

Financial Results for the Year ended March 31, 2020 [IFRS] (Consolidated)

April 30, 2020

Stock Listing: TOKYO

Name of the listed company: SEIKO EPSON CORPORATION

Code: 6724 URL: global.epson.com

Representative: Yasunori Ogawa, President

Scheduled date of Annual Shareholders Meeting: June 25, 2020

Scheduled date to file Annual Securities Report: June 26, 2020

Reference materials regarding financial results for the period: Yes

Briefing on financial results: Yes (for analysts)

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Scheduled starting date of payment for the dividends: June 26, 2020

(Amounts are rounded down to the nearest million yen)

1. Results of the Year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

(1) Consolidated Operating Results

	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	%
Year ended March 31, 2020	1,043,600	Δ4.2	40,861	Δ42.0	39,479	Δ44.7	39,713	Δ44.9	7,823	Δ85.5	7,733	Δ85.6
Year ended March 31, 2019	1,089,676	Δ1.1	70,498	Δ5.7	71,355	9.8	72,040	15.0	54,044	29.4	53,710	28.4

Note: Total comprehensive income for the period: Year ended March 31, 2020 (¥3,869) million (- %)

Year ended March 31, 2019 ¥49,542 million (19.1%)

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	ROE *1	ROA *2	ROS *3
	Yen	Yen	%	%	%
Year ended March 31, 2020	22.26	22.25	1.5	3.9	3.9
Year ended March 31, 2019	152.49	152.44	10.2	6.8	6.5

*1 Profit for the period attributable to owners of the parent company / Equity attributable to owners of the parent company (avg. balance)

*2 Business profit / Total assets (avg. balance)

*3 Business profit / Revenue

Reference: Equity gains (losses) of affiliates: Year ended March 31, 2020 ¥77 million

Year ended March 31, 2019 ¥99 million

(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	Equity attributable to owners of the parent company, per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of March 31, 2020	1,040,910	506,037	503,746	48.4	1,456.20
As of March 31, 2019	1,038,389	542,747	540,181	52.0	1,533.57

(3) Consolidated Cash Flows

	Net cash from (used in) operating activities	Net cash from (used in) investing activities	Net cash from (used in) financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2020	102,324	(76,131)	(283)	196,245
Year ended March 31, 2019	76,961	(82,738)	(49,430)	175,238

2. Cash Dividends

	Cash dividends per share					Total cash dividends	Dividend payout ratio	Ratio of dividends to equity attributable to owners of the parent company
	1 st Quarter	2 nd Quarter	3 rd Quarter	Year End	Year Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2019	-	31.00	-	31.00	62.00	21,848	40.7	4.1
Year ended March 31, 2020	-	31.00	-	31.00	62.00	21,463	278.5	4.1
Year ending March 31, 2021 (Forecast)	-	31.00	-	31.00	62.00	-	-	-

* Dividend payout ratio for the fiscal year ending in March 2021 has not been calculated because the consolidated financial outlook has not been finalized.

3. Forecast for the Year ending March 31, 2021 (From April 1, 2020 to March 31, 2021)

It is not possible at this stage to accurately and reasonably calculate the impact of the coronavirus pandemic. Therefore, the consolidated financial outlook for the fiscal year ending in March 2021 has yet to be finalized.

The financial outlook will be announced as soon as it is possible to do so.

※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 12 “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 March 31, 2020	399,634,778	As of March 31, 2019	399,634,778
As of March 31, 2020	53,703,521	As of March 31, 2019	47,397,639
Year ended March 31, 2020	347,393,498	Year ended March 31, 2019	352,231,945

(Reference) Summary of Non-Consolidated Financial Results

1. Results of the Year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

(1) Non-Consolidated Operating Results

(%: Change from the previous year)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2020	715,768	△9.5	(27,434)	-	(8,370)	-	(17,240)	-
Year ended March 31, 2019	790,424	△3.2	8,480	△45.7	33,896	△21.7	30,629	△25.7

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2020	(49.63)	-
Year ended March 31, 2019	86.96	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2020	678,957	331,393	48.8	957.97
As of March 31, 2019	694,487	380,400	54.8	1,079.96

(Reference) Shareholders' equity: As of March 31, 2020 ¥331,393 million As of March 31, 2019 ¥380,400 million

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

※Explanation of appropriate use of forecast and other special items

(Cautionary statement concerning forward-looking statements)

It is not possible at this stage to accurately and reasonably calculate the impact of the coronavirus pandemic. Therefore, the consolidated financial outlook has yet to be finalized. The financial outlook will be announced as soon as it is possible to do so.

