

## Financial Results for the Second Quarter ended September 30, 2019 [IFRS](Consolidated)

October 30, 2019

Name of the listed company: SEIKO EPSON CORPORATION

Stock Listing: TOKYO

Code: 6724 URL: global.epson.com

Representative: Minoru Usui, President

Inquiries: Tatsuaki Seki, Director, General Administrative Manager of the Management Control Tel: +81-266-52-3131

Scheduled date to file Quarterly Securities Report: November 1, 2019 Scheduled starting date of payment for the dividends: November 29, 2019

Reference materials regarding financial results for the period: Yes

Briefing on quarterly financial results: Yes (for analysts)

(Amounts are rounded down to the nearest million yen)

### 1. Results of Six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

#### (1) Consolidated Operating Results

(%: Change from same period previous year)

	Revenue		Business profit		Profit from operating activities		Profit before tax		Profit for the period		Profit for the period attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2019	516,106	△3.1	19,148	△30.1	19,334	△24.5	19,107	△29.0	12,278	△39.7	12,258	△39.3
Six months ended September 30, 2018	532,377	1.0	27,400	△2.6	25,602	8.1	26,903	16.9	20,365	34.4	20,210	34.8

Note: Total comprehensive income for the period: Six months ended September 30, 2019 ¥4,662 million (△86.3%)

Six months ended September 30, 2018 ¥33,990 million (24.7%)

Business profit is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2019	35.14		35.13	
Six months ended September 30, 2018	57.38		57.36	

#### (2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent company	Equity attributable to owners of the parent company ratio
	Millions of yen	Millions of yen	Millions of yen	%
As of September 30, 2019	1,067,240	525,463	523,230	49.0
As of March 31, 2019	1,038,389	542,747	540,181	52.0

### 2. Cash Dividends

	Cash dividends per share				
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	Year End	Year Total
	Yen				
Year ended March 31, 2019	—	31.00	—	31.00	62.00
Year ending March 31, 2020	—	31.00			
Year ending March 31, 2020 (Forecast)			—	31.00	62.00

Note: Changes from the latest announced forecasts: None

### 3. Forecast for the Fiscal Year ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(%: Change from same period previous year)

	Revenue		Business profit		Profit from operating activities		Profit before tax		Profit for the period		Profit for the year attributable to owners of the parent company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
For the year ending March 31, 2020	1,060,000	△2.7	42,000	△40.4	37,000	△48.1	36,000	△50.0	27,000	△50.0	27,000	△49.7	78.03

Note: Changes from the latest announced forecasts: Yes

※Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting from changes in the scope of consolidation): None

(2) Changes in accounting policies, or changes in accounting estimates

1. Changes in accounting policies required by IFRS: Yes
2. Changes in accounting policies other than the changes above: None
3. Changes in accounting estimates: None

For details, please refer to page 14 “Notes to Consolidated Financial Statements 2. Changes in Accounting Policies”.

(3) Number of shares outstanding

1. Issued shares (including treasury shares):
2. Treasury shares:
3. Average number of shares:

			(share)
As of September 30, 2019	399,634,778	As of March 31, 2019	399,634,778
As of September 30, 2019	53,602,264	As of March 31, 2019	47,397,639
Six months ended September 30, 2019	348,836,990	Six months ended September 30, 2018	352,228,568

※This report is not reviewed by certified public accountants nor auditors.

※Explanation of appropriate use of forecast and other special items

(Cautionary statement concerning forward-looking statements)

This report includes forward-looking statements that are based on management’s view from the information available at the time of the announcement. These statements are subject to various risks and uncertainties. Actual results may be materially different from those discussed in the forward-looking statements. The factors that may affect Epson include, but are not limited to, general economic conditions, the ability of Epson to continue to timely introduce new products and services in markets, consumption trends, competition, technology trends, and exchange rate fluctuations.

Assumptions for the forecasts and warnings for users of the forecasts are available on page 4 “Qualitative Information Regarding the Consolidated Financial Outlook”.

(How to access supplementary explanations and details of briefing on financial results)

The Company is scheduled to hold a briefing for analysts on financial results on Wednesday, October 30, 2019 and to post materials used at the briefing on the Company’s website on that day.

