

ANNUAL REPORT 2016

SEIKO EPSON CORPORATION

April 2015 - March 2016



Cautionary Statement

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 quickly introduce new products and services, consumption trends, competition, technology trends, and exchange rate fluctuations.

In this annual report, "Epson" or the "Group" refers to the Epson Group, while "the Company" may refer to the Group or the parent company, Seiko Epson Corporation.

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Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	IFRS			
	Millions of yen			Thousands of U.S. dollars
	2014	2015	2016	2016
Statement of Comprehensive Income				
Revenue	1,008,407	1,086,341	1,092,481	9,695,429
Information-related equipment business segment	841,228	907,296	-	-
Devices and precision products business segment	148,779	156,297	-	-
Sensing and industrial solutions business segment	16,174	23,396	-	-
Other	1,333	1,390	-	-
Adjustments	891	(2,038)	-	-
Printing Solutions business segment	-	730,867	736,369	6,535,064
Visual Communications business segment	-	177,186	184,033	1,633,235
Wearable & Industrial Products business segment	-	173,478	170,415	1,512,380
Other	-	1,390	1,404	12,460
Adjustments	-	3,418	257	2,290
Gross profit	362,589	395,924	397,660	3,529,108
Selling, general and administrative expenses	(272,501)	(294,648)	(312,708)	(2,775,186)
Profit from operating activities	79,549	131,380	94,026	834,451
Profit before tax	77,977	132,536	91,530	812,300
Profit for the period attributable to owners of the parent company	84,203	112,560	45,772	406,221
Total comprehensive income for the period	120,480	145,483	(1,469)	(13,036)

Statement of Cash Flows				
Net cash provided by (used in) operating activities	114,859	108,828	113,054	1,003,319
Net cash provided by (used in) investing activities	(41,244)	(32,735)	(51,558)	(457,561)
Free cash flows	73,615	76,093	61,495	545,758
Net cash provided by (used in) financing activities	(56,567)	(55,392)	(67,171)	(596,121)

Statement of Financial Position				
Current assets	560,645	650,383	601,451	5,337,690
Non-current assets	348,245	355,898	339,888	3,016,410
Total assets	908,890	1,006,282	941,340	8,354,100
Current liabilities	336,087	355,442	325,019	2,884,452
Non-current liabilities	208,045	153,531	145,644	1,292,545
Equity attributable to owners of the parent company	362,371	494,325	467,818	4,151,739

SEIKO EPSON CORPORATION

IFRS

Thousands of
U.S. dollars

Millions of yen

2014 2015 2016 2016

Per Share Data (yen and U.S. dollars)				
Basic earnings per share (Note2)	235.35	314.61	127.94	1.14
Cash dividends per share (Note4)	50.00	115.00	60.00	0.52
Equity attributable to owners of the parent company, per share (Note2)	1,012.83	1,381.66	1,307.58	11.60

Financial Ratios (%)			
Equity attributable to owners of the parent company, ratio	39.9	49.1	49.7
ROE (Profit for the period attributable to owners of the parent company / Beginning and ending balance average equity attributable to owners of the parent company)	27.7	26.3	9.5
ROA (Profit from operating activities / Beginning and ending balance average total assets)	9.2	13.7	9.7
ROS (Profit from operating activities / Revenue)	7.9	12.1	8.6

Number of Employees			
Information-related equipment business segment	55,104	52,010	-
Devices and precision products business segment	13,723	12,787	-
Sensing and industrial solutions business segment	1,197	1,246	-
Printing Solutions business segment	-	-	41,051
Visual Communications business segment	-	-	10,041
Wearable & Industrial Products business segment	-	-	13,312
Other	252	306	340
Corporate	2,895	3,529	2,861
Total	73,171	69,878	67,605

Notes

1. The Consolidated Financial Statements have been prepared on the basis of International Financial Reporting Standards (IFRS) from the year ended March 31, 2014.
2. Seiko Epson Corporation (the "Company") completed the Company's ordinary shares split with an effective date of April 1, 2015. As a result, each share of the Company's ordinary shares was split into two shares. Basic earnings per share was calculated under the assumption that the shares split took effect at the beginning of the year ended March 31, 2014.
3. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.68 = U.S.\$1 as of March 31, 2016.
4. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
5. Equity attributable to owners of the parent company is equity excluding non-controlling interest in subsidiaries.

For the years ended March 31

JGAAP

Millions of yen

2012 2013 2014

Statements of Income			
Net sales	877,997	851,297	1,003,606
Information-related equipment business segment	691,801	688,029	-
Devices and precision products business segment	174,811	156,872	-
Other	17,316	1,273	-
Eliminations and corporate	(5,932)	5,122	-
Information-related equipment business segment	-	685,862	836,436
Devices and precision products business segment	-	140,790	148,956
Sensing and industrial solutions business segment	-	11,413	16,181
Other	-	1,273	1,334
Eliminations and corporate	-	11,957	699
Gross profit	248,846	234,439	322,976
Selling, general and administrative expenses	224,219	213,184	238,007
Operating income	24,626	21,255	84,968
Ordinary income	27,022	17,629	78,121
Income (loss) before income taxes and minority interests	15,622	(3,479)	71,916
Profit (loss) attributable to owners of parent	5,032	(10,091)	83,698

Research and development costs	52,106	49,923	50,531
Capital expenditures	38,908	43,155	37,825
Depreciation and amortization	37,651	39,320	38,725

Net cash provided by (used in) operating activities	26,678	42,992	111,253
Net cash provided by (used in) investing activities	(31,528)	(39,511)	(39,519)
Free cash flows	(4,849)	3,480	71,733
Net cash provided by (used in) financing activities	(57,406)	21,298	(56,567)

JGAAP

Millions of yen

2012 2013 2014

Balance Sheet			
Current assets	487,190	519,457	602,452
Property, plant and equipment (net of accumulated depreciation)	213,086	217,388	216,170
Total assets	740,769	778,547	865,872
Current liabilities	313,314	326,688	313,636
Non-current liabilities	179,314	193,052	200,505
Net assets	248,140	258,806	351,730

Number of Employees			
Information-related equipment business segment	55,841	50,823	55,104
Devices and precision products business segment	16,101	13,859	13,723
Sensing and industrial solutions business segment	-	-	1,197
Other	249	241	252
Corporate	3,112	3,838	2,895
Total	75,303	68,761	73,171

Per Share Data (Yen)			
Net income (loss) (Note1)	26.22	(56.41)	233.94
Cash dividends (Note3)	26.00	20.00	50.00
Shareholders' equity (Note1)	1,377.60	1,435.20	976.41

Financial Ratios (%)			
Shareholders' equity ratio	33.3	33.0	40.3
ROE (net income (loss)/average shareholders' equity at beginning and end of year)	2.0	(4.0)	27.6
ROA (ordinary income/average total assets at beginning and end of year)	3.5	2.3	9.5
ROS (operating income /net sales)	2.8	2.5	8.5

Notes

1. Seiko Epson Corporation (the "Company") completed the Company's ordinary shares split with an effective date of April 1, 2015. As a result, each share of the Company's ordinary shares was split into two shares. Basic earnings per share was calculated under the assumption that the shares split took effect at the beginning of the year ended March 31, 2014.
2. Ordinary income is a common item on financial statements in Japan, which is calculated by adding to or subtracting from operating income items such as interest income, rent income, interest expenses and foreign exchange gains or losses.
3. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
4. Shareholders' equity is net assets excluding minority interests.

Information on the Company

1. Overview of the business group

Epson is primarily engaged in developing, manufacturing, selling, and providing services for products in the printing solutions, visual communications, wearable and industrial products, and the other business.

Epson is organized into operations divisions that come under consolidated management. The majority of advanced R&D and product development is conducted in Japan (by Corporate R&D and R&D organizations in the various operations divisions), while manufacturing and sales activities are conducted around the world by Epson Group manufacturing and sales companies, both in Japan and abroad.

A brief description of Epson's various businesses is provided below along with a list of the main Epson Group companies involved in each segment.

The business segments were changed from the current fiscal year.

Printing Solutions Business Segment

This segment comprises the printer business, professional printing business, and others. The businesses in this segment leverage Epson's original Micro Piezo and other technologies to develop, manufacture, and sell products. The main activities of these businesses are described below.

Printer business

This business is primarily responsible for home and office inkjet printers, serial impact dot matrix (SIDM) printers, page printers, and color image scanners, and related consumables.

Professional printing business

This business is primarily responsible for commercial inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers, and related consumables.

Others

This business sells PCs in the Japanese market through a domestic subsidiary.

The major Epson Group companies involved in this segment are listed in the table below.

Business area	Main products	Main Epson Group companies	
		Manufacturing companies	Sales companies
Printers	Inkjet printers, serial impact dot matrix printers, page printers, color image scanners, and related consumables, and others	Tohoku Epson Corporation Akita Epson Corporation Epson Portland Inc. Epson Telford Ltd. Tianjin Epson Co., Ltd.	Epson Sales Japan Corporation Epson America, Inc. Epson Europe B.V. Epson (U.K.) Ltd. Epson Deutschland GmbH Epson France S.A. Epson Italia s.p.a. For.Tex S.r.l. Epson Iberica, S.A. Epson (China) Co., Ltd.
Professional printing	Commercial inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers, and related consumables, and others	Epson Engineering (Shenzhen) Ltd. P.T. Epson Batam P.T. Indonesia Epson Industry Epson Precision (Philippines), Inc.	Epson Korea Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd. P.T. Epson Indonesia Epson (Thailand) Co., Ltd. Epson Australia Pty. Ltd. Epson India Pvt. Ltd.
Others	PCs and other equipment	—	Epson Sales Japan Corporation Epson Direct Corporation

Visual Communications Business Segment

The businesses in this segment leverage Epson's original microdisplay and projection technologies to develop, manufacture, and sell 3LCD projectors for business, education, and the home; high-temperature polysilicon TFT LCD panels for 3LCD projectors; and smart eyewear.

The major Epson Group companies involved in this segment are listed in the table below.

Business area	Main products	Main Epson Group companies	
		Manufacturing companies	Sales companies
Visual communications	3LCD projectors, high-temperature polysilicon TFT LCD panels for 3LCD projectors, smart eyewear, and others	Epson Engineering (Shenzhen) Ltd. Epson Precision (Philippines), Inc.	Epson Sales Japan Corporation Epson America, Inc. Epson Europe B.V. Epson (U.K.) Ltd. Epson Deutschland GmbH Epson France S.A. Epson Italia s.p.a. Epson Iberica, S.A. Epson (China) Co., Ltd. Epson Korea Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd. P.T. Epson Indonesia Epson (Thailand) Co., Ltd. Epson Australia Pty. Ltd. Epson India Pvt. Ltd.

Wearable & Industrial Products Business Segment

This segment comprises the wearable products business, robotics solutions business, and the microdevices business.

The main activities of these businesses are described below.

Wearable products business

This business leverages its ultrafine and ultraprecision machining and processing technologies and its high-density mounting and assembly technologies to develop, manufacture and sell watches, as well as to develop, manufacture and sell useful products that use high-accuracy sensors to connect people and information.

Watch business

This business primarily develops, manufactures, and sells watches and watch movements.

Sensing system business

This business is primarily engaged in developing, manufacturing, and selling sensing systems and equipment that have extremely accurate built-in sensors and that are used in the personal health and sports fields etc.

Robotics solutions business

This business uses advanced precision mechatronics and other technologies to develop, manufacture, and sell industrial robots and other production systems that dramatically increase productivity.

Micro-devices and others business

This business designs, manufactures, and sells small, accurate, energy-efficient electronic devices for external customers as well as for other businesses in the Epson Group. It also provides metal powders and surface finishing services.

Quartz device business

This business provides crystal units, crystal oscillators, and quartz sensors for consumer, automotive, and industrial equipment applications.

Semiconductor business

This business provides CMOS LSIs and other chips mainly for consumer electronics and automotive applications.

Others

This business develops, manufacturers, and sells a variety of high-performance metal powders for use as raw materials in the production of electronic components, etc. This business also provides high-value-added surface finishing in a wide variety of industrial fields.

SEIKO EPSON CORPORATION

The major Epson Group companies involved in this segment are listed in the table below.

