, textile, and label printing segments, and by capturing growth opportunities as printing markets transition from analog to digital solutions.
- For the segment as a whole, revenue grew significantly year on year.

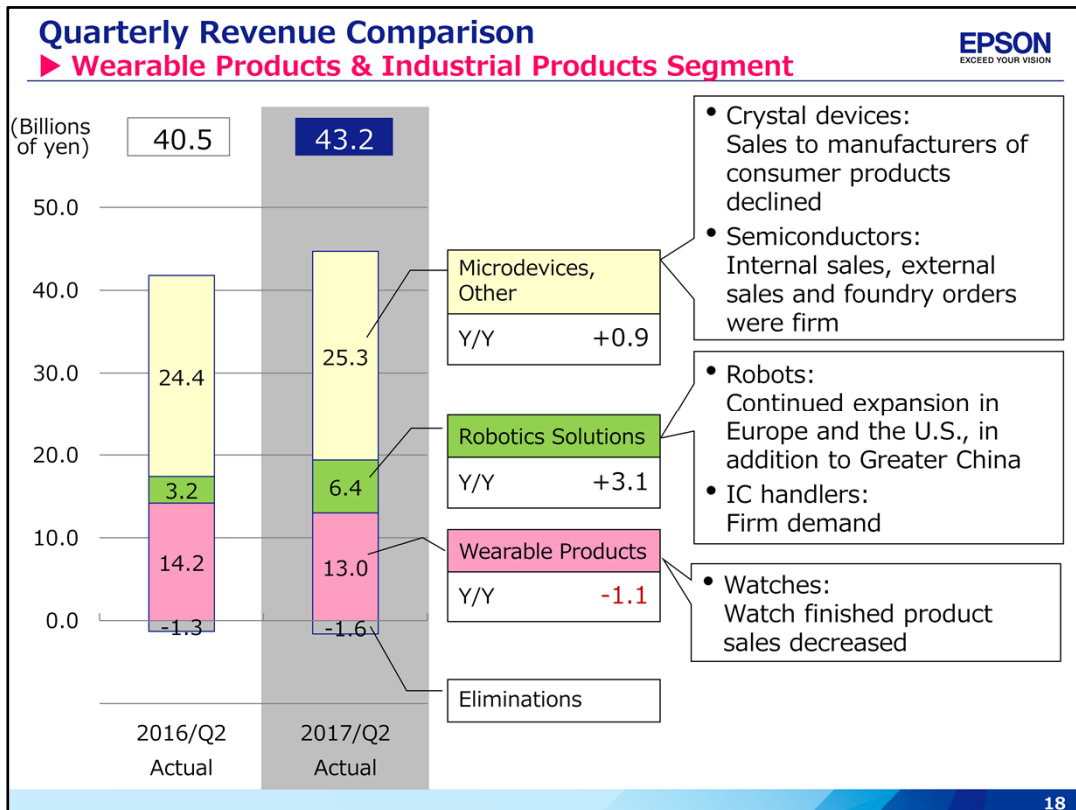
Quarterly Revenue Comparison

▶ Visual Communications Segment

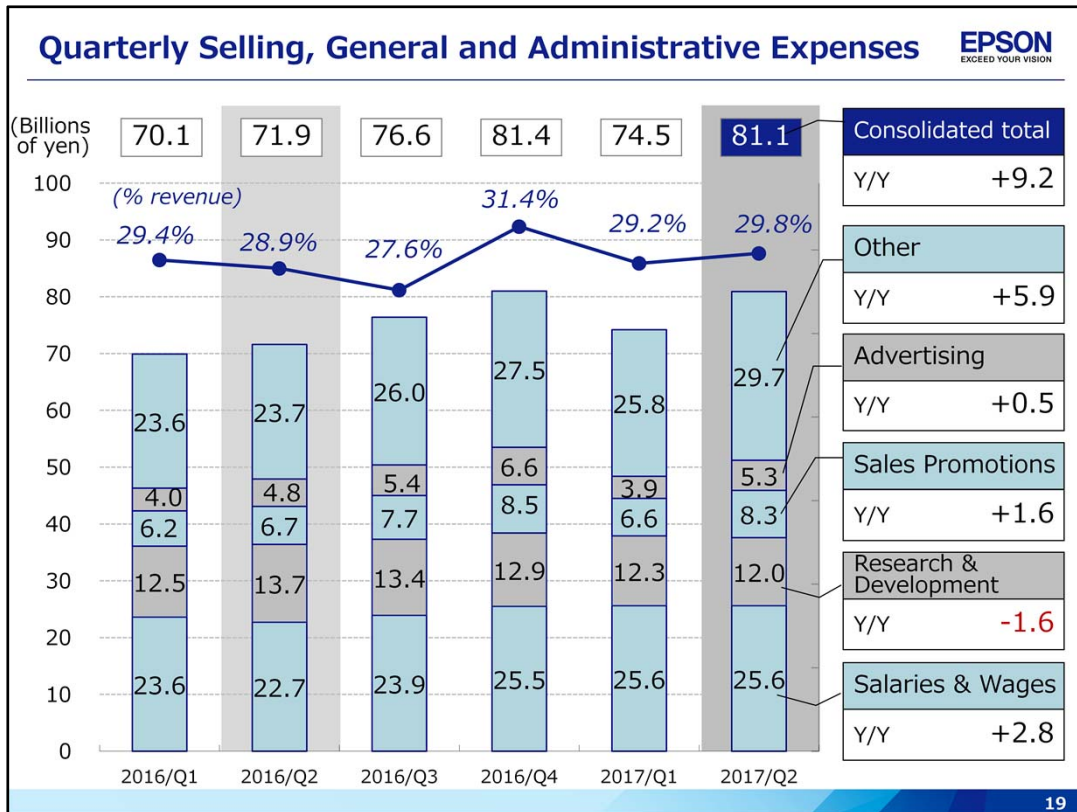


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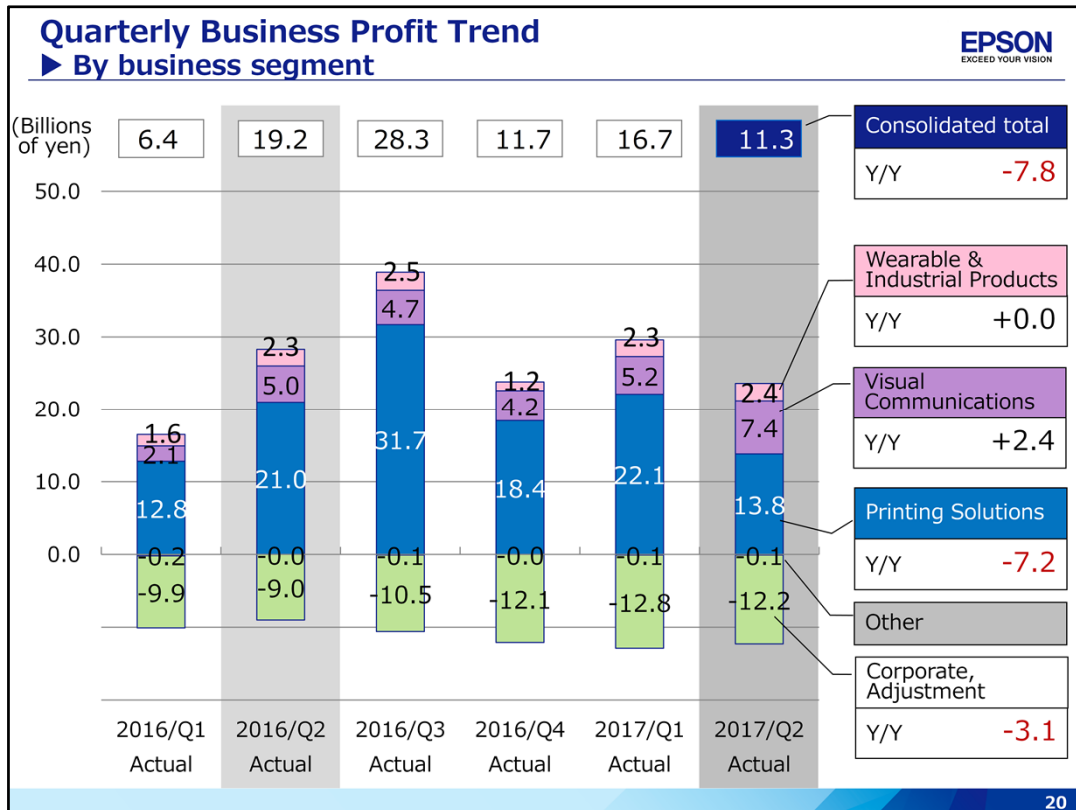
- Quarterly revenue in visual communications segment
- Visual communications revenue jumped sharply despite a soft projector market. Revenue was lifted by a combination of currency effects and ongoing improvements in the model mix, a result of expanded sales of high added value models including high-brightness and home projectors.



- Quarterly revenue in the wearable products & industrial solutions segment
- Wearable products revenue decreased because even though the watch movements business appears to have bottomed out, demand for finished products in Japan and North America was sluggish.
- In robotics solutions as a whole we doubled our revenue from last year. Our robots are being used in a growing number of applications and regions. In addition to the assembly of mobile products in Greater China, our robots are being used in Europe and the U.S. for medical products and in the assembly of automotive parts and electronics. Meanwhile, we also saw strong demand for our IC handlers.
- Revenue in the microdevices and other category increased year-on-year despite lower demand for crystal devices used in consumer products. This increase was due to strong internal sales, external sales, and foundry orders in the semiconductor business, as well as currency effects.