U.S. dollar amounts are presented for the convenience of the readers. This translation should not be construed to imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars. The exchange rate of ¥107.91 = U.S.\$1 at the end of the reporting period has been used for the purpose of presentation.

## Operating Performance Highlights and Financial Condition

### Fiscal 2019 First-Half (April 1 to September 30, 2019) Overview

The global economy generally continued to gradually recover during the first half of the year under review, but there were signs in certain regions of economic deceleration and mounting uncertainty due to the effects of U.S.-China trade friction and other factors. An expansion of the effects of U.S.-China trade friction and the direction of Brexit are among the factors fueling a growing sense of uncertainty and concern of further economic deceleration. Regionally, the U.S., European, and Japanese economies continue to recover on the whole, but the Chinese economy is gradually slowing due in large part to ongoing trade friction with the U.S. Meanwhile, in India, some parts of Latin America, and other emerging nations, the slowing trend continued.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the first two quarters of the fiscal year were ¥108.62 and ¥121.44, respectively. This represents a 1% appreciation in the value of the yen against the dollar and a 6% appreciation in the value of the yen against the euro, year on year. The yen also rose against the currencies of some emerging countries, in places such as China and Latin America.

Against this backdrop, Epson recorded ¥516.1 billion in revenue for the period, a 3.1% decrease compared to the same period last year. Although certain market factors led to extra demand for, and revenue growth in, POS system products and PCs in the printing solutions segment, total revenue decreased because, in addition to negative foreign exchange effects associated with the rise of the yen, revenue declined mainly in the visual communications segment and wearable & industrial products segment. Business profit was ¥19.1 billion, a 30.1% decrease from the same period last year. Epson is investing more efficiently in future growth by tightening the focus on core competencies, but business profit was heavily impacted by a fall in revenue associated with the deteriorating external environment and by negative foreign exchange effects. Profit from operating activities was ¥19.3 billion, down 24.5% year on year. Profit before tax was ¥19.1 billion, down 29.0% year on year. And profit for the period attributable to owners of the parent company was ¥12.2 billion, down 39.3% year on year.

A breakdown of the financial results in each reporting segment is provided below.

### Printing Solutions Segment

Printer business revenue decreased. Office/ Home inkjet printer revenue as a whole increased. Although sales of high-capacity ink tank printers declined in China, India, and some other regions where markets were sluggish, sales increased in North America, Western Europe, Japan, and other advanced economies owing to stepped up sales promotions and product-awareness building campaigns aimed at end-users. Meanwhile, SOHO/ Home ink cartridge printer revenue decreased chiefly due to a combination of negative foreign exchange effects and shrinking sales, the result of limiting promotions and maintaining prices even as competitors aggressively stepped up their own price promotions. Consumables revenue decreased. Although revenue from ink bottles for high-capacity ink tank printers grew, ink cartridge sales slipped

along with the SOHO/ Home ink cartridge printer install base. Foreign exchange effects also negatively impacted consumables revenue. Serial impact dot matrix printer revenue decreased due to a decline in sales associated with market contraction and negative foreign exchange effects.

Revenue in the professional printing business increased. Commercial and industrial inkjet printer revenue moved sideways due to negative foreign exchange effects, which offset ongoing solid demand in the growing signage and textile printer markets. POS system product revenue grew on increased demand associated with tax reforms in Italy.

Other revenue increased due to a rise in PC demand as users upgrade their operating systems.

Segment profit in the printing solutions business decreased despite revenue growth in areas such as POS system products and PCs. The decrease was a result of strategic investment in future growth as well as negative foreign exchange effects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥341.2 billion, down 1.0% year on year. Segment profit was ¥34.4 billion, down 5.1% year on year.

## Visual Communications Segment

Visual communications revenue decreased despite firm demand for high added value laser projectors. In addition to stagnant projector demand in North America, China, India, and some other regions, the decrease in revenue was due to a contraction in shipments of other 3LCD projectors compared to the same period last year, when demand spiked ahead of the FIFA World Cup, as well as to negative foreign exchange effects.

Although Epson is streamlining its investments in future growth, segment profit in the visual communications segment declined on lower revenue as well as negative foreign exchange effects.

As a result of the foregoing factors, revenue in the visual communications segment was ¥98.9 billion, down 6.2% year on year. Segment profit was ¥10.4 billion, down 22.1% year on year.