Business area	Main products	Main Epson Group companies	
		Manufacturing companies	Sales companies
Wearable products	Watches Wristwatches, watch movements, and others	Epson Precision (Shenzhen) Ltd. Orient Watch (Shenzhen) Ltd. Epson Precision (Johor) Sdn. Bhd.	Orient Watch Co., Ltd. Epson Hong Kong Ltd.
	Sensing systems and equipment	Akita Epson Corporation	Epson Sales Japan Corporation
Robotics solutions	Industrial robots, IC handlers, and others	Epson Engineering (Shenzhen) Ltd.	Epson Sales Japan Corporation Epson America, Inc. Epson Deutschland GmbH Epson (China) Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd.
Microdevices and others	Quartz devices Crystal units, crystal oscillators, quartz sensors, and others	Miyazaki Epson Corporation Epson Precision Malaysia Sdn. Bhd.	Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd.
	Semiconductors CMOS LSIs, and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd.	Epson Singapore Pte. Ltd.
	Others Metal powders, surface finishing	Epson Atmix Corporation Singapore Epson Industrial Pte. Ltd.	

Other Business Segment

This segment comprises the businesses of Epson Group companies that offer services for and within the Epson Group.

2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

(1) Seiko Epson Corporation

As of March 31, 2016

Name of plant (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m ²)	Other	Total	
Head Office (Suwa-shi, Nagano)	Overall administration and other	Other facilities	1,485	141	1,247 (43,322) [3,171]	74	2,947	507
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	755	—	— (—)	81	836	53
Hirooka Plant (Shiojiri-shi, Nagano)	Printing solutions Other	Printer development and design and component manufacturing facilities Research and development facilities	16,869	14,449	5,753 (189,347) [41,552]	3,017	40,089	5,219
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Printing solutions	Printer development and design facilities	1,346	95	3,764 (179,759) [1,758]	95	5,301	546
Toyoshina Plant (Azumino-shi, Nagano)	Visual communications Wearable & Industrial products	3LCD projector, smart eyewear and factory automation development and design facilities	1,825	963	— (—) [108,004]	1,858	4,647	1,477
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Printing solutions Visual communications Other	Printer component and liquid crystal panel manufacturing facilities Research and development facilities	5,080	12,804	1,443 (113,082) [28,909]	1,012	20,341	939
Chitose Plant (Chitose-shi, Hokkaido)	Visual communications	Liquid crystal panel manufacturing facilities	2,152	2,609	1,375 (160,528)	900	7,037	211
Ina Plant (Minowa-machi, Kamiina-gun, Nagano)	Wearable & Industrial products	Crystal device development and design facilities	1,941	1,945	129 (39,943) [1,502]	180	4,196	436
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Wearable & Industrial products Other	Sensing systems and semiconductor development and design facilities Research and development facilities	7,299	1,337	1,996 (247,143)	907	11,541	1,091
Sakata Plant (Sakata-shi, Yamagata)	Wearable & Industrial products	Semiconductor manufacturing facilities Other	6,453	4,060	2,177 (538,828)	787	13,479	51
Hino Office (Hino-shi, Tokyo)	Wearable & Industrial products	Sales facilities	2,908	1	7,627 (36,245)	60	10,597	210
Shiojiri Plant (Shiojiri-shi, Nagano)	Wearable & Industrial products	Watch development, design and manufacturing facilities	1,518	2,866	1,047 (41,836) [5,764]	352	5,784	711

(2) Domestic subsidiaries

As of March 31, 2016

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m ²)	Other	Total	
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Printing solutions Wearable & Industrial products	Printer component and semiconductor manufacturing facilities	1	16	— (—)	763	781	1,888
Akita Epson Corporation (Yuzawa-shi, Akita)	Printing solutions Wearable & Industrial products	Printer component and sensing system manufacturing facilities	2,311	146	650 (65,436)	423	3,533	825
Epson Atmix Corporation (Hachinohe-shi, Aomori)	Wearable & Industrial products	Manufacturing facilities for metal powders, etc.	2,508	1,679	409 (30,653) [34,208]	172	4,770	250

(3) Overseas subsidiaries

As of March 31, 2016

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m ²)	Other	Total	
Epson Engineering (Shenzhen) Ltd. (Shenzhen, China)	Printing solutions Visual communications Wearable & Industrial products	Printer, 3LCD projector, liquid crystal panel and factory automation manufacturing facilities	2,947	3,132	— (—) [64,104]	4,454	10,535	9,292
Singapore Epson Industrial Pte. Ltd. (Singapore)	Printing solutions Wearable & Industrial products	Printer consumables, watch component and semiconductor manufacturing facilities and surface finishing facilities	3,981	7,167	59 (41,065) [51,492]	951	12,159	5,537
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Printing solutions	Printer manufacturing facilities	5,973	4,386	— (—) [254,871]	2,701	13,061	9,381
Epson Precision (Philippines), Inc. (Lipa, Philippines)	Printing solutions Visual communications	Printer and 3LCD projector manufacturing facilities	8,325	3,179	563 (100,000) [173,200]	2,852	14,921	8,682
Epson Precision Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Wearable & Industrial products	Crystal device manufacturing facilities	470	3,015	335 (32,437)	31	3,853	1,908

Notes

1. The above figures do not include consumption tax.
2. "Other" under the book value column includes tools, furniture and fixtures and other property, plant and equipment, but does not include construction in progress.
3. Portions of land are leased from companies not included in consolidated accounts. The size of each area of leased land is indicated in brackets [].
4. Tohoku Epson Corporation uses a portion of the facilities of the Sakata Plant.
5. Figures for Singapore Epson Industrial Pte. Ltd. and Epson Precision (Philippines), Inc., are included in consolidated business results.
6. The above book value amounts are after adjustments for consolidated accounts.

3. Overview of capital expenditures

Capital expenditures for the consolidated fiscal year under review were concentrated in key strategic areas, primarily new products and rationalizing, upgrading and maintaining equipment and facilities to help foster the development of new businesses and prepare for future growth. In addition, Epson continued to carefully select investments and efficiently utilize existing facilities in an effort to generate stable cash flow.

As a result of these efforts, total capital expenditures (including property, plant and equipment, software and lease rights) amounted to ¥69.4 billion.

No equipment with significant impact on production capacity was sold or removed.

Capital expenditures in each business segment are discussed below.

Printing solutions segment

Investment used for commercializing new products such as printers, and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥36.6 billion in the fiscal year under review.

Visual communications segment

Investment used for commercializing new products such as 3LCD projectors, and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥10.7 billion in the fiscal year under review.

Wearable & Industrial products segment

Investment used for commercializing new products such as watches, sensing systems, factory automation products and crystal devices, and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥10.2 billion in the fiscal year under review.

Other and overall

Investment in R&D and other activities amounted to ¥11.7 billion in the fiscal year under review.

4. Plans for new additions or disposals

Epson plans to allocate ¥80.0 billion to capital expenditures for the consolidated fiscal year ending March 31, 2017.

Business segment	Planned amount of capital expenditures (100 million yen)	Main type and purpose of equipment and facilities
Printing solutions	460	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Visual communications	110	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Wearable & Industrial products	110	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Other and overall	120	Investment in research and development, etc.
Total	800	—

Notes

1. The above amounts do not include consumption tax.
2. Required funds will be covered by current funds in hand.
3. There are no plans to dispose of or sell major equipment and facilities with the exception of disposals and sales associated with regular and ongoing upkeep of equipment and facilities.

5. Major management contracts

Reciprocal technical assistance agreements

Name of contracting company	Name of other party	Country	Type of contract	Contract period
Seiko Epson Corporation	Hewlett-Packard Company	U.S.A.	License to use patents relating to information-related equipment	May 1, 2012 until the expiry of the patents
Seiko Epson Corporation	International Business Machines Corporation	U.S.A.	License to use patents relating to information-related equipment	April 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Microsoft Corporation	U.S.A.	License to use patents relating to information-related equipment and software used by such equipment	September 29, 2006 until the expiry of the patents
Seiko Epson Corporation	Eastman Kodak Company	U.S.A.	License to use patents relating to information-related equipment	October 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Xerox Corporation	U.S.A.	License to use patents relating to electrophotography and inkjet printers	March 31, 2008 until the expiry of the patents
Seiko Epson Corporation	Texas Instruments Incorporated	U.S.A.	License to use patents relating to semiconductors and information-related equipment	April 1, 2008 until March 31, 2018
Seiko Epson Corporation	Canon Incorporated	Japan	License to use patents relating to information-related equipment	August 22, 2008 until the expiry of the patents

Risks Related to Epson's Business Operations

At present, we have identified the following significant factors as risks that could have a materially adverse effect on our future business, financial condition or operating results and that should thus be taken into account by investors.

We strive to recognize, prevent, and control potential risks and to address risks that materialize.

Also, all forward-looking statements hereunder were made at Epson's discretion as of the date this Annual Report was submitted.

1. Our financial performance could be adversely affected by fluctuations in printer sales.

The ¥736.3 billion in revenue in the printing solutions segment in the year ended March 2016 accounted for slightly less than 70% of Epson's ¥1,092.4 billion in consolidated revenue. Inkjet printers (including printer consumables) for the home, emerging markets, as well as for office and industrial applications accounted for a large majority of our revenue and profit. Consequently, a decrease in revenue from printers and printer consumables could have a materially adverse effect on our operating results.

2. Our financial performance could be adversely affected by competition.

Adverse effects of competition on sales

All of our products, including our core printer and projector products, are subject to the effects of vigorous competition, which could cause, among other things, prices to fall, demand to shift toward lower-priced products, and unit shipments to decline.

We are taking strategic action to address the risk of declines in prices, a shift of demand toward lower-priced products, and unit shipments. On one hand, we must provide products tailored to customer needs in each market along with high-value products and services. On the other hand, we must reduce manufacturing costs by increasing design and development efficiency and by reducing fixed costs.

However, there is no assurance we will succeed in these efforts, and if we are unable to effectively counteract downward pressure on prices, our operating results could be adversely affected.

Adverse effects of competition on technology

Some of the products that we sell contain technology that places Epson in competition against other companies. For example:

- The Micro Piezo technology¹ that we use in our inkjet printers competes with the thermal inkjet technologies² of other companies;
- The 3LCD technology³ that we use in our projectors competes with other companies' DLP technologies⁴, and Epson's projectors also compete against flat panel displays (FPDs)⁵ of other companies.

We believe that the technologies we use in these products have competitive advantage over the alternative technologies of other companies. However, if consumer opinion with respect to our technologies changes, or if other revolutionary technologies appear on the market and compete with our technologies, we could lose our competitive advantage in technology and our operating results could be adversely affected.

¹Micro Piezo technology is an inkjet technology created by Epson that manipulates piezoelectric elements to fire small droplets of ink from nozzles.

²Thermal inkjet technology (also known as bubble-jet technology) is a printer technology in which the ink is heated to create bubbles and the pressure from the bubbles is used to fire the ink.

³3LCD technology uses high-temperature polysilicon TFT liquid-crystal panels as light valves. The light from the light source is divided into the three primary colors (red, green and blue) using special mirrors, the picture is created on separate LCDs for each color, and then the picture is recombined without loss and projected on the screen.

⁴DLP technology uses a digital micro-mirror device (DMD) as a display device. A DMD is a semiconductor on which a large number of micro mirrors are arranged, each mirror directing light onto its own individual pixel. An image is formed by the light from the light source being reflected from the mirrors onto the screen. DLP and DMD are registered trademarks of Texas Instruments Incorporated.

⁵FPD encompasses a variety of thin electronic display technologies.

The emergence of new competitors

We presently face competition from powerful companies that have advanced technological capabilities, abundant financial resources, or strong financial compositions. We also face competition from companies around the world that have market recognition, strong supply capacities, or the ability to compete on price. There is, therefore, a

possibility that other companies could use their brand power, technological strength, ability to procure funds, marketing power, sales skills, low-cost production ability, or other advantages to enter business areas where we are active.

3. Sudden changes in the business environment could affect Epson.

Epson seeks to drive inkjet innovation, visual innovation, wearables innovation, and robotics innovation. We are looking to achieve our vision for each business by providing value to customers in the form of smart technologies, environmental benefits, and functional performance. Epson is executing plans and strategies based on a long-range corporate vision and a mid-range business plan that we believe will enable us to establish a competitive advantage in technology, which believe will be crucial for increasing our competitiveness. We are driving further advances in our original core technologies, including Micro Piezo inkjet technology, microdisplays, sensing, and robotics, all of which arose from the efficient, compact, and precision technologies that have become a part of Epson's DNA over many decades. By combining these technologies to create platforms, we are developing, manufacturing, and selling products and providing services that match customer needs.

However, in the product markets and businesses where Epson is concentrating its management resources the pace of technological innovation is typically rapid, and product life cycles are short. In addition, demand and investment trends in Epson's major markets could change along with global economic conditions and could affect sales of Epson products. Moreover, there is no guarantee that the mid-range business plan and business strategies that Epson is currently pursuing will succeed.

Epson will also strive to make rapid and smooth transition from existing products to new products by understanding market and customer needs, investing and conducting research and development from a medium- and long-range view based on product market forecasts, and creating development and design platforms.