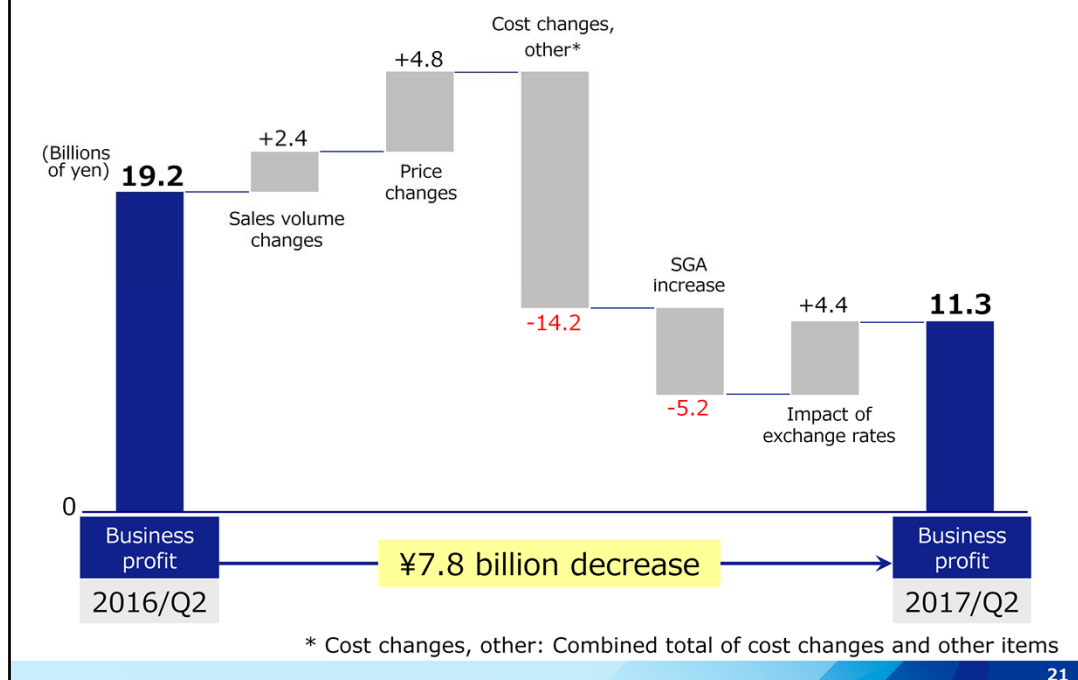
- Quarterly selling, general and administrative expenses
 - SGA expenses increased by ¥9.2 billion compared to the same period last year due to the effects of a weaker yen.
 - Sales promotion expenses and salaries and wages increased mainly because we stepped up promotional campaigns for strategic products and reinforced our sales organization in readiness for the future.
 - Expenses in the Other category increased. In addition to using air transport to make up for production delays resulting from the fire at a supplier's facility, these expenses also increased due to the reallocation of some intellectual property-related expenses to this account.



■ Breakdown of quarterly business profit by segment

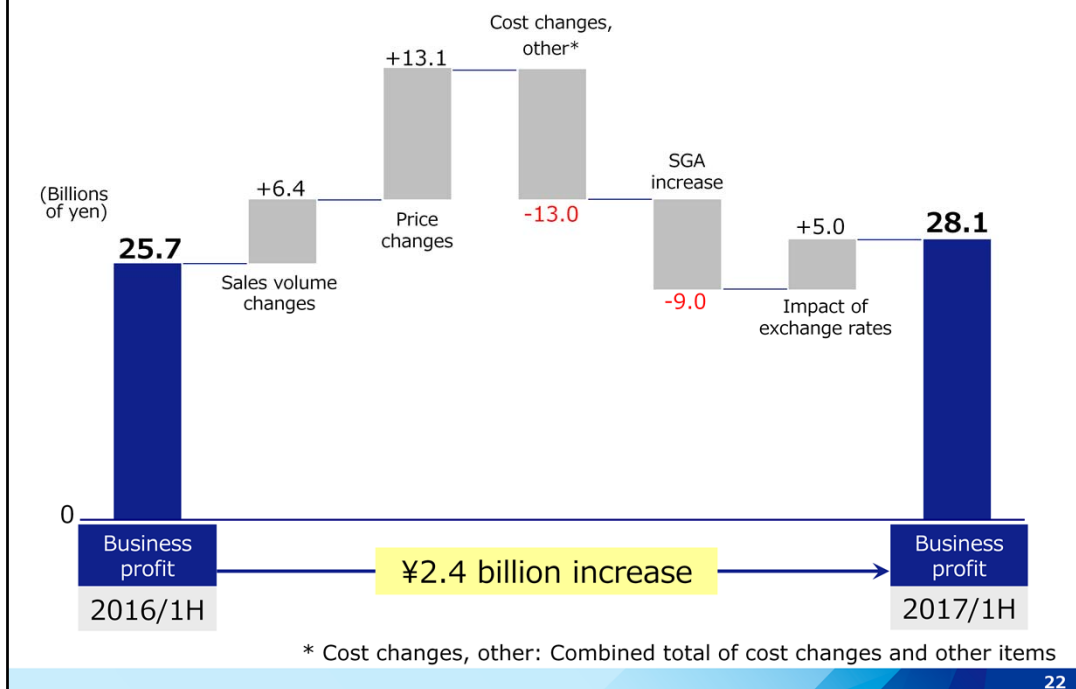
- Printing solutions segment revenue increased but profit fell sharply compared to the same period last year. A number of factors contributed to the drop in profit. Revenue from profitable SIDM printers and ink cartridges declined. Production expenses increased in the second quarter compared to a year ago. This was because ink cartridge printer production that was planned for the first quarter slipped into the second due to production delays resulting from the fire at a supplier's site, and for other reasons.
- Investment in sales infrastructure for high-speed linehead inkjet multifunction printers, the need to air-transport goods to make up for fire-related production delays, and soaring prices for raw materials also contributed to the sharp drop in business profit.
- Visual communications business profit increased on higher projector revenue.
- Wearable products & industrial solutions segment profit was flat year on year, as revenue growth in the robotics solutions and microdevices and other businesses made up for a decline in wearable products revenue.
- Corporate expenses and adjustments increased. In addition to an increase in items such as fixed costs that fluctuate with performance, the increase is attributable to the recognition this year in the corporate segment of some of the intellectual property-related expenses that were formerly allocated to other segments.