Assumptions for the forecasts and warnings for users of the forecasts are available on page 4 “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 Thursday, April 30, 2020 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 ¥108.585 = U.S.\$1 at the end of the reporting period has been used for the purpose of presentation.

Operating Performance Highlights and Financial Condition

Operating Results Overview

The global economy in the fiscal year under review continued to gradually recover until the third quarter but then rapidly decelerated due to the worldwide spread of the novel coronavirus toward the end of the fiscal year. Moreover, there is concern that the area and number of people infected by the coronavirus will further expand and that the steep economic downturn will persist. Seen by region, the U.S., European, and Japanese economies rapidly decelerated, the economies of emerging nations continued to slow, and China recorded negative growth in the fourth quarter. This situation was largely the result of a sharp contraction of economic activity brought about by the spread of the coronavirus toward the end of the fiscal year.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥108.74 and ¥120.85, respectively. This represents a 2% appreciation of the yen against the dollar and a 6% appreciation of the yen against the euro compared to the same period last 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 ¥1,043.6 billion in revenue for the period, a year-on-year decrease of 4.2%. Although there was firm growth in demand for high-capacity ink tank inkjet printers, revenue declined particularly in the visual communications segment and wearable and industrial products segment, where, in addition to a global economic slowdown that was touched off by U.S.-China trade friction and political and economic turmoil in some regions, revenue was adversely affected in the fourth quarter by the advance of the yen against currencies in Latin America and the effects of the coronavirus pandemic. Business profit was ¥40.8 billion, a 42.0% 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 ¥39.4 billion, down 44.7% year on year. Profit before tax was ¥39.7 billion, down 44.9% year on year. And profit for the period attributable to owners of the parent company was ¥7.7 billion, down 85.6% year on year.

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

Printing Solutions Segment

Printer business revenue decreased. Revenue from high-capacity ink tank printers for the Office/ Home increased due to a number of factors. In addition to our ongoing sales campaigns in emerging nations, we stepped up our sales promotions and product awareness-building campaigns aimed at end-users in North America, Western Europe, Japan, and other advanced economies. Sales also increased because the pandemic created a greater need to print at home as more people began working and learning from home. Meanwhile, SOHO/ Home ink cartridge printer unit shipments decreased chiefly because we limited promotions and maintained prices even as competitors aggressively stepped up their own price promotions. In addition to this, foreign exchange had a negative impact, and total Office/ Home inkjet printer revenue was flat year on year as a result. Consumables revenue decreased. Although revenue from ink bottles for

high-capacity ink tank printers grew, SOHO/ Home printer ink cartridge sales decreased because of the shrinking install base and negative foreign exchange effects. Serial impact dot matrix printer revenue also decreased as a result of negative foreign exchange effects and a market contraction that was accelerated in part by the pandemic.

Revenue in the professional printing business was consistent with the previous period. Commercial and industrial inkjet printer revenue increased owing to solid demand in the growing signage and textile printer markets. POS system product revenue decreased because the negative effects of the pandemic and foreign exchange outweighed an increase in 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 mainly due to a combination of the effects of continued strategic investment in future growth and foreign exchange, which more than offset revenue growth in products such as high-capacity ink tank printers and PCs.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥708.6 billion, down 2.1% year on year. Segment profit was ¥75.6 billion, down 20.0% year on year.

Visual Communications Segment

Visual communications revenue decreased. In addition to the negative effects of foreign exchange and the coronavirus, revenue was hurt by a decline in sales of volume zone projectors as the markets in places such as North America, China, and India contracted.

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 ¥183.3 billion, down 9.8% year on year. Segment profit was ¥13.5 billion, down 36.1% year on year.

Wearable & Industrial Products Segment

Revenue in the wearable products business decreased despite sustained firm demand for products in the high-price zone. In addition to slow sales of movements and products in the low- and mid-price zones, revenue was further hit by a drop in demand from visitors to Japan due to the coronavirus.