However, if Epson cannot suitably respond to technological innovations in its main markets, or if economic downturns or other factors prevent a recovery in demand, or if Epson is unable to adequately meet sudden fluctuations in demand in a major market, its operating results could adversely be affected.

4. Our revenue and earnings could be adversely impacted by sales of third-party inkjet printer consumables.

Ink cartridges, which comprise the bulk of consumables sold for inkjet printers, are an important source of revenue and profit for Epson. However, third parties also supply ink cartridges and other inkjet printer consumables that can be used in Epson printers. These alternative products are typically sold for less than genuine Epson brand consumables and are more prevalent in emerging markets compared to the markets of developed countries.

To counter sales of third-party consumables for inkjet printers, we must emphasize the quality of genuine Epson products and must look to continuously realize customer value by further enhancing customer convenience with inkjet printers tailored to the needs of customers in each market. Printer models equipped with high-capacity ink tanks are an example of such products. We also take legal measures if any of the patent rights or trademark rights we hold over our ink cartridges are infringed upon.

However, there is no assurance that any of these efforts will be effective, and if our ink cartridge revenue declines because unit shipments of Epson brand ink cartridges shrink as sales of third-party alternative products expand and as we lose market share, or if we must lower the prices of Epson brand products to stay competitive, our operating results could be adversely affected.

5. Expanding businesses overseas entails risks for Epson.

We continue to expand our businesses overseas, and overseas revenue accounted for approximately 75% of our consolidated revenue for the business year ended March 2016. We have production sites all over Asia, including China, Indonesia, Singapore, Malaysia and the Philippines, as well as in the United States, the United Kingdom, and other countries. We have also established many sales companies all over the world. As of the end of March 31, 2016, our overseas employees accounted for more than 70% of our total workforce.

We believe that our global presence provides many advantages. For example, it enables us to undertake marketing activities aligned with the market needs of individual regions. It also makes us cost-competitive by reducing manufacturing costs and lead times. There are, however, unavoidable risks associated with overseas manufacturing and sales operations. These include but are not limited to changes in national laws, ordinances, or regulations related to manufacturing and sales; social, political or economic changes; transport delays; damage to infrastructure (e.g., power supply); currency exchange restrictions; insufficient skilled labor; changes in regional labor environments; changes in taxes, regulations or the like protective of trade; and laws, ordinances, regulations or the like related to the import and export of Epson products.

6. Procuring products from certain suppliers entails risks for Epson.

We procure some parts and materials from third parties, but we generally conduct ongoing transactions without entering into long-term purchase agreements. We try to have multi-source relating to parts and materials. However, certain parts and materials are procured from a single source because procuring them from an alternative supplier is not possible. We must have procurement operations that are stable and efficient, so we work with our suppliers to maintain product quality, improve products, and reduce costs. However, if our manufacturing and sales activities were to be disrupted due to things such as supplier's parts shortages or supplier's quality problems, our operating results could adversely be affected.

7. Problems could arise relating to quality issues.

The existence of quality guarantees on Epson products and the details of those guarantees differ from one customer account to another, depending on the agreement we have entered into with them. If an Epson product is defective or does not conform to the required standard, it may have to be replaced or repaired or otherwise reworked at Epson's expense. Or, if the product causes personal injury or property damage, we could bear product liability or hold other liability.

We could also be liable to a customer and could incur expenses for repairs or corrections on the grounds that we did not adequately display or explain an Epson product's features or performance. Furthermore, product quality problems could cause loss of trust in Epson products, and we could lose major accounts or see a drop in demand for our products, any of which might adversely affect our operating results.

8. Epson's intellectual property rights activities expose Epson to certain risks.

Patent rights and other intellectual property rights are extremely important for maintaining our competitiveness. We have independently developed many of the technologies we need, and we acquire patent rights, trademark rights, and other forms of intellectual property rights for them both in Japan and overseas. We also license the intellectual property rights for products and technologies by entering into agreements with other companies. We must strengthen our intellectual property portfolio by placing personnel in key positions to manage our intellectual property.

If any of the situations envisioned below relating to intellectual property were to occur, our operating results could adversely be affected.

- An objection might be raised to, or an application to invalidate might be filed with respect to, an intellectual property right of Epson, and as a result, that right might be recognized as invalid.
- A third party to whom we originally had not granted a license could come to possess a license as a result of a merger with or acquisition by another party, potentially causing us to lose the competitive advantage conferred by that intellectual property.
- New restrictions could be imposed on an Epson business as a result of a buyout or a merger with a third party, and we could be forced to spend money to find a solution to those restrictions.
- Intellectual property rights that we hold might not give us a competitive advantage, or we might not be able to use them effectively.
- We or any of our customers could be accused by a third party of infringing on intellectual property rights, which could force us to spend a large amount of time and money to resolve this and associated issues, or which could interfere with our efforts to focus our management resources.
- If a third-party's claim of intellectual property right infringement were to be upheld, we could incur material damage if required to pay large amounts in compensation or royalties or if forced to stop using the applicable technology.
- A suit could be brought against Epson by an employee or other person seeking remuneration for an invention or the like, potentially forcing us to spend significant time and money to resolve the issue and, depending on the outcome, potentially requiring us to pay a large sum as remuneration.

9. Epson is vulnerable to risks of problems arising relating to the environment.

Epson is subject, both in Japan and overseas, to various environmental regulations concerning industrial waste and emissions into the atmosphere that arise from manufacturing processes. Environmental conservation is one of our most important management policies, and we proactively engage in environmental conservation efforts on a variety of fronts, in line with "Environmental Vision 2050" and our mid-range action plans. For example, we have programs to develop and manufacture products that have a small environmental footprint. We also have programs to reduce energy use, promote the recovery and recycling of end-of-life products, ensure compliance with international substance regulations (primarily the RoHS Directive and REACH regulations in the EU), and improve

environmental management systems. Thanks to these efforts, we have not had any serious environmental issues to date. In the future, however, it is possible that an environmental problem could arise that would require us to pay damages and/or fines, bear costs for cleanup, or force a halt of production. Moreover, new regulations could be enacted that would require major expenditures, and, if such a situation should occur, Epson's operating results could be adversely affected.

10. Epson faces risks concerning the hiring and retention of personnel.

We must hire and retain talented personnel both in Japan and overseas to develop advanced new technologies and manufacture advanced new products, but the competition for such personnel is becoming increasingly intense. We must hire and retain talented personnel by, for example, introducing compensation and benefit packages that are commensurate with roles and by proactively promoting people with the right skills overseas. If we are unable to continue to hire and keep enough of such employees, or if we are unable to pass along technologies and skills, we could find it difficult or impossible to execute our business plans.

11. Fluctuations in foreign currency exchanges create risks for Epson.

A significant portion of our revenue is denominated in U.S. dollars or the euro. We expanded our overseas procurement and moved our production sites overseas, so our dollar-denominated expenses currently exceed our dollar-denominated revenue. On the other hand, our euro-denominated revenue is still significantly greater than our euro-denominated expenses. On the whole, our revenues in other foreign currencies also significantly exceed our expenses in those currencies. Also, although we use currency forwards and other means to hedge against the risks inherent in foreign currency exchanges, unfavorable movements in the exchange rates of foreign currencies such as the U.S. dollar, euro, or other foreign currencies against the yen could adversely affect our financial situation and financial results.

12. There are risks inherent in pension systems.

We have a defined-benefit pension plan and a lump-sum payment on retirement as defined-benefit plans. We revised the defined-benefit retirement pension plan in April 2014 in response to a drop in the rate of return on pension assets and an increase in the number of beneficiaries. The revisions are designed to enable us to adapt to future market changes and maintain stable operations into the future. However, if there is a change in the operating results of the pension assets or in the ratio used as the basis for calculating retirement allowance liabilities, our financial position and operating results could be adversely affected.

13. Epson is vulnerable to proceedings relating to antitrust laws and regulations.

With business operations that span the globe, Epson is subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and those protecting fair trade. Overseas authorities sometimes investigate or gather information on certain industries and, in conjunction with this, Epson's market conditions and sales methods may come under investigation. Such investigations and proceedings, or violations of applicable statutes, could interfere with our sales activities. They could also potentially damage Epson's credibility or result in a large civil fine. Any of these could adversely affect our operating results. Seiko Epson and certain of its consolidated subsidiaries are currently under investigation by some competition authorities regarding allegations of involvement in a liquid crystal display price-fixing cartel. It is difficult at this time to predict the outcome of these investigations and when they may be settled.

14. Epson is at risk of material legal actions being brought against it.

Epson conducts businesses internationally. We are engaged primarily in the development, manufacture and sales of printing solutions, visual communications equipment, and wearable and industrial products, as well as the provision of services related thereto. Given the nature of these businesses, there is a possibility that an action could be brought or legal proceedings could be started against Epson regarding, for example, intellectual property rights, product liability, antitrust laws or environmental regulations.

As of the date we submitted our Annual Securities Report, Epson was contending with the following material actions.

In June 2010, Epson Europe B.V. ("EEB"), a consolidated subsidiary of Seiko Epson, brought a civil suit against La SCRL Repobel ("Repobel"), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. With Repobel subsequently filing a suit against EEB, the two lawsuits were adjoined. EEB's claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

Apart from this, civil actions have been brought against Epson and certain of our consolidated subsidiaries by customers in the United States, regarding allegations of involvement in a liquid crystal display price-fixing cartel. It is difficult at this time to predict the outcome of these civil actions and when they may be settled, but our operating results and future business could be affected, depending on the outcomes of suits and legal proceedings.

15. Epson is vulnerable to certain risks in internal control over financial reporting.

We are building and using internal controls to ensure the reliability of financial reporting. With the establishment and operation of internal controls for financial reporting high on our list of important management issues, we have been pursuing a Group-wide effort to audit and improve corporate oversight of our Group companies. However, since there is no assurance that we will be able to establish and operate an effective internal control system on a continuous basis, and since there are inherent limitations to internal control systems, if the internal controls that Epson implements fail to function effectively, or if there are deficiencies in internal control over financial reporting or material weaknesses in the internal controls, it might adversely affect the reliability of our financial reporting.

16. Epson is vulnerable to risks inherent in its tie-ups with other companies.

One of our business strategy options is to enter into business tie-ups with other companies. However, the parties may review the arrangements of tie-ups, and there is a possibility that tie-ups could be dissolved or be subject to changes. There is also no assurance that the business strategy of tie-ups will succeed or contribute to our operating results exactly as expected.

17. Epson could be severely affected in the event of a natural or other disaster.

We have research and development, procurement, manufacturing, logistics, sales and service sites around the globe, and our operating results could be adversely affected by any number of unpredictable events, including but not limited to natural disasters, pandemics involving new strains of the influenza virus, infection by computer viruses, leaks or theft of customer data, failures of mission-critical internal IT systems, supply chain disruptions, and acts of terrorism or war.

The central region of Nagano Prefecture, home to some of our key plants and offices, has numerous cities and towns designated as “Areas Requiring Enhanced Measures to Respond to Earthquake Disasters” due to the high risk of a large-scale disaster in the event of an earthquake in the Tokai region. Moreover, an active fault line traces the Itoigawa–Shizuoka geotectonic line through the middle of the Nagano Prefecture region.

We revised our earthquake-response policy after the new designation of Areas Requiring Enhanced Measures to Respond to Disasters in April 2002, and we planned disaster drills, prepared earthquake disaster management and response plans, and established business continuity plans to mitigate the effects of disasters to the extent possible. However, if a major earthquake occurs in the central region of Nagano Prefecture, it is possible that, despite these countermeasures, the effect on Epson could be extreme.

Although Epson is insured against losses arising from earthquakes, the scope of indemnification is limited.

18. Laws, regulations, or licenses and the like pose risks for Epson.

Epson is a multinational corporation with a variety of business operations around the globe. We ensure compliance with the laws and regulations of the countries in which we operate by building a robust compliance framework in each country and each business and by communicating the nature and importance of compliance requirements internally. To expand our businesses in the future, we must strengthen our sales and marketing activities that target new customers, including public institutions, and we plan to develop new areas, such as the health and medical markets, where greater adherence to all forms of relevant laws, regulations, and compliance (compliance with laws and regulations) is demanded.

Compliance remains high on our list of important management issues, and we are developing measures to prevent and control potential issues as appropriate. However, if we were to violate or potentially violate laws and regulations relating to, among others, corruption, advertising and labeling, personal data and privacy protection, or export control, or if the authorities were to introduce stricter laws and regulations or impose more stringent laws, we could see our credibility damaged, could become subject to the imposition of a large civil fine, or could see constraints placed on our business activities. We could also see the costs of complying with such laws and regulations increase, and any of the foregoing could adversely affect our financial performance and future business development.