Q2 Business Profit Change Cause Analysis

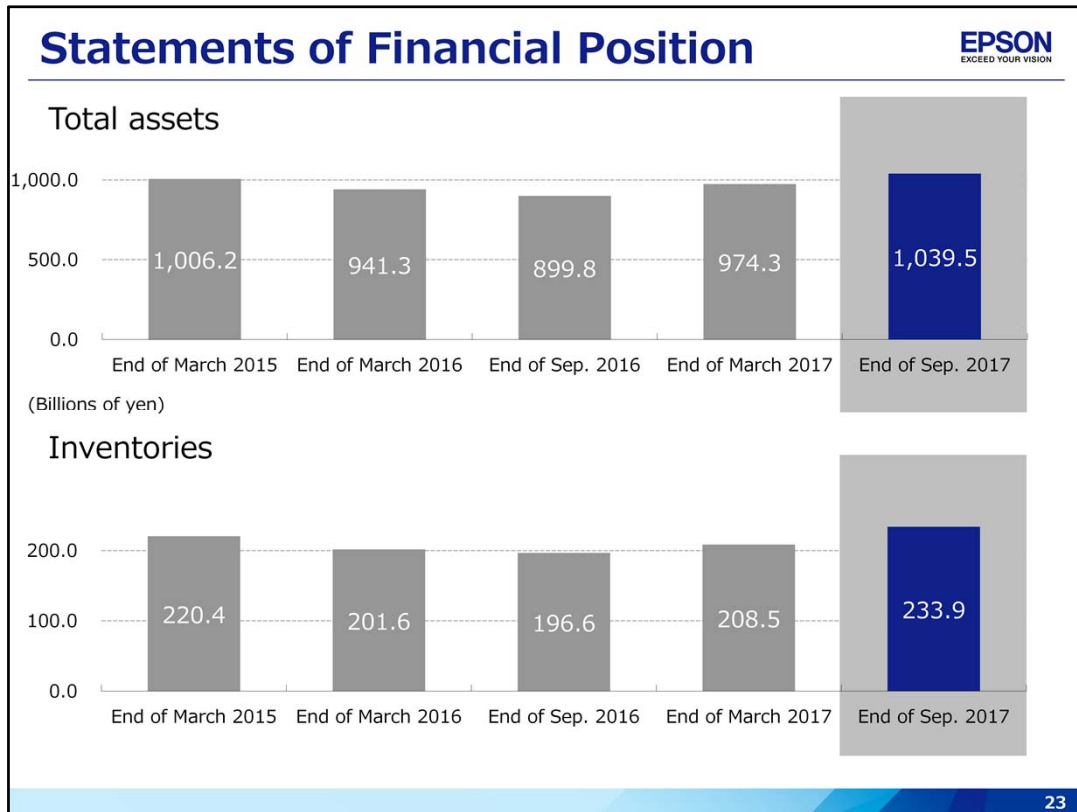


- Cause analysis of factors that affected business profit in the second quarter compared to the same period last year
- Volume changes positively affected business profit. Increased volume in products such as high-capacity ink tank printers, large-format printers, robots, and semiconductors more than offset the negative effects of the year-on-year decline in SIDM printer volume, the decline in watch finished products and crystal devices, and the changes in the ink cartridge mix.
- Price changes positively affected profit. The negative effect of price changes in large-format photo and graphics printers and microdevices were more than offset by strong sales of high-brightness and home projectors, sales of large-format textile printers, and an improved ink cartridge mix.
- Cost changes had a large negative impact on profit. Costs rose in conjunction with an increase in high-capacity ink tank printers, projectors, and other high added value products, as well as because of the increase in production of ink cartridge printers compared to the same period last year.
- The increase in selling, general and administrative expenses was chiefly the result of spending on strengthening the sales organization and increased air transport.