Revenue in the robotics solutions business decreased mainly due to ongoing trade friction between the U.S. and China, which caused a pullback in capital expenditure in Europe.

Revenue in the microdevices business decreased. Although revenue was flat year on year in both the quartz crystal devices business and semiconductor business, negative foreign exchange effects dragged revenue lower.

Segment profit in the wearable & industrial products segment declined chiefly in response to a sharp drop in wearable products business revenue and because of negative foreign exchange effects.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥152.9 billion, down 6.4% year on year. Segment profit was ¥1.8 billion, down 66.6% year on year.

Other

Other revenue amounted to ¥0.9 billion, down 3.0% year on year. Segment loss was ¥0.5 billion, compared

to a segment loss of ¥0.5 billion last year.

Adjustments

Adjustments to the total profit of reporting segments amounted to negative ¥49.6 billion. (Adjustments in the previous fiscal year were negative ¥50.2 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.

Financial Position Overview

Total assets at the end of the fiscal year were ¥1,040.9 billion, an increase of ¥2.5 billion from the previous fiscal year end. Although inventories decreased by ¥17.3 billion and trade and other receivables decreased by ¥15.3 billion, total assets increased largely because of a ¥38.5 billion increase in property, plant and equipment resulting primarily from an accounting policy change (the application of a new lease accounting standard).

Total liabilities were ¥534.8 billion, up ¥39.2 billion compared to the end of the last fiscal year. Although there was a ¥19.3 billion decrease in trade and other payables and a ¥5.0 billion decrease in other current liabilities, total liabilities increased mainly because of a ¥67.3 billion increase in bonds issued and in borrowings and lease liabilities resulting primarily 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 ¥503.7 billion, a ¥36.4 billion decrease compared to the previous fiscal year end. This decrease was primarily due to ¥21.6 billion in dividend payments and an ¥12.9 billion decrease in other components of equity, including a decrease in the exchange differences on translation of foreign operations associated with the appreciation of the yen.

There is uncertainty due to the effects of the pandemic, but Epson's financial position remains solid and sufficient financing arrangements are in place.

Cash Flow Overview

Net cash provided by operating activities during the year totaled ¥102.3 billion. The total for the previous year was ¥76.9 billion. This increase was primarily because we had ¥68.4 billion in depreciation and amortization and ¥31.8 billion in income taxes compared to ¥7.8 billion in profit for the period.

Net cash used in investing activities totaled ¥76.1 billion (compared to ¥82.7 billion in the previous year), mainly because Epson used ¥75.7 billion in the acquisition of property, plant, equipment and purchase of intangible assets.

Net cash used in financing activities totaled ¥0.2 billion, whereas ¥49.4 billion was used in the prior year. While non-current borrowings increased by ¥29.9 billion and there was a ¥29.8 billion bond issue, there were items such as ¥21.6 billion in dividends paid, a ¥10.2 billion purchase of treasury shares, a ¥10.0 billion redemption of bonds payable, a ¥9.8 billion net decrease in current borrowings, and an ¥8.2 billion repayment of lease liabilities.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥196.2 billion (compared to ¥175.2 billion at the end of the previous fiscal year).

Outlook

The coronavirus pandemic will affect the Epson Group. Anticipated risks include but are not limited to stoppages or long delays in procurement, production, and shipping due to government imposed measures such as lockdowns and closures; weak consumer spending; a drop in capital expenditure demand; and delays in B2B business and tender opportunities.

At present, the full impact of these factors on our business activities and financial outlook is unknown, as it is impossible to reasonably predict when the pandemic will end. It is possible that risks could become apparent in businesses and regions where production and sales have so far escaped relatively unscathed, so it will be necessary to keep a close eye on the situation as it unfolds.

Given that it is impossible at this stage to accurately and reasonably calculate the impact of the coronavirus pandemic, the consolidated financial outlook for the fiscal year ending in March 2021 has yet to be finalized. The financial outlook will be announced as soon as it is possible to do so.