Business Conditions

1. Overview of business results

(1) Operating results

The global economic recovery in the fiscal year under review lost momentum primarily due to an economic deceleration in China and other emerging nations and plummeting resource prices. Regionally, the U.S. economy continued to gradually expand, leading the Federal Reserve to raise interest rates in December after seven years near zero, as job growth and an improved labor market fueled rising wages and buoyed consumption, but a cautious approach to interest rate hikes is being taken. The Latin American economy slowed due to falling prices for natural resources and currency devaluations. The European economy as a whole continues to gradually recover, but elements of uncertainty remain, such as the refugee problem and Russian recession. The Chinese economy is gradually decelerating. In other Asian countries, on the other hand, there were signs that domestic demand was behind a pickup in economic activity. In Japan, employment and the income environment continued to improve partly in response to government fiscal and monetary policies, but the economy as a whole tread water due to factors such as uncertainty caused by an economic slowdown in emerging countries and pressure on the earnings of exporters as a result of the surge in the value of yen after the start of the year.

The situation in the main markets of the Epson Group (“Epson”) was as follows.

Inkjet printer demand was flat year on year in North America and Europe. Large-format inkjet printer demand was firm in North America and Japan, but demand in Latin America was subdued due to the effects of economic deceleration. Serial-impact dot-matrix (SIDM) printer demand was firm in China owing to upgrade demand in the tax collection systems market, but demand continued to contract in the Americas and Europe. Demand for point-of-sale (POS) system products remained stable in North America, Europe, and Japan.

Demand for projectors in the European education market was weak. It was also subdued in China largely due to concerns about an economic downturn and in Latin America due to the effects of an economic slowdown.

Cell phones and digital cameras are the main applications markets for Epson’s electrical devices. In the cell phone market, demand for feature phones continued to decline while demand for smart phones remained firm. Demand in the digital camera market was subdued.

In the precision products market, demand for watches was generally firm in Europe but weakened in Japan in the second half due to soft demand from overseas visitors and in China due to a slowdown in spending. Demand for industrial robots increased in the electronics and electrical machinery industry in response to a growing need for automation.

Against this backdrop, Epson established a new 10-year corporate vision called “Epson 25” that will steer Epson’s activities up to the start of the 2025 fiscal year. At the same time, Epson introduced the Epson 25 Mid-Range Business Plan (FY2016-2018), a three-year plan for the first phase of work toward achieving the Epson 25 vision. Epson 25 was created based on an understanding of the mega trends, changes, and other forces that will shape Epson’s business in the future. It contains the following vision statement: “Creating a new connected age of people, things and information with efficient, compact and precision technologies.” In line with this vision, Epson will provide customer value in the form of smart technology, the environment, and performance. The Mid-Range Business Plan (FY2016-2018) is a roadmap for the first phase of work toward achieving the Epson 25 vision. During this phase Epson will sustain the momentum it gained by strategically adopting new business models and developing new market segments under the previous corporate vision. At the same time, it will move forward on product development while aggressively investing as needed to provide a solid business foundation. Specifically, Epson will continue to grow by further increasing its competitive edge in businesses where SE15 strategic initiatives were successful, and to quickly address issues and establish a path to growth in businesses where Epson was unable to fully advance.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the 2015 fiscal year were ¥120.14 and ¥132.58, respectively. This represents a 9% depreciation in the value of the yen against the dollar and a 4% appreciation in the value of the yen against the euro, year over year. The yen appreciated against the currencies of some emerging countries in places such as Latin America.

Epson's consolidated full-year financial results reflect the foregoing factors. Revenue was ¥1,092.4 billion, up 0.6% year over year. Business profit was ¥84.9 billion, down 16.1% year over year. Profit from operating activities was ¥94.0 billion, down 28.4% year over year. Profit before tax was ¥91.5 billion, down 30.9% year over year. Profit for the period was ¥46.0 billion, down 59.2% year over year.

Profit from operating activities in the previous fiscal year included a profit resulting from changes in the defined-benefit plan in Japan that reduced past service costs by ¥30 billion. While tax expenses were lower in the previous fiscal year due to the recognition of deferred tax assets arising from the carryforward of unused tax losses, the profit for this fiscal year was weighed down by an increase in tax expenses due to the partial reversal of deferred tax assets arising from the carryforward of unused tax losses.

(Note) Business profit is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

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

The operations grouped within each segment changed effective in the first quarter of the current accounting period in conjunction with a reorganization that took effect on April 1, 2015. The printing systems business, which was included in the information-related equipment segment, the label printer business, which was included in the visual communications business of the former information-related equipment segment, and the industrial inkjet printing systems business, which was included in the former sensing and industrial solutions segment, were merged and are reported under the printing solutions segment. Also, a new visual communications segment was created. All the businesses in the former visual communications business, which was included in the former information-related equipment segment, except the label printer business, are now reported under this segment. In addition, the crystal devices, semiconductors, and precision products businesses, all of which were included in the former devices and precision products segment, and the sensing systems and industrial robots and IC handlers businesses, which were included in the former sensing and industrial solutions segment, were merged. They are now reported under the wearable and industrial products segment.

Printing Solutions Segment

Printer business revenue increased, helped in part by foreign exchange effects.

Inkjet printer revenue increased despite a decline in ink cartridge printer shipments. Revenue jumped because we continued to rapidly expand sales of high-capacity ink tank printers in Asia and elsewhere by reinforcing the lineup and expanding the sales territory. Revenue from consumables also increased, the result of an improved install base composition.

Page printer revenue decreased due to the result of Epson's focus on selling high added value models and due to a decrease in revenue from toners.

SIDM printer total revenue decreased. Although there was continuing stable demand in the Chinese tax collection system market, and although passbook printer sales were driven higher by hardware and system upgrade demand in both Europe and China, unit shipments declined due to the contraction of the European and American markets and a decline in demand in Asian countries other than China.

Revenue in the professional printing business increased, helped in part by foreign exchange effects.

Large-format inkjet printer revenue declined as sales were weighed down by the effects of steep currency devaluations and economic deceleration in Latin America, China's slowing growth, and stepped up price-cutting by competitors in the large photo and color proof printing markets. However, inkjet textile printer revenue grew, driven by an expanded range of applications from apparel to small personal items and interior goods.

POS system product revenue grew primarily because of increased demand for compact receipt printers in the Americas and Europe. Meanwhile, sales of label printers that enable on-demand in-house printing increased along with a growing need for the use of color labels.

Segment profit in the printing solutions segment decreased due to a combination of factors, including ink cartridge printer price competition in Japan and North America; the stronger U.S. dollar, which caused the cost of products manufactured overseas to rise; and strategic investment and spending on mid-term growth.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥736.3 billion, up 0.8% year on year. Segment profit was ¥104.7 billion, down 6.0% year on year.

Visual Communications Segment

Visual communications revenue increased, owing in part to foreign exchange effects. 3LCD projector sales were affected by downward pressure from the effects of a decrease in tender offers in the European education sector, steep currency devaluations and economic deceleration in Latin America, and China's slowing growth. However, sales of new entry-level models were strong in Asia, and unit shipments and revenue increased in North America and Japan.

Segment profit in the visual communications segment decreased primarily due to the decrease in tender offers in the education sector, which led to a decline in sales of high added value products, the appreciation of the dollar, which caused manufacturing costs for products produced overseas to rise, and strategic investment and spending on mid-term growth.

As a result of the foregoing factors, revenue in the visual communications segment was ¥184.0 billion, up 3.9% year on year. Segment profit was ¥15.5 billion, down 19.7% year on year.

Wearable and Industrial Products Segment

Although unit sales of watches and watch movements decreased, revenue in the wearable products business increased primarily owing to higher average selling prices, a result of increased sales of luxury watch models, and foreign exchange effects.

Revenue in the robotics solutions business increased. Although Epson did not receive a large order for industrial robots as it did previous fiscal year, sales grew on increased orders in China, Japan, and Europe. IC handler revenue decreased due to a combination of slowing growth in semiconductors for smartphones and dealer inventory adjustments.

Revenue in the microdevices business decreased despite foreign exchange effects. In crystal devices, sales in the automotive sector grew, but revenue fell due to a combination of price erosion and a decline in unit volume of products used in for cell phones and other personal electronics. Semiconductor revenue decreased due to worsening market conditions.

The surface finishing business, which developed new customers, and the metal powders business, which reported strong sales of high-performance material powders for mobile equipment, both recorded revenue growth.

Segment profit in the wearable and industrial products segment decreased mainly as a result of lower semiconductor sales in the microdevices business and higher manufacturing costs in the wearable products business.

As a result of the foregoing factors, revenue in the wearable and industrial products segment was ¥170.4 billion, down 1.8% year on year. Segment profit was ¥9.8 billion, down 5.0% year on year.

Other

Other revenue amounted to ¥1.4 billion, up 1.1% year on year. Segment loss was ¥0.5 billion compared to a ¥0.3 billion segment loss in the previous fiscal year.

Adjustments

Adjustments to the total profit of reporting segments amounted to negative ¥44.6 billion. (Adjustments in the previous fiscal year were negative ¥39.6 billion.) The loss mainly comprises selling, general and administrative expenses for areas that do not correspond to the reporting segments, such as research and development expenses for new businesses and basic technology, and general corporate expenses.

(2) Cash Flow Performance

Net cash provided by operating activities during the year was ¥113.0 billion, compared to ¥108.8 billion in the previous fiscal year. While recording ¥46.0 billion in profit for the period, net cash was positively affected by factors such as the recording ¥45.9 billion in depreciation and amortization and the difference of ¥45.4 billion in income taxes recorded and ¥20.7 billion in income taxes paid.

Net cash used in investing activities totaled ¥51.5 billion compared to ¥32.7 billion in the previous fiscal year. Epson used ¥66.1 billion in the acquisition of property, plant and equipment and intangible assets. Proceeds from sales of investment property provided ¥13.9 billion in cash.

Net cash used in financing activities totaled ¥67.1 billion compared to ¥55.3 billion in the previous fiscal year. Epson recorded a ¥40.0 billion redemption of bonds issued and ¥25.0 billion in dividends paid.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥230.4 billion compared to ¥245.3 billion at the end of the previous fiscal year.

(3) Parallel disclosure

Differences between the main items on IFRS consolidated financial statements and those on consolidated financial statements prepared based on Japanese accounting standards

(Expenses associated with post-employment benefits)

Under Japanese accounting standards, Epson wrote off actuarial gains and losses and past service costs over a certain period of time. Under IFRS, remeasurements of net defined benefit liabilities (assets) are recognized in full as other comprehensive income in the period in which they are incurred and transferred to retained earnings immediately. Past service costs are recognized as a net loss either in the period when the plan is amended or curtailed, or in the period when associated restructuring costs or termination benefits are recognized, whichever is earlier. Since actuarial assumptions for defined benefit liabilities differ, retirement benefit costs are additionally recognized.

Due to these effects, the cost of sales and selling, general and administrative expenses, and finance costs in the previous fiscal year increased by ¥6.2 billion when calculated based on IFRS rather than Japanese standards, while other operating income increased by ¥30.0 billion and other comprehensive income decreased by ¥1.5 billion. The cost of sales, selling, general and administrative expenses, and finance costs in the fiscal year increased by ¥3.8 billion, while other comprehensive income decreased by ¥22.1 billion.

*Please refer to the following for Epson's financial results for previous fiscal years:

<http://global.epson.com/IR/>

2. Manufacturing, orders received and sales

(1) Actual manufacturing

The following table shows actual manufacturing information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2016 (From April 1, 2015, to March 31, 2016) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	704,994	99.1
Visual communications	166,687	93.5
Wearable & Industrial products	163,986	96.3
Total for the reporting segments	1,035,668	97.7
Other	505	77.1
Total	1,036,173	97.7

Notes

1. The above figures are based on sales prices. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. The above figures include outsourced manufacturing.

(2) Orders received

Epson's policy is to manufacture products based on sales forecasts. Accordingly, this section does not apply.

(3) Actual sales

The following table shows actual sales information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2016 (From April 1, 2015, to March 31, 2016) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	736,033	100.8
Visual communications	183,997	104.0
Wearable & Industrial products	164,384	98.1
Total for the reporting segments	1,084,415	100.9
Other	753	93.2
Total	1,085,169	100.9

Notes

1. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. No customer accounts for more than 10% of the actual total sales.

3. Analysis of financial condition and results of operations

(1) Analysis of operating results

Revenue

Consolidated revenue was ¥1,092.4 billion, a year-over-year increase of ¥6.1 billion (0.6%).

Revenue for each reporting segment is discussed below.

Revenue in the printing solutions segment was ¥736.3 billion, a year-over-year increase of ¥5.5 billion (0.8%).

The most significant factors that contributed to this change are as follows.