1H Business Profit Change Cause Analysis

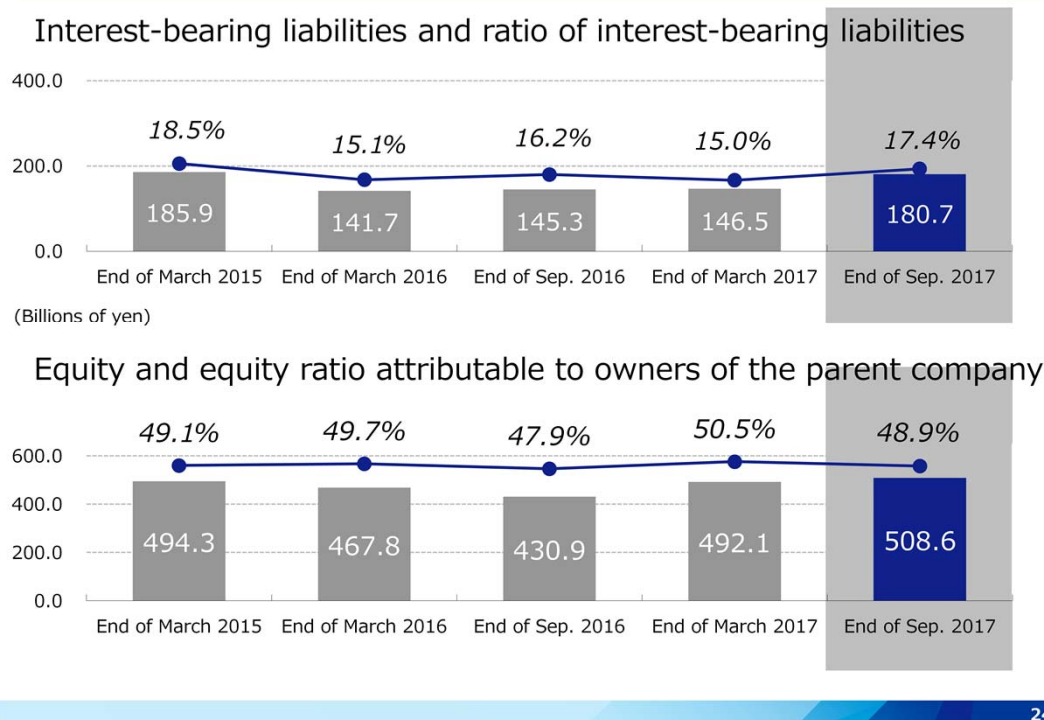


- Cause analysis of factors that affected business profit in the first half compared to the same period last year
- In the second quarter we saw cost changes negatively impact profit to a significant degree. For the first half in total, however, you can see that the positive effects of changes in volume and prices exceeded the negative effects of changes in costs.



- Major items on the statements of financial position
 - Total assets were ¥1,039.5 billion, an increase of ¥65.1 billion compared to the end of last fiscal year. This increase is primarily due to an increase in inventories and an increase in property, plant and equipment due to the completion of a new factory in the Philippines.
 - Inventories increased by ¥25.4 billion from the end of the previous fiscal year, ending at ¥233.9 billion.

Statements of Financial Position



- Major items on the statements of financial position
 - Interest-bearing liabilities were ¥180.7 billion, an increase of ¥34.1 billion compared to the end of the previous fiscal year. The ratio of interest-bearing liabilities to total assets was 17.4%.
 - Net cash was ¥50.7 billion.
 - Equity attributable to owners of the parent company was ¥508.6 billion, up ¥16.4 billion compared to the previous fiscal year-end. The equity ratio attributable to owners of the parent company was 48.9%.

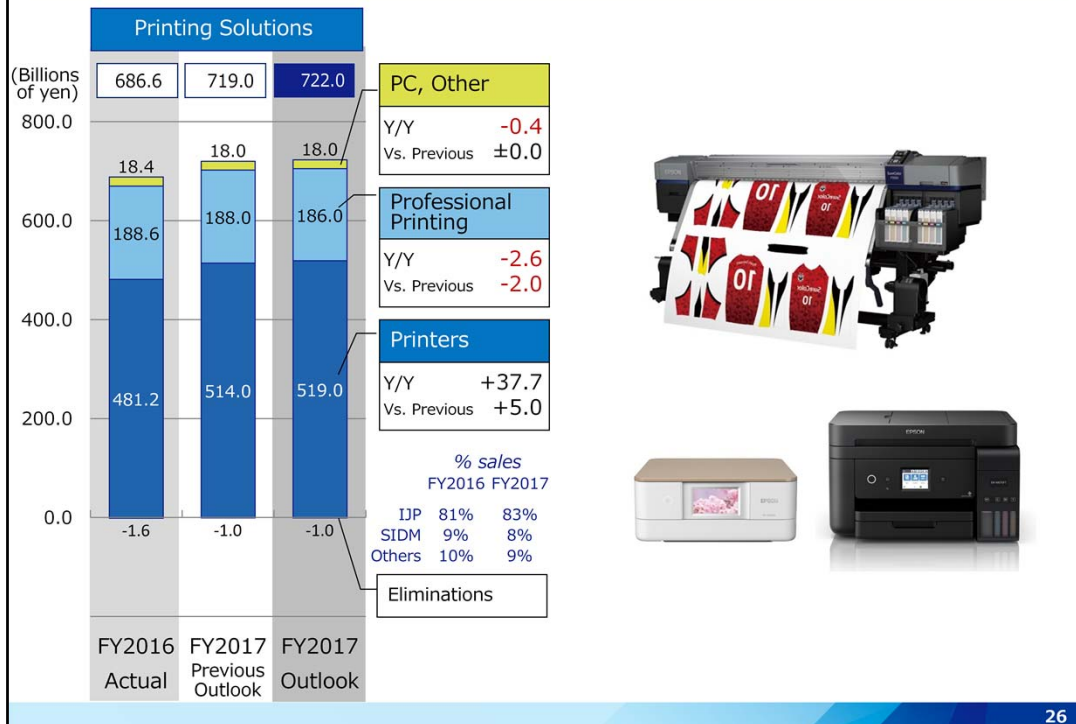
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							Other	-2.8	-1.1