Consolidated Statement of Financial Position**Years ended March 31, 2019 and 2020:**

	Millions of yen		Thousands of
	March 31, 2019	March 31, 2020	U.S. dollars March 31, 2020
<u>Assets</u>			
Current assets			
Cash and cash equivalents	175,238	196,262	1,807,450
Trade and other receivables	173,173	157,782	1,453,073
Inventories	250,763	233,434	2,149,781
Income tax receivables	3,994	5,217	48,045
Other financial assets	1,466	3,159	29,092
Other current assets	17,938	13,989	128,829
Total current assets	622,575	609,846	5,616,300
Non-current assets			
Property, plant and equipment	321,956	360,517	3,320,136
Intangible assets	25,191	29,052	267,550
Investment property	1,461	1,043	9,605
Investments accounted for using the equity method	1,571	1,512	13,924
Net defined benefit assets	-	33	303
Other financial assets	17,907	16,959	156,181
Other non-current assets	6,028	1,871	17,230
Deferred tax assets	41,696	20,072	184,850
Total non-current assets	415,814	431,064	3,969,830
Total assets	1,038,389	1,040,910	9,586,130

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	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2020	March 31, 2020
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	144,399	125,069	1,151,807
Income tax payables	3,814	3,286	30,262
Bonds issued, borrowings and lease liabilities	21,363	22,320	205,553
Other financial liabilities	331	363	3,343
Provisions	12,677	11,406	105,042
Other current liabilities	114,887	109,827	1,011,438
Total current liabilities	297,473	272,274	2,507,473
Non-current liabilities			
Bonds issued, borrowings and lease liabilities	120,987	187,362	1,725,486
Other financial liabilities	1,955	1,877	17,285
Net defined benefit liabilities	53,498	52,964	487,765
Provisions	9,134	7,585	69,853
Other non-current liabilities	11,697	11,814	108,799
Deferred tax liabilities	894	993	9,144
Total non-current liabilities	198,169	262,598	2,418,363
Total liabilities	495,642	534,873	4,925,846
Equity			
Share capital	53,204	53,204	489,975
Capital surplus	84,427	84,434	777,584
Treasury shares	(30,788)	(40,953)	(377,151)
Other components of equity	50,440	37,451	344,900
Retained earnings	382,897	369,609	3,403,867
Equity attributable to owners of the parent company	540,181	503,746	4,639,185
Non-controlling interests	2,565	2,290	21,089
Total equity	542,747	506,037	4,660,284
Total liabilities and equity	1,038,389	1,040,910	9,586,130

Consolidated Statement of Comprehensive Income**Years ended March 31, 2019 and 2020:**

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2019	2020	March 31, 2020
Revenue	1,089,676	1,043,600	9,610,903
Cost of sales	(677,064)	(681,600)	(6,277,110)
Gross profit	412,612	362,000	3,333,793
Selling, general and administrative expenses	(342,113)	(321,138)	(2,957,480)
Other operating income	6,393	5,181	47,713
Other operating expense	(5,536)	(6,563)	(60,441)
Profit from operating activities	71,355	39,479	363,576
Finance income	2,450	2,306	21,236
Finance costs	(1,865)	(2,150)	(19,800)
Share of profit of investments accounted for using the equity method	99	77	709
Profit before tax	72,040	39,713	365,731
Income taxes	(17,995)	(31,889)	(293,677)
Profit for the period	54,044	7,823	72,044
Profit for the period attributable to:			
Owners of the parent company	53,710	7,733	71,216
Non-controlling interests	334	90	828
Profit for the period	54,044	7,823	72,044

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	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2019	2020	2020
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss, net of tax			
Remeasurement of net defined benefit liabilities (assets)	(8,052)	2,442	22,489
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	(1,325)	(1,475)	(13,583)
Subtotal	(9,378)	967	8,905
Items that may be reclassified subsequently to profit or loss, net of tax			
Exchange differences on translation of foreign operations	5,082	(13,068)	(120,348)
Net changes in fair value of cash flow hedges	(195)	441	4,061
Share of other comprehensive income of investments accounted for using the equity method	(10)	(33)	(303)
Subtotal	4,876	(12,660)	(116,590)
Total other comprehensive income, net of tax	(4,501)	(11,693)	(107,685)
Total comprehensive income for the period	49,542	(3,869)	(35,631)
Total comprehensive income for the period attributable to:			
Owners of the parent company	49,235	(3,783)	(34,839)
Non-controlling interests	307	(86)	(792)
Total comprehensive income for the period	49,542	(3,869)	(35,631)