Inkjet printer revenue continued to sharply expand particularly in Asia despite a decline in ink cartridge printer shipments, owing to a reinforced lineup of high-capacity ink tank printers and an expanded sales territory.

Revenue from consumables rose in conjunction with an improved composition of the install base. Page printer revenue decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of Epson's focus on selling high added value models. SIDM printer revenue increased due to sustained steady demand in the Chinese tax collection system market, as well as to hardware and system upgrade demand, which fueled sales of passbook printers in Europe and China. On the other hand, unit shipments declined in Europe and Americas due to a contraction of those markets and a decline in demand in Asian countries other than China. Large-format inkjet printer revenue grew even though sales were weighed down by the effects of steep currency devaluations and economic deceleration in Latin America, China's slowing growth, and stepped up price-cutting by competitors in the large photo and color proof printing markets. This revenue growth was driven by an expanded range of applications for inkjet textile printers, from apparel to small personal items and interior goods. POS system product revenue grew primarily because of increased demand for compact receipt printers in the Americas and Europe. Meanwhile, revenue from label printers that enable on-demand in-house printing increased along with a growing need for the use of color labels.

Revenue in the visual communications segment was ¥184.0 billion, a year-over-year increase of ¥6.8 billion (3.9%). The most significant factors that contributed to this change are as follows.

3LCD projector revenue increased despite downward pressure on revenue from the effects of a decrease in tender offers in the European education sector, steep currency devaluations and economic deceleration in Latin America, and China's slowing growth, as sales of new entry-level models were strong in Asia, and unit shipments and revenue increased in North America and Japan.

Revenue in the wearable and industrial products segment was ¥170.4 billion, a year-over-year decrease of ¥3.0 billion (1.8%). The most significant factors that contributed to this change are as follows.

Quartz revenue decreased despite increased automotive sales. The decrease was due to a combination of price erosion and a decline in unit volume of products used in for cell phones and other personal electronics.

Semiconductor revenue decreased primarily because of market weakness. Watch revenue increased despite a decline in watch and watch movement unit shipments. The increase is attributed primarily to growth in sales of premium watches, which lifted average selling prices, and foreign exchange effects. Despite the lack of a large order such as that received in the previous fiscal year, industrial robot revenue grew on increased orders from China, Japan, and Europe. IC handler revenue decreased due to a combination of slowing growth in smartphone chips and dealer inventory adjustments. Revenue increased in the surface finishing business, which developed new customers, and in the alloy powders business, which reported strong sales of high-performance material powders for mobile equipment.

In the "other" segment, revenue was ¥1.4 billion, a 1.1% increase compared to the previous fiscal year.

Cost of sales and gross profit

Cost of sales was ¥694.8 billion, a year-over-year increase of ¥4.4 billion (0.6%). The increase in cost of sales is primarily associated with foreign exchange effects.

As a result, gross profit was ¥397.6 billion, up ¥1.7 billion (0.4%) year over year.

Selling, general and administrative expenses and business profit

Selling, general and administrative (SG&A) expenses were ¥312.7 billion, an increase of ¥18.0 billion (6.1%).

The increase in selling, general and administrative expenses is primarily due to foreign exchange effects as well

as greater spending on advertising and sales promotions to increase brand recognition and increased spending on research and development on new products.

As a result, business profit was ¥84.9 billion, down ¥16.3 billion (16.1%) year over year.

Segment profit (business profit) in each reporting segment was as follows.

Segment profit in the printing solutions segment was ¥104.7 billion, a year-over-year decrease of ¥6.7 billion (6.0%). This decrease was due to a combination of factors, including but not limited to foreign exchange effects; ink cartridge printer price competition in Japan and North America; the stronger U.S. dollar, which caused the cost of products manufactured overseas to rise; and strategic investment and spending.

Segment profit in the visual communications segment was ¥15.5 billion, a year-over-year decrease of ¥3.8 billion (19.7%). In addition to foreign exchange effects, this decrease was largely due to a decrease in sales of high added value products that was connected to a decline in education market orders in Europe.

Segment profit in the wearable and industrial products segment was ¥9.8 billion, a year-over-year decline of ¥0.5 billion (5.0%). This decline resulted from factors such as lower semiconductor revenue and higher watch manufacturing costs.

Segment loss in the “other” segment was ¥0.5 billion, compared to a ¥0.3 billion loss in the previous fiscal year.

As for adjustments, segment loss increased to ¥44.6 billion compared to the ¥39.6 billion loss incurred in the previous fiscal year. Adjustments consisted primarily of patent royalties and R&D expenses for basic research that do not belong to a reporting segment, and SG&A expenses, primarily comprising expenses associated with new businesses and Head Office functions.

Other operating income, other operating expenses, and profit from operating activities

Other operating income was ¥14.8 billion, a year-over-year decrease of ¥25.0 billion (62.9%). Other operating income decreased mainly because the figure from the previous fiscal year included a ¥30.0 billion positive effect associated with reduced past service costs accompanying changes in the defined-benefit plan in Japan.

Other operating expenses totaled ¥5.7 billion, a year-over-year decrease of ¥4.0 billion (41.5%). This decrease was mainly due to the recording of a foreign exchange gain this fiscal year, whereas in the previous fiscal year Epson recorded a ¥2.5 billion foreign exchange loss.

Finance income and finance costs

Finance income was ¥1.6 billion, a year-over-year decrease of ¥1.6 billion (49.5%). The decrease in finance income was primarily due to a decrease in interest income. Finance costs were ¥4.2 billion, a year-over-year increase of ¥1.9 billion (83.3%). The increase in finance costs was primarily due to an increase in foreign exchange loss.

Profit before tax

The foregoing resulted in profit before tax of ¥91.5 billion, a year-over-year decrease of ¥41.0 billion (30.9%).

Income taxes

Income taxes were ¥45.4 billion, a year-over-year increase of ¥26.7 billion (143.8%). While tax expenses were lower in the previous fiscal year due to the recognition of deferred tax assets arising from the carryforward of unused tax losses, this fiscal year income taxes increased mainly due to an increase in tax expenses resulting from the partial reversal of deferred tax assets arising from the carryforward of unused tax losses.

Profit for the year

Profit for the year was ¥46.0 billion, down ¥66.7 billion (59.2%) year over year.

(2) Liquidity and capital resources

Cash flow

Net cash provided by operating activities was ¥113.0 billion, an increase of ¥4.2 billion compared to the previous fiscal year. Although the decrease in profit for the period and trade payables were a ¥66.7 billion and ¥8.9 billion negative impact, respectively, net cash provided by operating activities increased mainly because of a ¥26.8 billion effect from increased net defined benefit liabilities, a ¥26.7 billion effect from increased income taxes, and a ¥25.8 billion effect resulting from a decrease in inventories.

Net cash used in investing activities totaled ¥51.5 billion, increasing by ¥18.8 billion year on year. This increase

was mainly due to a ¥23.3 billion increase in outlays associated with the acquisition of property, plant and equipment and intangible assets.

Net cash used in financing activities totaled ¥67.1 billion, increasing by ¥11.7 billion year on year despite a ¥28.3 billion net increase in short-term loans payable. This increase is chiefly due to the effects of a ¥12.1 billion increase in dividends paid, a ¥10.0 billion decline in proceeds from issuance of bonds, and a ¥20.0 billion increase in payments due to redemption.

As a result of the foregoing factors, cash and cash equivalents at the end of the fiscal year stood at ¥230.4 billion, a decrease of ¥14.8 billion compared to the end of the previous fiscal year, giving Epson sufficient liquidity.

Total interest-bearing liabilities were ¥141.7 billion, down ¥44.2 billion compared to the end of the previous fiscal year owing to repayment.

Long-term loans payable (excluding the current portion) at the end of the period totaled ¥50.0 billion, at a weighted average interest rate of 0.68% due in 2017. These borrowings were obtained as unsecured bank loans.

Financial condition

Total assets were ¥941.3 billion, down ¥64.9 billion compared to the end of the previous fiscal year. While there was a ¥17.2 billion increase in property, plant and equipment, total assets decreased mainly because of a ¥15.8 billion decrease in trade and other receivables, an ¥18.8 billion decrease in inventories, a ¥23.5 billion decrease in deferred tax assets, and cash and cash equivalents decreased by ¥14.8 billion, in part due to the redemption of bonds payable and dividends paid.

Total liabilities were ¥470.6 billion, down ¥38.3 billion compared to the end of the previous fiscal year. While there was a ¥23.6 billion increase in net defined benefit liabilities, total liabilities decreased mainly because of a ¥9.4 billion decrease in trade and other payables and a ¥43.9 billion decrease in other financial liabilities included in current and non-current liabilities accompanying the redemption of bonds payable.

The equity attributable to owners of the parent company totaled ¥467.8 billion, a ¥26.5 billion decrease compared to the previous fiscal year end. Epson recorded a ¥46.0 billion profit for the period, but with retained earnings flat year on year mainly due to decreases associated with the recording of ¥25.0 billion in dividend payments and a ¥22.1 billion remeasurement of defined benefit plan net liabilities, the decrease in equity attributable to owners of the parent company was largely due to a ¥25.0 billion decrease in other components of equity, including a decrease in exchange differences on translation of foreign operations accompanying the rise of the yen against some other currencies.

Working capital, defined as current assets less current liabilities, was ¥276.4 billion, a decrease of ¥18.5 billion compared to the end of the previous fiscal year.

The ratio of interest-bearing liabilities to total assets declined to 15.1% from 18.5% at the end of the previous fiscal year.

4. Research and development activities

Epson conducts research and development to create products and services that offer value that exceeds customer expectations. We seek to create value by driving advances in Micro Piezo inkjet technology, microdisplays, sensing, and robotics, all of which are unique core technologies that evolved from the efficient, compact, and precision technologies that have become embedded in Epson's DNA. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.

The R&D organizations in our operations divisions follow these basic guidelines to develop core technologies and shared technology platforms that will strengthen Epson's market position, in both the near and long term. Meanwhile, the mission of Corporate R&D is to develop new and existing core technologies as well as shared technology platforms so as to create new businesses and revolutionize existing ones.

Total R&D spending during the fiscal year was ¥53.1 billion. The printing solutions segment accounted for ¥22.1 billion, the visual communications segment for ¥10.2 billion, and the wearable and industrial products segment for ¥6.5 billion. The "other" segment and corporate segment accounted for the remaining ¥14.1 billion. The main R&D accomplishments in each segment are described below.

Printing solutions segment

The printer business launched as its flagship consumer inkjet printer model an A3 all-in-one that produces stunning color and monochrome photographic prints thanks to Epson ClearChrome K2 ink, a new six-color dye ink set that has red and grey ink in addition to the standard cyan, magenta, yellow, and black colors. This product is Epson's first consumer printer to come fully equipped with the Logical Color Conversion System (LCCS), color-generating technology that is used in Epson's Proselection series. LCCS realizes smooth gradations, a wide color gamut, and stable image quality.

Epson also launched its fastest-ever A4 business inkjet printer, a model that also boasts a durability rating of 300,000 pages. This product eliminates the stress of waiting for your prints. Its PrecisionCore printhead achieves speeds of approximately 24 images per minute (ipm)¹ in both color and monochrome (compared to a high of 20 ipm for the PX-M840F business inkjet printer). And, with only a short warm-up period needed, first print time for both color and monochrome prints is only about seven seconds.

In the professional printing business, Epson launched new large-format inkjet printers, including a 10-color pigment ink model equipped with UltraChrome HDX ink and an 8-color pigment ink model equipped with UltraChrome HD ink. These printers produce denser blacks because Epson used new ink technology to increase the volume of pigment particles in the photo black ink by about 50% compared to earlier ink². As a result, they are an excellent choice for high-end print applications, such as photos, posters, and proofs.

¹ Images per minute (ipm) indicates the number of images that can be printed under the conditions for the office category of the printing productivity measurement standard established by the International Standards Organization.

² As measured in tests conducted by Epson

Visual communications segment

Epson developed a new lineup of 3LCD projectors for business. The models in this lineup range from products that offer 6,000 lumens³ of brightness to a series of laser projectors that deliver 25,000 lumens of brightness, making them the brightest projectors on the market⁴. These laser projectors are the first LCD projectors on the market to combine an inorganic phosphor wheel and inorganic LCD panels with a laser light source. The superior reliability of the inorganic materials results in up to 20,000 hours⁵ of virtually maintenance-free use.

Epson also developed a sleek new third generation of Moverio smart glasses. These smart glasses are the first in the Moverio series to use an optical engine with Epson's 0.43-inch ultra-compact high-definition color silicon organic light-emitting diode (OLED) displays, and the 100,000:1 contrast enables them to seamlessly merge the projected digital content with the real world better than the previous generation, which had a contrast ratio of 230:1. In addition, Epson optimized the OLED displays specifically for smart glasses, reducing the size of the optical lenses and making Moverio lighter than ever. In fact, the headset itself is 20% lighter than that of the previous model.