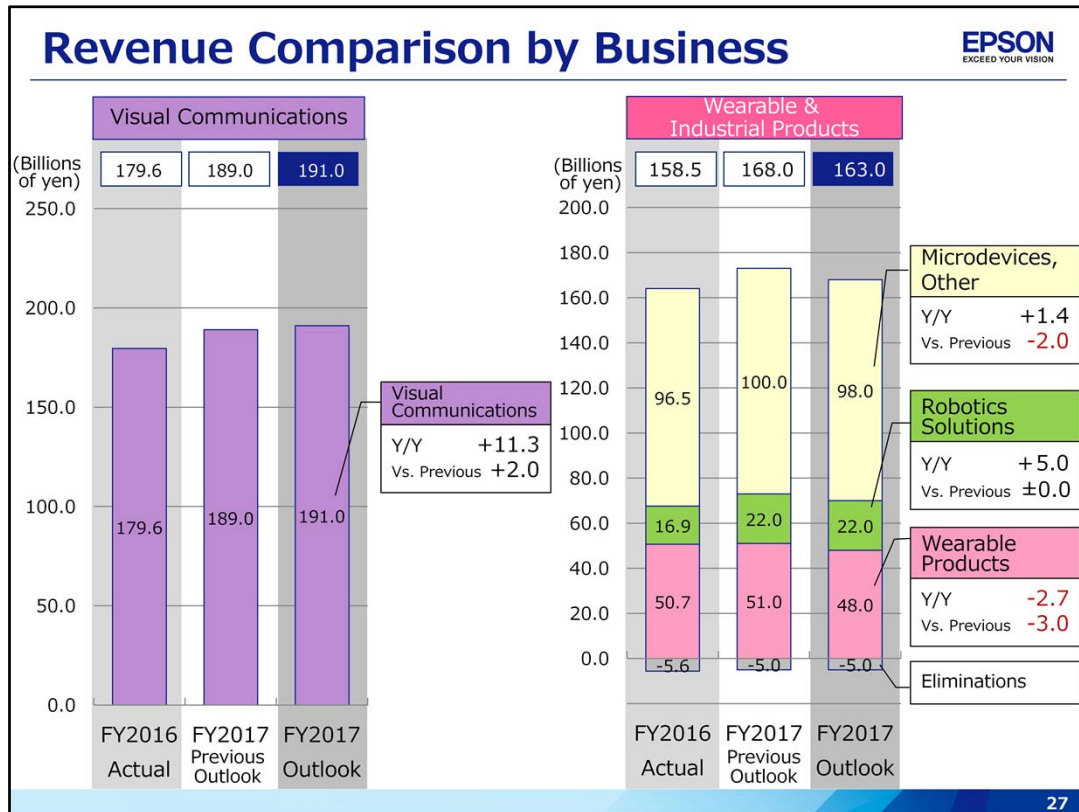
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 Annual impact of a 1% increase in the value of the yen versus other currencies (in billions of yen)