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

	Yen		U.S. dollars
	Year ended March 31,		Year ended March 31,
	2019	2020	2020
Earnings per share for the period:			
Basic earnings per share for the period	152.49	22.26	0.21
Diluted earnings per share for the period	152.44	22.25	0.20

Consolidated Statement of Changes in Equity**Years ended March 31, 2019 and 2020**

	Millions of yen											
	Equity attributable to owners of the parent company								Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Other components of 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, 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	-	-	-	-	-	-	-	-	53,710	53,710	334	54,044
Other comprehensive income	-	-	-	(8,052)	(1,325)	5,099	(195)	(4,474)	-	(4,474)	(27)	(4,501)
Total comprehensive income for the period	-	-	-	(8,052)	(1,325)	5,099	(195)	(4,474)	53,710	49,235	307	49,542
Acquisition of treasury shares	-	-	(0)	-	-	-	-	-	-	(0)	-	(0)
Dividends	-	-	-	-	-	-	-	-	(22,190)	(22,190)	(120)	(22,310)
Share-based payment transactions	-	62	15	-	-	-	-	-	-	78	-	78
Transfer from other components of equity to retained earnings	-	-	-	8,052	(1,098)	-	-	6,954	(6,954)	-	-	-
Total transactions with the owners	-	62	14	8,052	(1,098)	-	-	6,954	(29,145)	(22,112)	(120)	(22,233)
As of March 31, 2019	53,204	84,427	(30,788)	-	2,234	48,069	136	50,440	382,897	540,181	2,565	542,747

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

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Millions of yen

	Equity attributable to owners of the parent company											Total equity
	Equity attributable to owners of the parent company			Other components of equity					Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	
	Share capital	Capital surplus	Treasury shares	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	-	-	-	-	-	-	-	-	7,733	7,733	90	7,823
Other comprehensive income	-	-	-	2,442	(1,475)	(12,925)	441	(11,516)	-	(11,516)	(176)	(11,693)
Total comprehensive income for the period	-	-	-	2,442	(1,475)	(12,925)	441	(11,516)	7,733	(3,783)	(86)	(3,869)
Acquisition of treasury shares	-	-	(10,224)	-	-	-	-	-	-	(10,224)	-	(10,224)
Dividends	-	-	-	-	-	-	-	-	(21,646)	(21,646)	(188)	(21,835)
Share-based payment transactions	-	7	59	-	-	-	-	-	-	66	-	66
Transfer from other components of equity to retained earnings	-	-	-	(2,442)	970	-	-	(1,472)	1,472	-	-	-
Total transactions with the owners	-	7	(10,164)	(2,442)	970	-	-	(1,472)	(20,173)	(31,803)	(188)	(31,992)
As of March 31, 2020	53,204	84,434	(40,953)	-	1,729	35,144	577	37,451	369,609	503,746	2,290	506,037

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Thousands of U.S. dollars

	Equity attributable to owners of the parent company											Total equity
	Equity attributable to owners of the parent company			Other components of equity					Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	
	Share capital	Capital surplus	Treasury shares	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	489,975	777,519	(283,538)	-	20,573	442,685	1,252	464,520	3,526,242	4,974,729	23,622	4,998,360
Cumulative effects of change in accounting policy	-	-	-	-	-	-	-	-	(7,800)	(7,800)	-	(7,800)
As of April 1, 2019 (restated)	489,975	777,519	(283,538)	-	20,573	442,685	1,252	464,520	3,518,432	4,966,919	23,622	4,990,551
Profit for the period	-	-	-	-	-	-	-	-	71,216	71,216	828	72,044
Other comprehensive income	-	-	-	22,489	(13,583)	(119,031)	4,061	(106,055)	-	(106,055)	(1,620)	(107,685)
Total comprehensive income for the period	-	-	-	22,489	(13,583)	(119,031)	4,061	(106,055)	71,216	(34,839)	(792)	(35,631)
Acquisition of treasury shares	-	-	(94,156)	-	-	-	-	-	-	(94,156)	-	(94,156)
Dividends	-	-	-	-	-	-	-	-	(199,346)	(199,346)	(1,731)	(201,086)
Share-based payment transactions	-	64	543	-	-	-	-	-	-	607	-	607
Transfer from other components of equity to retained earnings	-	-	-	(22,489)	8,933	-	-	(13,556)	13,556	-	-	-
Total transactions with the owners	-	64	(93,604)	(22,489)	8,933	-	-	(13,556)	(185,780)	(292,885)	(1,731)	(294,626)
As of March 31, 2020	489,975	777,584	(377,151)	-	15,923	323,654	5,313	344,900	3,403,867	4,639,185	21,089	4,660,284