Epson also launched sales of a smart headset with advanced features for professional use. The smart headset was developed by using Moverio smart glasses in joint real-world tests in a variety of fields, suggesting ways that smart glasses could help improve work processes, and sharing information about needs identified through these activities with the development team. Binocular, see-through Moverio smart headsets drive greater

efficiency in the workplace by displaying large perceived images in the wearer's field of vision and enabling him or her to work hands-free.

³ Lumen is a unit that indicates the amount of light (the luminous flux) emitted from a light source.

⁴ The brightest on the market as of the end of December 2015, per Epson research.

⁵ The approximate time it takes for brightness to fall to 50% of the initial level.

Wearable and industrial products segment

In the wearable products business, Epson added new products to its line of GPS sports monitors "WristableGPS". Among them are new GPS trekking products "WristableGPS for Trek" equipped with Sensor Fusion Technology, which combines data from multiple sensors to achieve measurements of greater accuracy, thus providing trekkers with greater safety and peace of mind. Epson also released GPS running wearables that offer full support for every activity level. The same wearable can estimate⁶ VO₂ max (the maximum rate of oxygen consumption per kilogram of body mass in one minute), an important indicator of aerobic physical fitness, or simply record a person's activity level with an activity tracking function.

Epson's robotics solutions business developed a compact six-axis (vertically articulated) industrial robot that can be installed in confined spaces thanks to what Epson believes is the world's first retractable, folding arm on a six-axis robot⁷. With a footprint of 600 mm x 600 mm, this robot occupies about 40% less floor space than Epson's earlier equivalent model and weighs only two-thirds as much. Also, with fewer maneuvers needed to avoid collisions, cycle times⁸ are shortened by about 30%.

Epson's microdevices business developed a small, extremely accurate atomic oscillator for communications networks and industrial applications. This product is one-sixteenth the size of Epson's earlier model (75cc vs. 1,200cc) yet provides the same level of long-term frequency stability, the result of an Epson-engineered VCSEL (vertical cavity surface emitting laser) and specially designed IC. In addition, power consumption is one-sixth that of the previous model owing to the optimization of the control system.

⁶ VO₂ max is estimated from running speed and heart rate but can also be measured when the right running conditions are met.

⁷ The arm was announced at the end of October 2015, making it the first on a six robot, per Epson research.

⁸ The time required to perform a certain defined task in a manufacturing process

Other and corporate

In November 2015 Epson announced the development of the PaperLab, the world's first compact in-office paper recycler that produces new paper from used paper (ordinary copier paper in A4 and A3 sizes) in an essentially water-free process (a small amount of water is used to maintain humidity inside the machine)⁹.

Information on the used paper is completely and securely destroyed in the process. Epson, which sells high-speed, energy-efficient business inkjet printers that deliver crisp, vivid output at a low cost per print, helps customers improve the efficiency of their operations by providing value through printouts. In the future, we will also develop a smart recycling business that will change the future of paper by enabling offices to recycle their used paper and produce new paper on-site. Epson plans to commercialize the PaperLab in 2016. Enterprises and government offices that install a PaperLab will be able to produce a variety of paper types—office paper of different thicknesses, business card paper, and even colored and scented paper—right in a back office.

⁹ The first to use a dry papermaking process, per Epson research.

5. Issues for Fiscal 2016

Seiko Epson Corporation (“Epson”) will begin the 2016 fiscal year under a new 10-year corporate vision and a new mid-range business plan. The Epson 25 Corporate Vision describes what Epson would like to achieve by the start of the 2025 fiscal year. Meanwhile, the Epson 25 Mid-Range Business Plan (FY2016-18) is a three-year plan for the first phase of work toward achieving the vision.

Epson will look to sustain growth and increase corporate value over the medium- to long term by steadily executing the strategies described below.

(1) Epson 25 Corporate Vision

The Epson 25 Corporate Vision (hereafter called “Epson 25”), which was created based on an understanding of the mega trends, changes, and other forces that will shape Epson’s business in the future, contains the following vision statement: “Creating a new connected age of people, things and information with efficient, compact and precision technologies.”

“Efficient, compact and precision technologies” are original technologies that will create the value that Epson will provide to its customers in three areas: smart technologies, the environment, and performance.

Smart technologies. Use advanced products and software so customers can easily, conveniently, and securely use our products anywhere and anytime.

Environment. Contribute to the development of a sustainable society by leveraging efficient, compact and precision technologies to reduce the environmental impact of products and services across their life cycles.

Performance. Create new and higher value by providing outstanding products that contribute to customer productivity, accuracy and creativity.

Advances in information and communication technology will interconnect vast amounts of information on the Internet, causing cyber space to expand indefinitely. As a manufacturing company that specializes in generating value in the real world, Epson will play an important role in “creating a new connected age of people, things and information” by using attractive, advanced products as leverage to collaborate with IT companies and increase the value of the technologies it provides to customers.

In this “new connected age” Epson aims to free people from repetitive manual labor and from unnecessary wastes of time and energy. Epson’s goal is to heighten people’s creativity, and to create a sustainable and affluent society in which people enjoy safe and healthy lifestyles.

In line with this vision, Epson will provide value in the form of smart technologies, the environment, and performance in four areas of innovation: inkjet innovation, visual innovation, wearables innovation and robotics innovation. Epson will drive innovations in these areas by achieving the vision in each of its businesses. To support the realization of Epson 25, Epson will further strengthen its business infrastructure and company-wide information systems in the areas of human resources, technology, manufacturing, sales, and the environment. Epson set out financial performance targets in Epson 25. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2025 fiscal year, ¥1,700 billion in revenue, ¥200 billion in business profit, a 12% return on sales (business profit*/revenue), and a 15% return on equity (profit for the period/equity attributable to owners of the parent company).

* Business profit is very similar to operating income under Japanese accounting standards (J-GAAP), both conceptually and numerically. Epson began using business profit as an indicator after adopting International Financial Reporting Standards (IFRS) in FY2014 to facilitate comparisons with past results.

Vision in Each Business

Printing: inkjet innovation

Refine original Micro Piezo technology, and expand into high-productivity segments. Improve environmental performance and create a sustainable printing ecosystem.

Visual communications: visual innovation

Refine original microdisplay and projection technologies, and create outstanding visual experiences and a natural visual communications environment for every aspect of business and lifestyles.

Wearables: wearables innovation

Leverage our watchmaking heritage, refine timekeeping and sensing accuracy, and offer a sense of status and fashion.

Robotics: robotics innovation

Combine our core technologies with sensing and smart technologies in manufacturing, expand applications, and create a future in which robots support people in a wide variety of situations.

Microdevices: Support the four innovations

Contribute to Epson's finished products and to the development of smart communications, power, transportation and manufacturing systems with advanced Epson quartz timing and sensing solutions and low-power semiconductor solutions.

(2) Epson 25 Mid-Range Business Plan (FY2016-2018)

The Epson 25 Mid-Range Business Plan (FY2016-2018) is a roadmap for the first phase of work toward achieving the Epson 25 vision. During this phase Epson will sustain the momentum it gained by strategically adopting new business models and developing new market segments under the previous corporate vision. At the same time, it will move forward on product development while aggressively investing as needed to provide a solid business foundation.

The basic strategy for achieving this will be to continue to grow by further increasing its competitive edge in businesses where SE15 strategic initiatives were successful, and to quickly address issues and establish a path to growth in businesses where Epson was unable to fully advance. Epson will look to ensure growth by creating products and services that generate customer value in smart technologies, the environment, and performance, as the Epson 25 aims to achieve. While taking care to grow profit over the short term, Epson will also invest management resources as appropriate, quickly establish new business models, and strengthen its sales organizations to achieve the Epson 25 vision. Epson will also position itself for future growth by pursuing the business strategies below and by building up its business infrastructure.

These moves will enable Epson to aim to achieve the following financial performance targets in FY2018, the final year of the phase 1 plan. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2018 fiscal year, ¥1,200 billion in revenue, ¥96 billion in business profit, an 8% return on sales, and a 10% or higher return on equity on a continuous basis.

Strategies in Each Business

- In the printer business Epson will aim to establish a competitive advantage in the home printer market by boosting the attractiveness of its products and to getting office market development on track with linehead models.
- In professional printing, Epson will establish a competitive advantage with hardware, improve support and other organizational infrastructure, and achieve solid growth in new domains.
- In visual communications Epson will further strengthen its presence in the projection market and use laser light sources to pave the way to rapid growth in new markets.
- In wearable products, Epson will lay the foundation for building wearables into a core business by refining watch resources and combining them with sensors to create families of differentiated products.
- In robotics solutions Epson will create a framework for growth on top of its technology base.
- In microdevices, Epson will create a stable business platform in the quartz business by building competitive strength. The semiconductor business, meanwhile, will create new core technologies and devices.

Strengthening Business Infrastructure

Technology. Refine our efficient, compact and precision technologies, advance our actuator, optical control, and sensor technologies, and bring in data communications technology to continue to create new customer value.

Manufacturing. Provide timely products that others cannot easily imitate. Offer them at highly competitive costs and quality.

Sales and support. Strengthen the office and industrial domains, establish optimum area sales organization, improve products quality with a market-driven (market-in) approach, and transform the brand image.

Environment. Expand initiatives to reduce environmental impacts across product and service life cycles and supply chains.

6. Dividend policy

The Company strives to sustain business growth through the creation of customer value and to generate stable cash flow by improving profitability and using management resources efficiently. While the top priority is on strategic investment in growth, the Company also actively returns profits in parallel with its efforts to build a robust financial structure that is capable of withstanding changes in the business environment.

In line with this policy, the Company has set a consolidated dividend payout ratio in the range of 40% as a medium-term target, the ratio based on profit after an amount equivalent to the statutory effective tax rate is deducted from business profit, a profit category that shows profit from the Company's main operations (and which is very similar to operating income under Japanese accounting standards, both conceptually and numerically). The Company intends to be more active in giving back to shareholders by agilely repurchasing shares as warranted by share price, the capital situation, and other factors.

The Company's dividend policy is to pay cash dividends twice a year. The year-end dividend is determined by resolution of the general shareholders' meeting and the interim dividend is determined at a meeting of the board of directors.

Although there is evidence that the near-term economic environment has been deteriorating, the Company's full-year financial performance was in line with the outlook primarily as a result of strategic progress in the Company's businesses. The Company therefore has paid an annual dividend of ¥60 per share, as forecast at the beginning of the fiscal year. (Epson declared a two-for-one stock split of the Company's common shares, effective April 1st, 2015.)

The Company's Articles of Incorporation allow the Company to issue an interim dividend with a record date of September 30 every year by resolution of the board of directors.

The Company's distribution of retained earnings for the fiscal year under review is as follows.

Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 29, 2015, by resolution of the board of directors	10,733	30
June 28, 2016, by resolution of the general shareholders' meeting	10,733	30

Corporate Governance

1. Approach to corporate governance

(1) Basic corporate governance principles

The general principles of corporate governance at Epson are as follows:

- Respect the rights of shareholders, and ensure equality.
- Bear in mind the interests of, and cooperate with, stakeholders, including shareholders, customers, local communities, business partners, and Epson personnel.
- Appropriately disclose company information and maintain transparency.
- Directors, executive officers, and special audit & supervisory officers shall be aware of their fiduciary duties and shall fulfill the roles and responsibilities expected of them.
- Engage in constructive dialogue with shareholders.

To achieve the goals declared in the Management Philosophy, promote sustainable growth, and increase corporate value over the medium and long terms, Epson strives to continuously enhance and strengthen corporate governance so as to realize transparent, fair, fast, and decisive decision-making. With the approval of a resolution at the June 28, 2016 general shareholders' meeting, Epson transitioned to a company with an Audit & Supervisory Committee, as we believe this is the best structure for Epson to further improve the supervisory function of the Board of Directors, improve discussions, and speed up decision-making.

As a company with an Audit & Supervisory Committee, Epson will further improve the supervisory function of the Board of Directors, improve discussions, and speed up decision-making to further increase the effectiveness of corporate governance.

(2) Corporate governance system

Outline

Structured as a company with an Audit & Supervisory Committee, Epson will strengthen its management monitoring and supervisory functions. Moreover, by separating management supervision and operations functions, we have built a structure that will allow rapid decision-making.

The main corporate management bodies and their aims are described below:

Board of Directors

The Board of Directors, with a mandate from shareholders, is responsible for realizing efficient and effective corporate governance, through which Epson will accomplish its social mission, sustain growth, and maximize corporate value over the medium and long terms. To fulfill these responsibilities, the Board of Directors will exercise a supervisory function over general management affairs, maintain management fairness and transparency, and make important business decisions, including decisions on things such as management plans, business plans, and investments exceeding a certain amount.