## Wearable & Industrial Products Segment

Revenue in the wearable products business decreased due to a decline in watch volume and a subdued watch movements market.

Revenue in the robotics solutions business fell sharply due to a pullback in capital expenditure in the Greater China Region as trade friction between the U.S. and China escalated, as well as to a diminishing appetite for capital spending in Europe and the Americas.

Revenue in the microdevices business decreased, as quartz crystal devices business revenue moved sideways while semiconductor revenue fell on lower foundry demand. Foreign exchange also negatively affected revenue.

Segment profit in the wearable & industrial products segment declined mainly in response to a drop in

robotics solutions revenue and foreign exchange effects.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥77.4 billion, down 7.9% year on year. Segment loss was ¥1.0 billion compared to a ¥3.4 billion segment profit in the same period last year.

## Other

Other revenue amounted to ¥0.4 billion, up 5.7% year on year. Segment loss was ¥0.3 billion. Segment loss was ¥0.2 billion in the same period last year.

## Adjustments

Adjustments to the total profit of reporting segments amounted to negative ¥24.4 billion. (Adjustments in the same period last year were negative ¥25.5 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the reporting segments and expenses associated with things such as new businesses and corporate functions.

## **Liquidity and Financial Position**

### Assets, Liabilities, and Equity

Total assets at the end of the second quarter were ¥1,067.2 billion, an increase of ¥28.8 billion from the previous fiscal year end. Although trade and other receivables decreased by ¥11.5 billion, this decrease was more than offset by a ¥31.2 billion increase in property, plant and equipment resulting primarily from an accounting policy change (the application of a new lease accounting standard) and a ¥9.8 billion increase in inventories.

Total liabilities were ¥541.7 billion, up ¥46.1 billion compared to the end of the last fiscal year. Although there was a ¥14.2 billion decrease in trade and other payables and a ¥5.6 billion decrease in other current liabilities, total liabilities increased mainly because of a ¥69.5 billion increase in bonds issued and in borrowings and lease liabilities resulting mainly from an accounting policy change (the application of a new lease accounting standard) and an issue of corporate bonds.

The equity attributable to owners of the parent company totaled ¥523.2 billion, a ¥16.9 billion decrease compared to the previous fiscal year end. This decrease was primarily due to ¥10.9 billion in dividend payments and a ¥10.0 billion purchase of treasury shares.

### Cash Flows

Net cash from operating activities for the first two quarters of the year totaled ¥28.4 billion (compared to ¥20.7 billion in the same period last year). Whereas Epson recorded ¥12.2 billion in profit for the period, there was an ¥18.4 billion increase in inventories and ¥6.5 billion in income taxes paid. However, net cash increased primarily owing to the recording of ¥33.1 billion in depreciation and amortization and a ¥7.0 billion decrease in notes and accounts receivable-trade.

Net cash used in investing activities totaled ¥41.9 billion (compared to ¥45.4 billion in the same period last year), mainly because Epson used ¥41.9 billion in the acquisition of property, plant, equipment and

purchase of intangible assets.

Net cash from financing activities totaled ¥15.0 billion, whereas ¥28.3 billion was used in the same period last year. While non-current borrowings increased by ¥29.9 billion and there was a ¥29.8 billion bond issue, items such as the ¥10.9 billion in dividends paid, a ¥10.0 billion purchase of treasury shares, a ¥10.0 billion redemption of bonds payable, and a ¥9.9 billion net decrease in current borrowings added to net cash from financing activities.

As a result of the foregoing, the balance of cash and cash equivalents at the end of the second quarter totaled ¥172.6 billion compared to ¥179.2 billion in the same period last year.

## **Qualitative Information Regarding the Consolidated Financial Outlook**

The Company revised its full-year consolidated financial outlook after adjusting its exchange rate assumptions in light of the rise in the value of the yen and based on factors such as market conditions. The figures in the outlook are based on assumed exchange rates from the third quarter of 105.00 yen to the U.S. dollar and 115.00 yen to the euro.