■ FY2017 full-year financial outlook

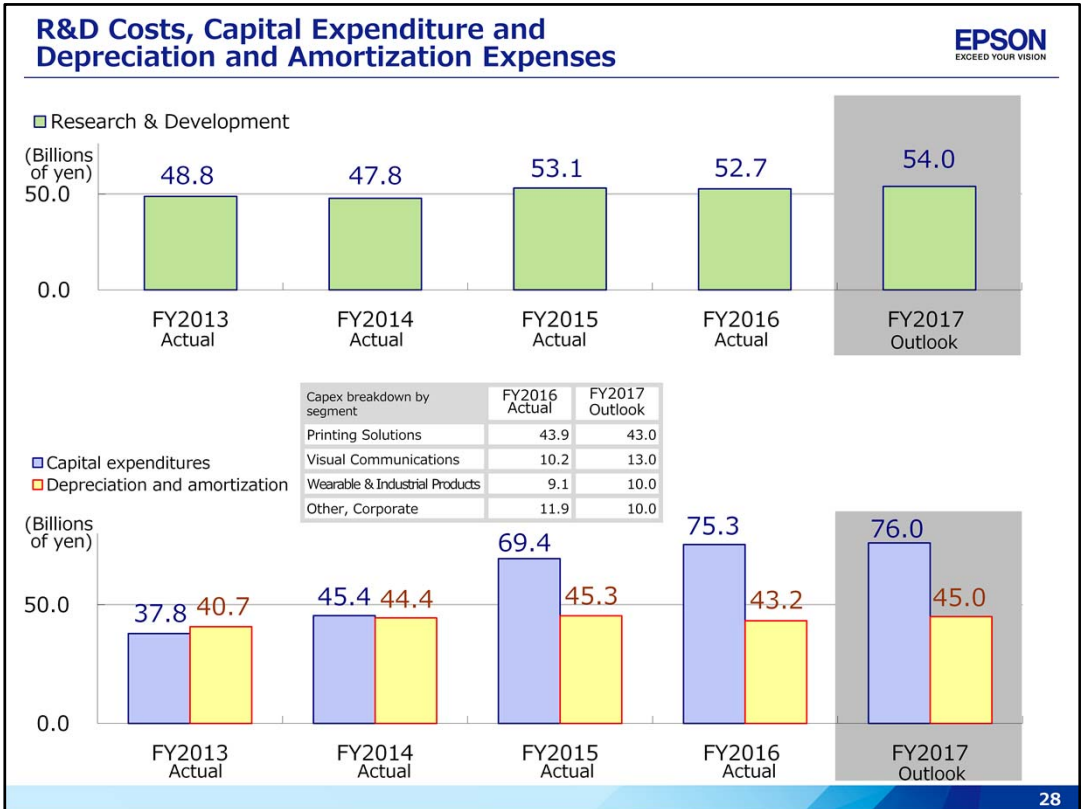
Revenue Comparison by Business



- FY2017 revenue outlook in printing solutions
- In the printer business, we forecast a further increase in unit shipments of high-capacity ink tank printers compared to the previous outlook. We expect steady expansion in the markets of both emerging and advanced economies, with sales being driven in Japan, for example, by enhanced models for home printing, as well as by models that are designed for in-office and in-store use.
- This will result in a more balanced business model that does not rely excessively on sales of ink cartridges.
- We lowered the revenue outlook in professional printing after factoring in the effects of competition in the photo and graphics segment and changes in the product mix for POS printer contracts in North America. However, we are forecasting continued expansion in the signage, textile, and label markets.
- Remember, too, that the full-year revenue outlook in professional printing also reflects an accounting change that resulted in revenue from some photo and graphics printers being recognized in the printer business.

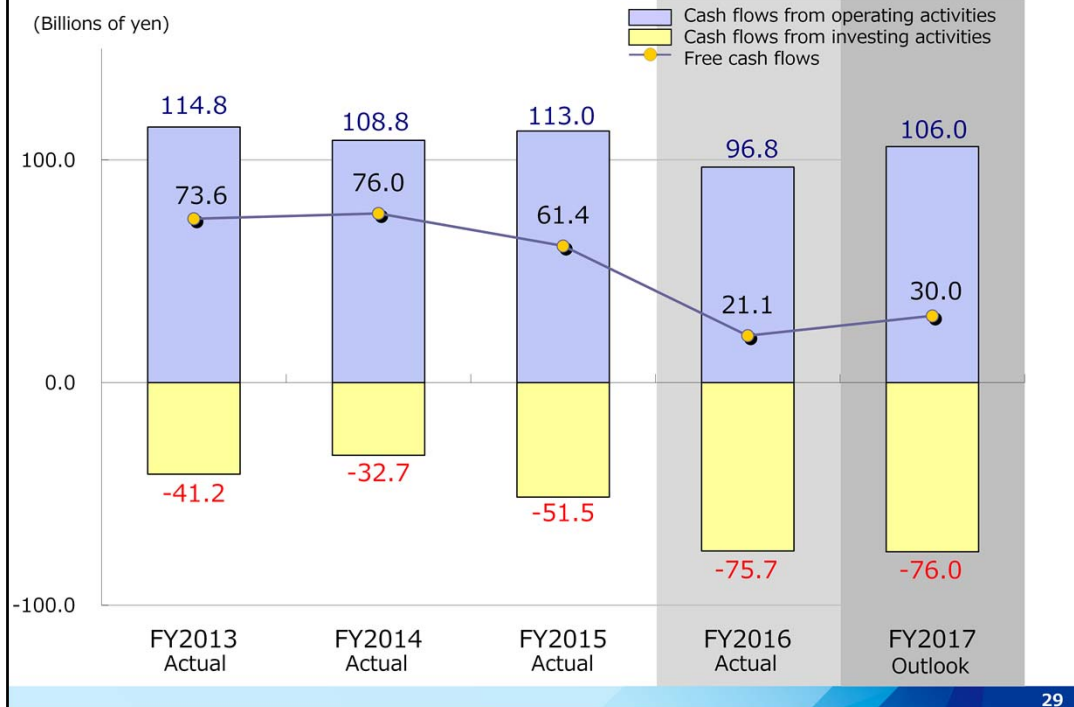


- FY2017 revenue outlook in visual communications and in wearable products & industrial solutions
 - The outlook in visual communications has not changed significantly. As in the previous outlook, we are planning on steady projector volume growth as well as on increased sales of high-brightness models and other high added value products, which will improve the model mix.
 - We lowered the outlook for wearable products given sluggish demand for watch finished products in the U.S. and a slower than expected pace of recovery in the Japanese market.
 - In robotics solutions we expect to expand revenue by meeting demand, as previously forecast.
 - We lowered the revenue outlook in microdevices and other businesses given that growth in crystal devices for mobile equipment in China are seen falling short of expectations. However, we forecast steady semiconductor, superfine alloy metal powder, and surface finishing business revenues.



- Outlook for capital expenditure and depreciation and amortization expenses
 - There has been no change in the outlook for research and development expenses, capital expenditures, and depreciation and amortization.
 - We continue to aggressively invest in future growth.