The Board of Directors is composed of 12 directors, including five outside directors. Meetings of the Board of Directors are held basically once per month and as needed. The Board of Directors makes decisions on basic business policies, important business affairs, and other matters that the Board of Directors is responsible for deciding as provided for in internal regulations. Business affairs that the Board of Directors is not responsible for deciding are delegated to executive management, and the Board monitors these. To speed up business decisions and increase business agility as a company with an Audit & Supervisory Committee, Epson expanded the scope of affairs delegated to executive management from the Board of Directors and limits board deliberations to only the most important issues. Epson, whose Corporate Governance Policy states that at least one-third of the board members should be outside directors, will work to further improve the supervisory function of the Board of Directors.

Audit & Supervisory Committee

The Audit & Supervisory Committee, with a mandate from shareholders, is responsible for independently and objectively auditing and monitoring the execution of director duties and for ensuring the sound and sustained growth of Epson. The Audit & Supervisory Committee has established criteria for properly evaluating accounting auditors that are being considered for selection. Even after selecting them, the Audit & Supervisory Committee verifies that accounting auditors possess the necessary independence and expertise. The Audit & Supervisory Committee conducts audits in cooperation with internal audit departments, accounting auditors, and others.

The Audit & Supervisory Committee is composed of four Audit & Supervisory Committee members, three of whom are outside directors. It is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held once per month and as needed.

Corporate Strategy Council

The Corporate Strategy Council is an advisory body to the president whose purpose is to help ensure that the right decisions are made based on a range of opinions on the executive management side. Meetings of the Corporate Strategy Council are where directors, executive officers, and special audit & supervisory officers exhaustively examine important business topics that affect the Epson Group as a whole and matters on the agenda for meetings of the Board of Directors.

Compliance Committee

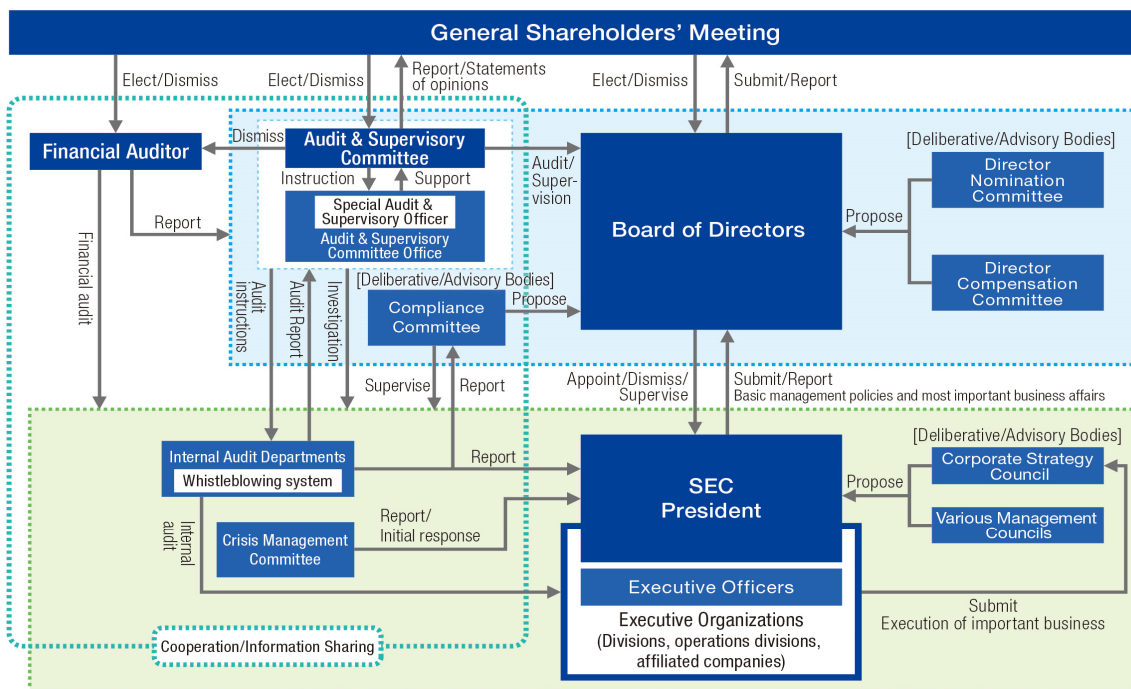
The Compliance Committee’s function is to discuss the content of reports that it receives concerning important compliance activities, and report its findings and communicate its opinions to the Board of Directors in order to see that compliance activities are appropriately executed by line management.

As an advisory body to the Board of Directors, the Compliance Committee is composed of outside directors and directors who are Audit & Supervisory Committee members. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held every half year and as needed. A Chief Compliance Officer (CCO) is elected by the Board of Directors and supervises and monitors compliance-related affairs on the whole. The CCO periodically reports the state of compliance affairs to the Compliance Committee.

Nomination Committee and Compensation Committee

Epson has created a Nomination Committee and a Compensation Committee as advisory bodies to the Board of Directors. These committees, which are composed primarily of outside directors, are designed to ensure transparency and objectivity in the screening and nomination of candidates for director, executive officer, and special audit & supervisory officer and in matters of director compensation. Both committees include outside directors, who comprise the majority of members, the representative director/president, and the director in charge of human resources. Directors who are full-time members of the Audit & Supervisory Committee can attend meetings of either committee as observers.

Epson’s system of corporate governance is schematically represented below:



Reasons for adopting the current system of corporate governance

To promote sustainable growth and increase corporate value over the medium and long terms, Epson has

continuously sought to enhance and strengthen corporate governance to ensure that decision-making is transparent, fair, fast, and decisive. The election of multiple outside directors and the establishment of discretionary advisory committees to nominate officers and determine compensation are some of the ways this is being achieved.

With the approval of a resolution at the June 28, 2016 general shareholders' meeting, Epson transitioned to a company with an Audit & Supervisory Committee, as we believe this is the best structure for Epson to further improve the supervisory function of the Board of Directors, improve discussions, and speed up decision-making.

Internal control system

Epson's Board of Directors approved a basic policy on the internal control system (a system for ensuring that business is conducted suitably by the corporate group), and Epson has implemented the approved internal control system. The Board of Directors also passed a resolution at the June 28, 2016 meeting of the Board of Directors to partially amend Epson's basic internal control system policy in conjunction with the transition to a company with an Audit & Supervisory Committee. The content of the revised basic policy is described below.

Basic internal control system policy

The Company considers its Management Philosophy to be its most important business concept, and to realize it Epson has established "Principles of Corporate Behavior" that are shared across the Group, including at subsidiaries. The Company will establish the following basic policy regarding the internal control system (a system for ensuring that business is conducted suitably by the corporate group) and provide an improved internal control system for the Epson Group as a whole.

Compliance

- (1) The Company will establish "Principles of Corporate Behavior" as a guide for putting the Management Philosophy into practice. The Company will also establish regulations that spell out things such as basic compliance requirements and the organizational framework.
- (2) The Company has created a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee and is composed of outside directors and members of the Audit & Supervisory Committee. The Compliance Committee meets regularly and as needed to hear and discuss important matters concerning the Company's compliance program. It reports its findings and offers opinions to the Board of Directors. Accounting auditors can attend meetings of the Compliance Committee as observers.
- (3) A Chief Compliance Officer (CCO) is elected and supervises and monitors the execution of all compliance operations. The CCO periodically reports the state of compliance affairs to the Compliance Committee.
- (4) Compliance promotion and enforcement will be supervised by the president of Seiko Epson. Group-wide compliance programs will be carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions and subsidiaries. Compliance programs of the divisions and their related subsidiaries will be promoted by the respective chief operating officers of the divisions. The compliance management department helps to ensure the completeness and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.
- (5) The Corporate Strategy Council, an advisory body to the president comprised of members of the Board of Directors, etc. of the Company, will address important matters with respect to compliance promotion and enforcement in the Epson Group as a whole, including subsidiaries. The Council will strive to ensure the effectiveness of compliance by exhaustively discussing and analyzing the implementation of programs for assuring observance of statutes, internal regulations, business ethics, and initiatives in high-risk and other key areas.
- (6) The Company, including its subsidiaries, will strive to provide an effective whistleblowing system. Employees are encouraged and are able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls are in place to protect whistleblowers from reprisal, and allegations are reported to the Company's Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
- (7) The Company strives to enhance legal awareness by providing Epson Group employees with web-based training and other educational opportunities.

- (8) The president of Seiko Epson periodically reports important compliance-related matters to the Board of Directors and take measures as needed to respond to issues.
- (9) The Company's "Principles of Corporate Behavior" states that the Company will have no association whatsoever with antisocial forces (i.e., organized crime groups). The Company takes a firm stance in rejecting any and all contact with antisocial forces that threaten social order and security.

Business execution system

- (1) The Company formulates long-term corporate visions and mid-range business plans, and it sets clear medium-and long-range goals for the Epson Group as a whole.
- (2) The Company has instituted a system to ensure the appropriate and efficient execution of business. To that end, the Company has established regulations governing organizational management, levels of authority, the division of responsibilities, and the management of affiliated companies, thus distributing power and authority across the entire Group.
- (3) Personnel responsible for business operations report the matters below to the Board of Directors at least once every three months.
 - Current business performance and performance outlook
 - Risk management responses
 - Status of key business operations

Risk management

- (1) The Company has established a basic risk management regulation that stipulates the risk management system of the Company, including its subsidiaries, and that defines the organization, risk management methods and procedures, and other basic elements of this system.
- (2) Overall responsibility for risk management in the Epson Group, including subsidiaries, belongs to the president of Seiko Epson. Group-wide risk management is carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business are managed by the chief operating officer of that business, including at subsidiaries consolidated under them. The Company has also set up the risk management department, monitors overall risk management Group-wide, makes corrections and adjustments thereto, and ensures the effectiveness of risk management programs.
- (3) The Corporate Strategy Council strives to ensure effective management of serious risks that could have an egregious effect on society by dynamically and exhaustively discussing and analyzing ways to identify and control risks. Also, when major risks become apparent, the president leads the entire company in mounting a swift initial response in line with the Company's prescribed crisis management program.
- (4) The president of Seiko Epson periodically reports critical risk management issues to the Board of Directors and formulates appropriate measures to respond to these issues, as needed.

Ensuring the appropriateness of operations in the corporate group

- (1) The Group's management structure helps to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company is organized into product-based divisions. Each division is headed by a chief operating officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office own global responsibility. Responsibility for providing the framework for business operations at subsidiaries is owned by the head of each business. Group-wide corporate functions are the responsibility of the heads of Head Office supervisory departments.
- (2) The Company has business processes that enable business to be controlled on a Group level. This is accomplished by regulation governing the management of affiliated companies that require subsidiaries to report or acquire pre-approval for certain business affairs from the parent company, Seiko Epson, and by requiring issues that meet certain criteria to be submitted to Epson's Board of Directors for resolution. The Company has established regional head offices in certain regions to supervise local subsidiaries in order to ensure the suitability and efficiency of operations Group-wide.
- (3) Per the Basic Regulation for Internal Audits, internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. Internal audit departments audit internal controls and the state of their implementation in all Epson Group companies, including subsidiaries. The findings of the internal audit departments are

presented to the head of the audited organization along with requests for corrective action, where needed. This information is also regularly reported to the president of Seiko Epson and to the Audit & Supervisory Committee. In this way, Epson strives to optimize operations across the entire Group.

Safeguarding and management of work-related information

- (1) Information on the performance of duties is safeguarded and managed in accordance with regulations governing, among other things, document control, management approval, and contracts. All directors are able to access this information at all times.
- (2) The Company strives to prevent the leak and loss of Epson Group internal information by managing confidential information according to the level of sensitivity, in accordance with internal information security regulations.