### **Consolidated Full-Year Financial Outlook**

	FY2018	Previous Outlook (A)	Current Outlook (B)	Change (B - A)	
Revenue	¥1,089.6 billion	¥1,130.0 billion	¥1,060.0 billion	-¥70.0 billion	(-6.2%)
Business profit	¥70.4 billion	¥65.0 billion	¥42.0 billion	-¥23.0 billion	(-35.4%)
Profit from operating activities	¥71.3 billion	¥60.0 billion	¥37.0 billion	-¥23.0 billion	(-38.3%)
Profit before tax	¥72.0 billion	¥59.0 billion	¥36.0 billion	-¥23.0 billion	(-39.0%)
Profit for the period	¥54.0 billion	¥45.0 billion	¥27.0 billion	-¥18.0 billion	(-40.0%)
Profit for the year attributable to owners of the parent company	¥53.7 billion	¥45.0 billion	¥27.0 billion	-¥18.0 billion	(-40.0%)
Foreign exchange rates	1 USD = ¥110.86	1 USD = ¥110.00	1 USD = ¥107.00		
	1 EUR = ¥128.40	1 EUR = ¥125.00	1 EUR = ¥118.00		

# SEIKO EPSON CORPORATION

## Quarterly Condensed Consolidated Statement of Financial Position

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	September 30, 2019	September 30, 2019
<u>Assets</u>			
Current assets			
Cash and cash equivalents	175,238	172,652	1,599,962
Trade and other receivables	173,173	161,602	1,497,562
Inventories	250,763	260,636	2,415,309
Income tax receivables	3,994	3,737	34,630
Other financial assets	1,466	3,509	32,517
Other current assets	17,938	17,448	161,690
Total current assets	622,575	619,587	5,741,701
Non-current assets			
Property, plant and equipment	321,956	353,181	3,272,921
Intangible assets	25,191	28,257	261,857
Investment property	1,461	1,200	11,120
Investments accounted for using the equity method	1,571	1,458	13,511
Net defined benefit assets	-	9	83
Other financial assets	17,907	18,937	175,488
Other non-current assets	6,028	1,738	16,106
Deferred tax assets	41,696	42,870	397,275
Total non-current assets	415,814	447,653	4,148,392
Total assets	1,038,389	1,067,240	9,890,093

# SEIKO EPSON CORPORATION

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	September 30, 2019	September 30, 2019
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	144,399	130,103	1,205,662
Income tax payables	3,814	4,902	45,426
Bonds issued, borrowings and lease liabilities	21,363	13,758	127,495
Other financial liabilities	331	240	2,224
Provisions	12,677	10,940	101,380
Other current liabilities	114,887	109,268	1,012,584
<b>Total current liabilities</b>	<b>297,473</b>	<b>269,213</b>	<b>2,494,791</b>
<b>Non-current liabilities</b>			
Bonds issued, borrowings and lease liabilities	120,987	198,150	1,836,252
Other financial liabilities	1,955	2,075	19,228
Net defined benefit liabilities	53,498	51,684	478,954
Provisions	9,134	8,274	76,675
Other non-current liabilities	11,697	11,479	106,375
Deferred tax liabilities	894	897	8,312
<b>Total non-current liabilities</b>	<b>198,169</b>	<b>272,563</b>	<b>2,525,836</b>
<b>Total liabilities</b>	<b>495,642</b>	<b>541,777</b>	<b>5,020,637</b>
<b>Equity</b>			
Share capital	53,204	53,204	493,040
Capital surplus	84,427	84,447	782,568
Treasury shares	(30,788)	(40,798)	(378,074)
Other components of equity	50,440	39,903	369,780
Retained earnings	382,897	386,474	3,581,447
<b>Equity attributable to owners of the parent company</b>	<b>540,181</b>	<b>523,230</b>	<b>4,848,762</b>
Non-controlling interests	2,565	2,233	20,693
<b>Total equity</b>	<b>542,747</b>	<b>525,463</b>	<b>4,869,456</b>
<b>Total liabilities and equity</b>	<b>1,038,389</b>	<b>1,067,240</b>	<b>9,890,093</b>