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Consolidated Statement of Cash Flows**Years ended March 31, 2019 and 2020:**

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2019	2020	March 31, 2020
Cash flows from operating activities			
Profit for the period	54,044	7,823	72,044
Depreciation and amortisation	56,137	68,416	630,068
Impairment loss (reversal of impairment loss)	743	581	5,350
Finance (income) costs	(585)	(156)	(1,436)
Share of (profit) loss of investments accounted for using the equity method	(99)	(77)	(709)
Loss (gain) on sale and disposal of property, plant and equipment, intangible assets and investment property	(3,221)	672	6,188
Income taxes	17,995	31,889	293,677
Decrease (increase) in trade receivables	(4,750)	12,407	114,260
Decrease (increase) in inventories	(24,915)	9,224	84,947
Increase (decrease) in trade payables	(6,826)	(11,420)	(105,171)
Increase (decrease) in net defined benefit liabilities	1,663	1,863	17,157
Other	3,095	(10,136)	(93,346)
Subtotal	93,282	111,088	1,023,051
Interest and dividends income received	2,055	2,084	19,192
Interest expenses paid	(1,164)	(1,181)	(10,876)
Proceeds from insurance income	377	2,614	24,073
Income taxes paid	(17,588)	(12,281)	(113,100)
Net cash from (used in) operating activities	76,961	102,324	942,340
Cash flows from investing activities			
Purchase of investment securities	(900)	(1,041)	(9,586)
Proceeds from sales of investment securities	2,144	25	230
Purchase of property, plant and equipment	(79,858)	(65,250)	(600,911)
Proceeds from sale of property, plant and equipment	9,313	840	7,735
Purchase of intangible assets	(10,445)	(10,457)	(96,302)
Proceeds from sale of intangible assets	13	14	128
Proceeds from sale of investment property	22	16	147
Purchase of investments in subsidiaries	(887)	-	-
Other	(2,142)	(280)	(2,578)
Net cash from (used in) investing activities	(82,738)	(76,131)	(701,118)
Cash flows from financing activities			
Net increase (decrease) in current borrowings	(16,832)	(9,816)	(90,399)
Proceeds from non-current borrowings	-	29,948	275,802
Repayment of non-current borrowings	(135)	-	-
Proceeds from issuance of bonds issued	-	29,846	274,863
Redemption of bonds issued	(10,000)	(10,000)	(92,093)
Payment of lease liabilities	(150)	(8,203)	(75,544)
Dividends paid	(22,190)	(21,646)	(199,346)
Dividends paid to non-controlling interests	(120)	(188)	(1,731)
Purchase of treasury shares	(0)	(10,224)	(94,156)
Net cash from (used in) financing activities	(49,430)	(283)	(2,606)
Effect of exchange rate changes on cash and cash equivalents	767	(4,901)	(45,135)
Net increase (decrease) in cash and cash equivalents	(54,439)	21,007	193,461
Cash and cash equivalents at beginning of period	229,678	175,238	1,613,832
Cash and cash equivalents at end of period	175,238	196,245	1,807,293

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 for the reporting period.

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”) for the reporting period.

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 in 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 year 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 (\$289,680 thousand), lease liabilities of ¥28,701 million (\$264,318 thousand) and retained earnings of (¥847 million) ((\$7,800 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 (\$267,375 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” in its consolidated statement of financial position.

3. Segment Information

(1) Outline of Reportable Segments

The reportable segments of Epson are determined based on the operating segments that are components of Epson for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing performance.