Free Cash Flows

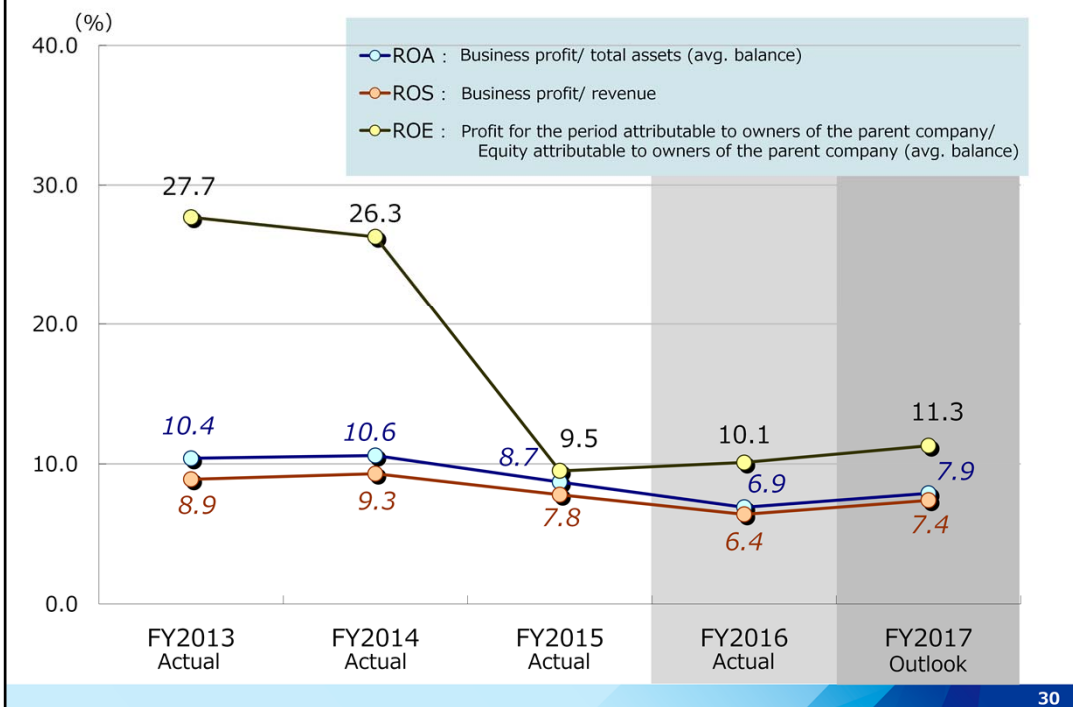


■ Cash flows

- The 2017 fiscal year cash flow outlook has not changed.

We are forecasting ¥106.0 billion in cash flows from operating activities, ¥76.0 billion in cash flows from investing activities, and ¥30.0 billion in free cash flows.

Main Management Indicators



- Main management performance indicators
- ROS of 7.4%, ROA of 7.9%, and ROE of 11.3%.

Reference

Major Business Indicators

(Billions of yen)

		FY2016 Actual	FY2017 Outlook	FY2018 Target
Exchange rate	USD	¥108.38	¥110.00	¥115.00
	EUR	¥118.79	¥125.00	¥125.00
Printing Solutions	Revenue	686.6	722.0	805.0
	Business profit	84.1	101.0	-
Visual Communications	Revenue	179.6	191.0	200.0
	Business profit	16.1	21.0	-
Wearable & Industrial Products	Revenue	158.5	163.0	195.0
	Business profit	7.8	10.0	-
Other	Revenue	1.5	1.0	0.0
	Business profit	-0.4	-1.0	-
Corporate, Adjustment	Revenue	-1.5	-7.0	0.0
	Business profit	-41.7	-52.0	-
Consolidated total	Revenue	1,024.8	1,070.0	1,200.0
	Business profit	65.8	79.0	96.0
	ROS	6.4%	7.4%	8%
	ROE	10.1%	11.3%	Sustain at at least 10%

(Billions of yen)

Category	FY2016 Actual	FY2017 Outlook	3-year cumulative (FY2016-18 business plan)
USD	¥108.38	¥110.00	¥115.00
EUR	¥118.79	¥125.00	¥125.00
Operating CF	96.8	106.0	Approx. 330.0
FCF	21.1	30.0	Approx. 120.0
Capital expenditure	75.3	76.0	Approx. 210.0
R&D costs	52.7	54.0	Invest aggressively

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 Full year (Outlook)
Exchange rate	USD / EUR	¥108.38 / ¥118.79	¥111.08 / ¥122.12	¥111.00 / ¥130.36	¥110.00 / ¥125.00
IJP	Volume	+5%	+7%	+4%	+10%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20% / Approx. 40%	-	-	Less than 20% / More than 45%
	ASP	- high single-digit %	+ low teen %	+ mid-teen %	+ low teen %
	Revenue	- low single-digit %	+ high teen %	Around +20%	+ low 20%
IJP ink	Volume (packs)	-4%	-2%	-3%	-
	ASP	- low single-digit %	+ mid-single-digit %	+ high single-digit %	-
	Revenue	- mid-single-digit %	+ low single-digit %	+ mid-single-digit %	Flat YoY
SIDM printers	Volume	+4%	-25%	-15%	-10%
	ASP	- high teen %	+ low single-digit %	+ high single-digit %	Flat YoY
	Revenue	- mid-teen %	- low 20%	- high single-digit %	Around -10%
Projectors	Volume	+6%	-2%	+1%	+3%
	ASP	- high single-digit %	+ mid-teen %	+ mid-teen %	+ low single-digit %
	Revenue	- low single-digit %	+ low teen %	+ mid-teen %	+ mid-single-digit %

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

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