# SEIKO EPSON CORPORATION

## Quarterly Condensed Consolidated Statement of Comprehensive Income Six months ended September 30, 2018 and 2019:

	Millions of yen		Thousands of
	Six months ended		U.S. dollars
	September 30,		Six months ended
	2018	2019	September 30, 2019
Revenue	532,377	516,106	4,782,744
Cost of sales	(340,806)	(336,625)	(3,119,497)
Gross profit	191,571	179,480	1,663,237
Selling, general and administrative expenses	(164,170)	(160,331)	(1,485,784)
Other operating income	1,125	1,286	11,917
Other operating expense	(2,924)	(1,101)	(10,202)
Profit from operating activities	25,602	19,334	179,167
Finance income	2,221	1,133	10,499
Finance costs	(980)	(1,394)	(12,918)
Share of profit of investments accounted for using the equity method	59	35	324
Profit before tax	26,903	19,107	177,064
Income taxes	(6,537)	(6,829)	(63,284)
Profit for the period	20,365	12,278	113,780
Profit for the period attributable to:			
Owners of the parent company	20,210	12,258	113,594
Non-controlling interests	155	19	176
Profit for the period	20,365	12,278	113,780

# SEIKO EPSON CORPORATION

	Millions of yen		Thousands of U.S. dollars
	Six months ended September 30,		Six months ended September 30,
	2018	2019	2019
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss, net of tax			
Remeasurement of net defined benefit liabilities (assets)	3,182	3,085	28,588
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	41	42	389
Subtotal	3,224	3,128	28,987
Items that may be reclassified subsequently to profit or loss, net of tax			
Exchange differences on translation of foreign operations	11,322	(11,720)	(108,609)
Net changes in fair value of cash flow hedges	(910)	1,013	9,387
Share of other comprehensive income of investments accounted for using the equity method	(10)	(37)	(342)
Subtotal	10,401	(10,744)	(99,564)
Total other comprehensive income, net of tax	13,625	(7,616)	(70,577)
Total comprehensive income for the period	33,990	4,662	43,202
Total comprehensive income for the period attributable to:			
Owners of the parent company	33,847	4,806	44,537
Non-controlling interests	143	(144)	(1,334)
Total comprehensive income for the period	33,990	4,662	43,202

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

	Yen		U.S. dollars
	Six months ended September 30,		Six months ended September 30,
	2018	2019	2019
Earnings per share for the period:			
Basic earnings per share for the period	57.38	35.14	0.33
Diluted earnings per share for the period	57.36	35.13	0.33

# SEIKO EPSON CORPORATION

## Quarterly Condensed Consolidated Statement of Comprehensive Income Three months ended September 30, 2018 and 2019:

	Millions of yen		Thousands of U.S. dollars
	Three months ended September 30,		Three months ended September 30,
	2018	2019	2019
Revenue	271,917	266,478	2,469,446
Cost of sales	(174,368)	(171,731)	(1,591,428)
Gross profit	97,549	94,747	878,018
Selling, general and administrative expenses	(84,772)	(80,110)	(742,377)
Other operating income	1,385	1,367	12,667
Other operating expense	(2,051)	(99)	(917)
Profit from operating activities	12,110	15,905	147,391
Finance income	897	832	7,710
Finance costs	(476)	(524)	(4,855)
Share of profit of investments accounted for using the equity method	37	30	278
Profit before tax	12,569	16,242	150,514
Income taxes	(3,429)	(4,213)	(39,041)
Profit for the period	9,139	12,029	111,472
Profit for the period attributable to:			
Owners of the parent company	9,043	12,009	111,287
Non-controlling interests	96	19	176
Profit for the period	9,139	12,029	111,472

# SEIKO EPSON CORPORATION

	Millions of yen		Thousands of
	Three months ended		U.S. dollars
	September 30,		Three months ended
	2018	2019	September 30, 2019
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss, net of tax			
Remeasurement of net defined benefit liabilities (assets)	2,013	1,481	13,724
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	199	328	3,039
Subtotal	2,212	1,810	16,773
Items that may be reclassified subsequently to profit or loss, net of tax			
Exchange differences on translation of foreign operations	6,392	(2,910)	(26,966)
Net changes in fair value of cash flow hedges	(1,738)	697	6,459
Share of other comprehensive income of investments accounted for using the equity method	(4)	(14)	(129)
Subtotal	4,649	(2,227)	(20,637)
Total other comprehensive income, net of tax	6,861	(416)	(3,855)
Total comprehensive income for the period	16,000	11,612	107,608
Total comprehensive income for the period attributable to:			
Owners of the parent company	15,909	11,652	107,978
Non-controlling interests	91	(39)	(361)
Total comprehensive income for the period	16,000	11,612	107,608