The reportable segments of Epson are composed of three segments: “Printing Solutions”, “Visual Communications” and “Wearable & Industrial Products”. They are determined by types of products, nature of products, and markets. Epson conducts development, manufacturing and sales within its reportable segments as follows:

Reportable segments	Main products
Printing Solutions	Office/ Home inkjet printers, serial impact dot matrix printers, page printers, color image scanners, dry process office papermaking systems, commercial and industrial inkjet printers, printers for use in POS systems, inkjet printheads, printer consumables, personal computers and others.
Visual Communications	3LCD projectors, smart glasses and others.
Wearable & Industrial Products	Wristwatches, watch movements, industrial robots, IC handlers, quartz crystal devices, semiconductors, metal powders, surface finishing and others.

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(2) Revenues and Performances of Reportable Segments

Revenues and performances of reportable segments were as follows. Transfer prices between the segments were based on prevailing market prices.

FY2018: Year ended March 31, 2019

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Millions of yen							
Revenue							
External revenues	722,958	203,305	154,074	1,080,337	187	9,151	1,089,676
Intersegment revenues	721	3	9,336	10,061	762	(10,824)	-
Total revenue	723,679	203,309	163,410	1,090,399	950	(1,672)	1,089,676
Segment profit (loss) (Business profit) (Note 1)	94,554	21,232	5,508	121,296	(541)	(50,256)	70,498
					Other operating income (expense)		856
					Profit from operating activities		71,355
					Finance income (costs)		585
					Share of profit of investments accounted for using the equity method		99
					Profit before tax		72,040

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation	(30,653)	(9,871)	(9,198)	(49,724)	(18)	(5,897)	(55,639)
Impairment losses of assets other than financial assets	(85)	(347)	(106)	(539)	-	(204)	(743)
Segment assets	463,833	129,254	151,921	745,010	284	293,094	1,038,389
Capital expenditures	46,813	11,408	13,980	72,202	10	9,862	82,075

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) "Other" consists of the intra-group services.

(Note 3) "Adjustments" to Segment profit (loss) (Business profit) of (¥50,256) million comprised "Eliminations" of ¥431 million and "Corporate expenses" of (¥50,687) million. "Corporate expenses" included expenses relating to research and development for basic technology and expenses relating to new businesses and general corporate functions which are not attributed to reportable segments.

(Note 4) "Adjustments" to Segment assets of ¥293,094 million comprised "Eliminations" of (¥5,893) million and "Corporate assets" of ¥298,988 million.

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FY2019: Year ended March 31, 2020

Millions of yen

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 3)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products					
Revenue								
External revenues	707,816	183,345	145,072	1,036,234	186	7,179	1,043,600	
Intersegment revenues	787	0	7,887	8,675	735	(9,411)	-	
Total revenue	708,604	183,345	152,959	1,044,910	921	(2,231)	1,043,600	
Segment profit (loss)								
(Business profit) (Note 1)	75,680	13,558	1,839	91,077	(588)	(49,627)	40,861	
							Other operating income (expense)	(1,381)
							Profit from operating activities	39,479
							Finance income (costs)	156
							Share of profit of investments accounted for using the equity method	77
							Profit before tax	39,713
Other items								
	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 4)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products					
Depreciation and amortisation	(37,736)	(11,784)	(10,327)	(59,848)	(18)	(7,956)	(67,822)	
Impairment losses of assets other than financial assets	(0)	(0)	(195)	(197)	-	(384)	(581)	
Segment assets	440,822	124,694	147,992	713,510	210	327,190	1,040,910	
Capital expenditures	43,575	14,141	14,777	72,493	9	7,587	80,090	

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) "Other" consists of the intra-group services.

(Note 3) "Adjustments" to Segment profit (loss) (Business profit) of (¥49,627) million comprised "Eliminations" of ¥674 million and "Corporate expenses" of (¥50,302) million. "Corporate expenses" included expenses relating to research and development for basic technology and expenses relating to new businesses and general corporate functions which are not attributed to reportable segments.

(Note 4) "Adjustments" to Segment assets of ¥327,190 million comprised "Eliminations" of (¥5,579) million and "Corporate assets" of ¥332,769 million.