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

	Yen		U.S. dollars
	Three months ended		Three months ended
	September 30,		September 30,
	2018	2019	2019
Earnings per share for the period:			
Basic earnings per share for the period	25.67	34.63	0.32
Diluted earnings per share for the period	25.66	34.61	0.32

**Quarterly Condensed Consolidated Statement of Changes in Equity****Six months ended September 30, 2018 and 2019:**

	Millions of yen											
	Equity attributable to owners of the parent company										Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity					Retained earnings	Total equity attributable to owners of the parent company		
				Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity				
As of April 1, 2018	53,204	84,364	(30,803)	—	4,658	42,970	331	47,960	358,001	512,727	2,378	515,106
Cumulative effects of change in accounting policy	—	—	—	—	—	—	—	—	330	330	—	330
As of April 1, 2018 (restated)	53,204	84,364	(30,803)	—	4,658	42,970	331	47,960	358,332	513,058	2,378	515,437
Profit for the period	—	—	—	—	—	—	—	—	20,210	20,210	155	20,365
Other comprehensive income	—	—	—	3,182	41	11,323	(910)	13,637	—	13,637	(12)	13,625
Total comprehensive income for the period	—	—	—	3,182	41	11,323	(910)	13,637	20,210	33,847	143	33,990
Acquisition of treasury shares	—	—	(0)	—	—	—	—	—	—	(0)	—	(0)
Dividends	—	—	—	—	—	—	—	—	(11,271)	(11,271)	(120)	(11,391)
Share-based payment transactions	—	33	—	—	—	—	—	—	—	33	—	33
Transfer from other components of equity to retained earnings	—	—	—	(3,182)	19	—	—	(3,163)	3,163	—	—	—
Total transactions with the owners	—	33	(0)	(3,182)	19	—	—	(3,163)	(8,107)	(11,238)	(120)	(11,358)
As of September 30, 2018	53,204	84,398	(30,803)	—	4,719	54,294	(579)	58,434	370,434	535,667	2,401	538,069

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

# SEIKO EPSON CORPORATION

Millions of yen												
Equity attributable to owners of the parent company												
	Share capital	Capital surplus	Treasury shares	Other components of equity					Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
				Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity				
As of April 1, 2019	53,204	84,427	(30,788)	-	2,234	48,069	136	50,440	382,897	540,181	2,565	542,747
Cumulative effects of change in accounting policy	-	-	-	-	-	-	-	-	(847)	(847)	-	(847)
As of April 1, 2019 (restated)	53,204	84,427	(30,788)	-	2,234	48,069	136	50,440	382,049	539,333	2,565	541,899
Profit for the period	-	-	-	-	-	-	-	-	12,258	12,258	19	12,278
Other comprehensive income	-	-	-	3,085	42	(11,594)	1,013	(7,452)	-	(7,452)	(163)	(7,616)
Total comprehensive income for the period	-	-	-	3,085	42	(11,594)	1,013	(7,452)	12,258	4,806	(144)	4,662
Acquisition of treasury shares	-	-	(10,020)	-	-	-	-	-	-	(10,020)	-	(10,020)
Dividends	-	-	-	-	-	-	-	-	(10,919)	(10,919)	(188)	(11,108)
Share-based payment transactions	-	19	10	-	-	-	-	-	-	30	-	30
Transfer from other components of equity to retained earnings	-	-	-	(3,085)	-	-	-	(3,085)	3,085	-	-	-
Total transactions with the owners	-	19	(10,010)	(3,085)	-	-	-	(3,085)	(7,834)	(20,909)	(188)	(21,098)
As of September 30, 2019	53,204	84,447	(40,798)	-	2,277	36,475	1,150	39,903	386,474	523,230	2,233	525,463

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Thousands of U.S. dollars												
Equity attributable to owners of the parent company												
	Share capital	Capital surplus	Treasury shares	Other components of equity					Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
				Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity				
As of April 1, 2019	493,040	782,383	(285,311)	-	20,702	445,454	1,260	467,426	3,548,299	5,005,847	23,769	5,029,626
Cumulative effects of change in accounting policy	-	-	-	-	-	-	-	-	(7,849)	(7,849)	-	(7,849)
As of April 1, 2019 (restated)	493,040	782,383	(285,311)	-	20,702	445,454	1,260	467,426	3,540,441	4,997,989	23,769	5,021,768
Profit for the period	-	-	-	-	-	-	-	-	113,594	113,594	176	113,780
Other comprehensive income	-	-	-	28,588	389	(107,441)	9,387	(69,057)	-	(69,057)	(1,510)	(70,577)
Total comprehensive income for the period	-	-	-	28,588	389	(107,441)	9,387	(69,057)	113,594	44,537	(1,334)	43,202
Acquisition of treasury shares	-	-	(92,855)	-	-	-	-	-	-	(92,855)	-	(92,855)
Dividends	-	-	-	-	-	-	-	-	(101,186)	(101,186)	(1,742)	(102,937)
Share-based payment transactions	-	176	92	-	-	-	-	-	-	278	-	278
Transfer from other components of equity to retained earnings	-	-	-	(28,588)	-	-	-	(28,588)	28,588	-	-	-
Total transactions with the owners	-	176	(92,762)	(28,588)	-	-	-	(28,588)	(72,597)	(193,763)	(1,742)	(195,514)
As of September 30, 2019	493,040	782,568	(378,074)	-	21,100	338,013	10,657	369,780	3,581,447	4,848,762	20,693	4,869,456

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

# SEIKO EPSON CORPORATION

## Quarterly Condensed Consolidated Statement of Cash Flows

### Six months ended September 30, 2018 and 2019:

	Millions of yen		Thousands of U.S. dollars
	Six months ended		Six months ended
	September 30,		September 30,
	2018	2019	2019
<b>Cash flows from operating activities</b>			
Profit for the period	20,365	12,278	113,780
Depreciation and amortisation	27,576	33,199	307,654
Impairment loss (reversal of impairment loss)	563	199	1,844
Finance (income) costs	(1,241)	261	2,418
Share of (profit) loss of investments accounted for using the equity method	(59)	(35)	(324)
Loss (gain) on sale and disposal of property, plant and equipment, intangible assets and investment property	96	346	3,206
Income taxes	6,537	6,829	63,284
Decrease (increase) in trade receivables	156	7,089	65,693
Decrease (increase) in inventories	(24,601)	(18,402)	(170,530)
Increase (decrease) in trade payables	6,355	6,263	58,039
Increase (decrease) in net defined benefit liabilities	573	1,408	13,047
Other	(6,179)	(15,069)	(139,644)
<b>Subtotal</b>	<b>30,142</b>	<b>34,369</b>	<b>318,496</b>
Interest and dividends income received	1,114	1,179	10,925
Interest expenses paid	(712)	(540)	(5,004)
Income taxes paid	(9,797)	(6,562)	(60,809)
<b>Net cash from (used in) operating activities</b>	<b>20,746</b>	<b>28,445</b>	<b>263,599</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities	-	(91)	(843)
Purchase of property, plant and equipment	(37,370)	(38,081)	(352,895)
Proceeds from sale of property, plant and equipment	1,382	532	4,930
Purchase of intangible assets	(6,377)	(3,905)	(36,187)
Proceeds from sale of intangible assets	2	4	37
Proceeds from sale of investment property	22	4	37
Purchase of investments in subsidiaries	(887)	-	-
Other	(2,268)	(403)	(3,734)
<b>Net cash from (used in) investing activities</b>	<b>(45,495)</b>	<b>(41,939)</b>	<b>(388,647)</b>
<b>Cash flows from financing activities</b>			
Net increase (decrease) in current borrowings	(6,735)	(9,931)	(92,030)
Proceeds from non-current borrowings	-	29,948	277,527
Repayment of non-current borrowings	(135)	-	-
Proceeds from issuance of bonds issued	-	29,846	276,582
Redemption of bonds issued	(10,000)	(10,000)	(92,669)
Payment of lease liabilities	(73)	(3,707)	(34,352)
Dividends paid	(11,271)	(10,919)	(101,186)
Dividends paid to non-controlling interests	(120)	(188)	(1,742)
Purchase of treasury shares	(0)	(10,020)	(92,855)
<b>Net cash from (used in) financing activities</b>	<b>(28,336)</b>	<b>15,027</b>	<b>139,254</b>
Effect of exchange rate changes on cash and cash equivalents	2,673	(4,120)	(38,179)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(50,411)</b>	<b>(2,586)</b>	<b>(23,964)</b>
Cash and cash equivalents at beginning of period	229,678	175,238	1,623,927
Cash and cash equivalents at end of period	179,266	172,652	1,599,962