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FY2019: Year ended March 31, 2020

Thousands of U.S. dollars

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal				
Revenue								
External revenues	6,518,543	1,688,492	1,336,022	9,543,067	1,712	66,114	9,610,903	
Intersegment revenues	7,247	0	72,634	79,891	6,768	(86,669)	-	
Total revenue	6,525,800	1,688,492	1,408,656	9,622,968	8,481	(20,546)	9,610,903	
Segment profit (loss)								
(Business profit) (Note 1)	696,965	124,860	16,936	838,762	(5,415)	(457,033)	376,304	
							Other operating income (expense)	(12,718)
							Profit from operating activities	363,576
							Finance income (costs)	1,436
							Share of profit of investments accounted for using the equity method	709
							Profit before tax	365,731

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation	(347,524)	(108,523)	(95,105)	(551,162)	(165)	(73,269)	(624,598)
Impairment losses of assets other than financial assets	(0)	(0)	(1,795)	(1,814)	-	(3,536)	(5,350)
Segment assets	4,059,695	1,148,353	1,362,913	6,570,981	1,933	3,013,215	9,586,130
Capital expenditures	401,298	130,229	136,086	667,615	82	69,871	737,578

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) "Other" consists of the intra-group services.

(Note 3) "Adjustments" to Segment profit (loss) (Business profit) of (\$457,033) thousand comprised "Eliminations" of \$6,207 thousand and "Corporate expenses" of (\$463,249) thousand. "Corporate expenses" included expenses relating to research and development for basic technology and expenses relating to new businesses and general corporate functions which are not attributed to reportable segments.

(Note 4) "Adjustments" to Segment assets of \$ 3,013,215 thousand comprised "Eliminations" of (\$51,379) thousand and "Corporate assets" of \$3,064,594 thousand.

(3) Geographic Information

The regional breakdowns of non-current assets and external revenues as of each fiscal year end were as follows:

Non-current Assets

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2019	2020	2020
Japan	217,072	239,851	2,208,877
The Philippines	48,803	44,494	409,761
Indonesia	29,082	31,556	290,611
China	23,885	26,221	241,479
Other	37,365	51,874	477,727
Total	356,209	393,998	3,628,475

(Note) Non-current assets, excluding Other financial assets, Deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2019	2020	2020
Japan	251,454	254,993	2,348,326
The United States	212,720	201,259	1,853,469
China	146,957	132,550	1,220,702
Other	478,544	454,796	4,188,386
Total	1,089,676	1,043,600	9,610,903

(Note) Revenues are segmented by country based on the location of the customers.

(4) Information about Major Customers

Epson had no transactions with a single external customer amounting to 10% or more of total external revenues.

4. Earnings per Share

(1) Basis of calculating basic earnings per share

	Millions of yen		Thousands of U.S. dollars	
	Year ended March 31,		Year ended March 31,	
	2019	2020	2020	
Profit for the period attributable to owners of the parent company	53,710	7,733	71,216	
Profit for the period not attributable to owners of the parent company	-	-	-	
Profit used for calculation of basic earnings per share	53,710	7,733	71,216	
Weighted-average number of ordinary shares outstanding (Thousands of Shares)	352,232	347,393	347,393	
Basic earnings per share	(Yen) 152.49	(Yen) 22.26	(\$) 0.21	

(2) Basis of calculating diluted earnings per share

	Millions of yen		Thousands of U.S. dollars	
	Year ended March 31,		Year ended March 31,	
	2019	2020	2020	
Profit used for calculation of basic earnings per share	53,710	7,733	71,216	
Adjustments	-	-	-	
Profit used for calculation of diluted earnings per share	53,710	7,733	71,216	
Weighted-average number of ordinary shares outstanding (Thousands of Shares)	352,232	347,393	347,393	
Effect of dilutive potential ordinary shares				
BIP trust for eligible officers (Thousands of Shares)	108	124	124	
Weighted-average number of ordinary shares diluted (Thousands of Shares)	352,340	347,518	347,518	
Diluted earnings per share	(Yen) 152.44	(Yen) 22.25	(\$) 0.20	

(Note) For the purpose of calculation of basic earnings per share and diluted earnings per share, the shares of the Company held by BIP trust are accounted as treasury shares and the number of those shares are deducted from weighted-average number of ordinary shares outstanding during the period.

5. *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.

6. *Subsequent Events*

No material subsequent events were identified.