**Notes to Consolidated Financial Statements***1. Note for Going Concern Assumption*

Not applicable.

*2. Changes in Accounting Policies*

Epson adopted the following standards and interpretations from the quarter ended June 30, 2019.

IFRS		Description of new and revised standards
IFRS 16	Leases	Amendments to the principles for the recognition, measurement, presentation and disclosure of leases Recognition of assets and liabilities for most leases by lessees Substantially unchanged in lessor accounting

**Adoption of IFRS16 Leases**

Epson adopted IFRS16 Leases (issued January 2016) (“IFRS16”) from the quarter ended June 30, 2019.

At inception of a contract, Epson assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, and recognises lease liabilities and right-of-use assets at the commencement date.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee’s incremental borrowing rate. Right-of-use assets are measured at the amount of the initial measurement of lease liabilities adjusted for any initial direct costs, the prepaid lease payments, restoration costs and other costs. Right-of-use assets are usually depreciated using the straight-line method over the lease term. Interest expenses on lease liabilities are presented on the consolidated statement of comprehensive income separately from the depreciation expenses for right-of-use assets.

Epson does not recognise lease liabilities and right-of-use assets to either short-term leases that have a lease term of 12 months or less, or low-value leases. Epson recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Epson applied IFRS16 retrospectively to recognise the cumulative effect of initially applying IFRS16 as an adjustment to the opening balance of retained earnings of this annual reporting period.

For leases previously classified as operating leases applying IAS17 Leases (“IAS17”), lease liabilities and right-of-use assets were recognised at the date of initial application. Lease liabilities were measured at the present value of the lease payments that are not paid at the date of initial application, discounted using the lessee’s incremental borrowing rate at that date. The weighted average of the lessee’s incremental borrowing rate applied to lease liabilities at the date of initial application was 1.4%. Right-of-use assets were mainly measured at the amount of lease liabilities adjusted for the prepaid lease payments and other costs. Epson used the following practical expedients when initially applying IFRS16.

- Epson accounted for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases.
- Epson used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases applying IAS17, the carrying amounts of lease obligations and leased assets for the years ended March 31, 2019 were the carrying amounts of lease liabilities and right-of-use assets at the date of initial application.

As a result of these, Epson recognised right-of-use assets of ¥31,455 million (\$291,492 thousand), lease liabilities of ¥28,701 million (\$265,971 thousand) and retained earnings of (¥847 million) ((\$7,849 thousand)) at the date of initial application. The difference between the lease liabilities at the date of initial application and the total of future minimum lease payments under non-cancellable operating leases disclosed applying IAS17 at the end of the reporting period immediately preceding the date of initial application (¥29,033 million (\$269,048 thousand)) was mainly due to the discount calculation by the lessee’s incremental borrowing rate and lease



obligations measured under IAS17.

Epson presents right-of-use assets as “Property, plant and equipment” on the quarterly condensed consolidated statement of financial position from the quarter ended June 30, 2019.

### *3. Contingencies*

#### Material litigation

In general, litigation has uncertainties and it is difficult to make a reliable estimate of financial effect of the possibility of an outflow of resources embodying economic benefits.

Provisions are not recognised when either an outflow of resources embodying economic benefits is not probable or an estimate of financial effect is not practicable.

Epson had the following material action.

#### **The civil action on copyright fee of ink-jet printers**

In June 2010, Epson Europe B.V. (“EEB”), a consolidated subsidiary of the Company, brought a civil suit against La SCRL Repobel (“Reprobel”), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. After that, Repobel also brought a civil suit against EEB. As a result, these two lawsuits were adjoined. EEB’s claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

### *4. Subsequent Events*

No material subsequent events were identified.