Audit system

- (1) The Audit & Supervisory Committee can interview directors who are not members of the Audit & Supervisory Committee, executive officers, and other personnel whenever they deem necessary in the performance of duties based on the Audit & Supervisory Committee Audit Regulation.
- (2) Audit & Supervisory Committee members can attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings that will enable them to conduct audits based on the same information as that available to directors who are not members of the Audit & Supervisory Committee. Members of the Audit & Supervisory Committee also routinely review important documents related to management decision-making.
- (3) An Audit & Supervisory Committee Office was set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office serves as the Special Audit & Supervisory Officer and assigns full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from directors who are not members of the Audit & Supervisory Committee. Matters relating to the personnel of the office must be approved in advance by the Audit & Supervisory Committee.
- (4) To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework has been created to secure close cooperation between the internal audit departments and the Audit & Supervisory Committee.
- (5) If a situation involving the Audit & Supervisory Committee or cooperation with the internal audit departments or other organizations is observed to interfere with the effectiveness of audits by the Audit & Supervisory Committee, the Audit & Supervisory Committee can ask the representative director or Board of Directors to take corrective action.
- (6) The Audit & Supervisory Committee receives audit reports from internal audit departments and can issue specific instructions to internal audit departments as needed. If the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president will have the internal audit departments honor the instructions of the Audit & Supervisory Committee.
- (7) Per the Audit & Supervisory Committee Audit Regulation, the Audit & Supervisory Committee can ask directors who are not members of the Audit & Supervisory Committee, the compliance management department, and the risk management department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also view supporting materials. The Audit & Supervisory Committee can also ask, as needed, subsidiary company directors, corporate auditors, internal audit departments, and other organizations to report the state of management of the subsidiary.
- (8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with accounting auditors.
- (9) The Audit & Supervisory Committee and representative director regularly meet to enable the committee to directly assess business operations.

- (10) Funds required by the Audit & Supervisory Committee to perform its duties are properly budgeted for in advance. However, funds required to perform the duties of the Audit & Supervisory Committee in emergency or extraordinary situations will be promptly paid in advance or refunded on each occasion.

(3) Internal audits

Audit & Supervisory Committee audits

Epson's Audit & Supervisory Committee is composed of four directors, three of whom are outside directors. Due to the need for someone who understands the Company's internal control system, the fourth is a full-time member of the Audit & Supervisory Committee who is highly knowledgeable about internal affairs.

Audit & Supervisory Committee members can attend meetings of the Corporate Strategy Council and other important meetings as part of their efforts to properly monitor business affairs. They examine the legality and suitability of actions taken by the directors by checking and confirming compliance and by supervising and verifying things such as the state of the internal control system, including internal control over financial reporting. When they deem it necessary, Audit & Supervisory Committee members can ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. In addition, the Audit & Supervisory Committee ordinarily conducts audits using internal audit departments but can exercise its investigation authority to conduct its own audits if the effectiveness of audits conducted by the internal audit departments is not being maintained.

Mr. Noriyuki Hama, a full-time member of the Audit & Supervisory Committee, has many years of experience in finance and general accounting, while Audit & Supervisory Committee member Ms. Chikami Tsubaki is a certified public accountant. Both have an appreciable degree of knowledge and insight into finance and accounting.

Internal audits

Epson's internal compliance system guards against potential legal and internal regulatory violations in departmental operations. Internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. They audit internal controls and the implementation of controls in all Epson Group companies, including subsidiaries.

Internal audit departments conduct internal audits based on an annual audit plan. After conducting internal audits, they report their observations, including recommendations for improvements based on the facts, to the president and to the Audit & Supervisory Committee in a timely manner. Internal audit departments also regularly report the internal audit situation to the president and Audit & Supervisory Committee.

Interconnections among Audit & Supervisory Committee audits, internal audits, and accounting audits, and the relationship of these audits to the internal control department

Epson's internal audit departments regularly present their audit plans and audit results to the Audit & Supervisory Committee. In response, the Audit & Supervisory Committee can, when it deems necessary, ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. The Audit & Supervisory Committee ordinarily conducts audits using internal audit departments but can conduct its own audits if the effectiveness of audits conducted by the internal audit departments is not being maintained.

Internal audit departments are seen as a keystone for internal control functions built by the president and operations departments. On the other hand, to ensure the effectiveness and independence of audits by the Audit & Supervisory Committee and internal audit departments, if the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president must have internal audit departments honor the instructions of the Audit & Supervisory Committee.

The Audit & Supervisory Committee and the internal audit departments will thus proactively cooperate going forward, but Epson set up an Audit & Supervisory Committee Office headed by the Special Audit & Supervisory Officer as an organization dedicated to supporting the Audit & Supervisory Committee. The Audit & Supervisory Committee Office is independent from executive management and supports the Audit & Supervisory Committee, with a direct reporting line to it.

The Audit & Supervisory Committee and accounting auditors enhance the effectiveness of audits by periodically discussing issues with one another. Accounting auditors have the right to observe meetings of the Compliance Committee, which is made up of outside directors and a director who is a member of the Audit & Supervisory Committee.

(4) Overview of limited liability agreements

The Company concludes agreements with non-executive directors that limit their liability for damages under Article 423 (1), pursuant to the provisions of Article 427 (1) of the Companies Act. The maximum amount of liability for damages under these agreements is limited to the amount provided for by laws and regulations. The liability of the non-executive directors shall be limited only if they have acted in good faith and without gross negligence in performing their duties.

(5) Outside directors

The role of outside directors

To ensure that outside directors are independent from the Company's management team, have a broad view, and are able to objectively supervise the making of important decisions, the Company has set forth the role of outside directors in the Corporate Governance Policy as below. In principle, outside directors should comprise at least one-third of the members of the Board of Directors.

- (i) Monitoring of the management
 - Monitoring of corporate executives through involvement in the officer election process and the compensation determination process based on an evaluation of the business as a whole
 - Monitoring of the business as a whole through the exercise of voting rights on important business decisions made by the Board of Directors
- (ii) Advisory function for improving business efficiency
- (iii) Monitoring of conflicts of interest
 - Monitoring of conflicts of interest between Epson and its directors and executive officers
 - Monitoring of conflicts of interest between Epson and related parties

Principle of independence

The Company's Board of Directors has established a "Standard of Outside Officers' Independence" and, in compliance with this standard, elects director candidates who are unlikely to have conflicts of interest with general shareholders. All current outside directors satisfy the independence requirements of the standard.

Standard of Outside Officers' Independence

The Company shall not nominate a person as an Outside Officer candidate who falls under any of the below.

- (1) A person which deems the Company as a major business partner¹, or in the case of a company, an executing person² of a contractor in the past five years.
- (2) A person which the Company deems as a major business partner³, or in the case of a company, an executing person of a customer in the past five years.
- (3) A business consultant, certified public accountant or lawyer who has received monies, etc. (meaning a large sum of money and other properties⁴) other than Officers' remuneration from the Company in the past three years, or in the case where the receiver of the monies, etc. is an entity including corporate entities and unions, a quasi-executing person who has belonged to the payee's group in the past three years.
- (4) A major shareholder⁵ of the Company, or in the case of a company, an executing person or Audit & Supervisory Board Member of the shareholder in the past five years.
- (5) An executing person or Audit & Supervisory Board Member in a corporation of which the major shareholder is the Company.
- (6) A person who has belonged to an auditing firm which has conducted a legal accounting audit of the Company in the past ten years.
- (7) A person who has belonged to a leading managing underwriter of the Company in the past ten years.
- (8) A payee of a large donation⁶, or in the case the receiver of the donation is an entity including corporate entities and unions, a judicial partner, general partner, or quasi-executing person who has belonged to the payee group at any time.

- (9) A person coming from a corporation which has a relationship of interlocking Outside Officers⁷ with the Company.
- (10) A spouse or relative within the second degree of kinship of a person having the interests listed above.

Notes

- ¹ “Person which deems the Company as a major business partner” means a business partner (mainly supplier) who has received payment not less than 2% of its consolidated net sales from the Company in any fiscal year of the past three years.
- ² “Executing person” means an Executive Officer, Executive Director or Operating Officer, employee occupying a senior management position higher than general manager.
- ³ “Person which the Company deems as a major business partner” means a business partner (mainly buyer) who has made payment not less than 2% of the Company’s consolidated net sales to the Company in any fiscal year of the past three years.
- ⁴ “A large sum of money and other properties” means average compensation (other than Officers’ remuneration) which exceeds the below for the past three years:
- i) no less than 10 million yen in the case where the payee is a person or
 - ii) no less than 2% of the annual revenues at any fiscal year in the case where the payee is a group.
- ⁵ “Major shareholder” means a shareholder who holds directly or indirectly no less than 10% of the voting power.
- ⁶ “Large sum of donation” means a donation whose annual average in the past three years exceeds either:
- i) 10 million yen or
 - ii) 30% of the annual expense of the group, whichever is higher.
- ⁷ “Interlocking Outside Officers” means mutual dispatch of Outside Officers between the Company and another corporation.

Number of outside directors, selection criteria, and human, capital, business or other interests between outside directors and the Company

Epson had five outside directors (of whom three are Audit & Supervisory Committee members) as of the submission date of its the security report.

(i) Hideaki Omiya

Mr. Omiya has served as a Chairman of the Board of Mitsubishi Heavy Industries, Ltd. and has considerable experience and insight as a chief executive and engineer. He has monitored corporate management appropriately offering proposals actively regarding important decision making in management from an objective and comprehensive perspective. Epson expects that he will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company’s corporate value over the medium to long term.

He was involved in business execution at Mitsubishi Heavy Industries, Ltd. Although the Company has had transactions involving the purchase and sale of semiconductor manufacturing equipment with Mitsubishi Heavy Industries, Ltd. in the past three years, these transactions are immaterial, totaling less than 0.1% of the consolidated net sales of the Company and Mitsubishi Heavy Industries, Ltd. and thus does not fall under the category of “major business partner” as prescribed in the “Standard of Outside Officers’ Independence.” Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

(ii) Mari Matsunaga

Ms. Matsunaga has created new business models and has a considerable insight and experiences through her involvement in the management of multiple companies as Outside Officers. Epson expects that she will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company’s corporate value over the medium to long term.

Although the Company has asked her to give speech in the past three years, the speaker expenses were less than 500,000 yen and thus does not fall under the category of “a large sum of money and other properties” as prescribed in the “Standard of Outside Officers’ Independence.” Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

(iii) Michihiro Nara (outside director who is an Audit & Supervisory Committee member)

Mr. Nara has a high level of expertise as an attorney. He has considerable insight and experiences through his involvement in the management of multiple companies as an independent outside officer and achievements as an Outside Audit & Supervisory Board Member of the Company. Epson expects that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium to long term. Although he has never been involved in corporate management except as an outside officer, we believe that he will perform his duties as a Director who is Audit & Supervisory Committee member appropriately because of the above reasons.

The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with him who is an attorney-at-law, and the law office to which he belongs. Epson has registered him as an Independent Director with the Tokyo Stock Exchange. He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

(iv) Chikami Tsubaki (outside director who is an Audit & Supervisory Committee member)

Ms. Tsubaki has a high level of expertise as a certified public accountant. She has a considerable insight and experiences through her involvement in the management of multiple companies as independent outside officer. Epson expects that she will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium to long term. Although she has never been involved in corporate management except as an outside officer, we believe that she will perform her duties as a Director who is Audit & Supervisory Committee member appropriately because of the above reasons.

The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with she who is a certified public accountant, and there is no transactional relationship. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

(v) Yoshio Shirai (outside director who is an Audit & Supervisory Committee member)

Mr. Shirai has served as Directors at TOYOTA MOTOR CORPORATION, Hino Motors, Ltd. and Toyota Tsusho Corporation, and has considerable insight and a wealth of experience as a corporate manager. Epson expects that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium to long term.

He has served as a business executor at Hino Motors, Ltd. and Toyota Tsusho Corporation in the past five years. The Company has had no transactions with Hino Motors, Ltd. and Toyota Tsusho Corporation in the past three years, and thus, none of the aforementioned two companies falls under the category of "major business partner" as prescribed in the "Standard of Outside Officers' Independence." He was an executive at TOYOTA MOTOR CORPORATION until June 2007, but there have been no business transactions between Epson and the TOYOTA MOTOR CORPORATION in the past three years. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

(6) Officer compensation, etc.

(i) Compensation for performance through the 2015 fiscal year

Basic policy

- The policy on director and executive officer compensation is as follows.
 - (a) Compensation shall provide incentive to directors and executive officers to improve business performance in order to increase corporate value in both the near, medium, and long terms.
 - (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.
 - (c) Compensation shall be commensurate with period performance so that directors and executive officers can demonstrate their management capabilities to the fullest during their tenure.

Compensation system

- Director and executive officer compensation shall consist of basic remuneration and bonuses.
- Bonuses shall be paid for the accomplishment of management responsibilities, in amounts commensurate with performance. Outside directors are not eligible for bonuses.
- A portion of director and executive officer compensation is linked to the Company's share price.

Directors and executive officers shall allocate a percentage of their basic remuneration, the percentage to be separately decided by the Board of Directors, to the acquisition of Company shares through the officer stock ownership plan. Participation in the officer stock ownership plan is optional for outside directors.

- The compensation of corporate auditors is decided by board of corporate auditors and shall not exceed the basic remuneration decided by resolution of general shareholders' meeting. Participation in the officer stock ownership plan is optional for corporate auditors, who are not eligible for bonuses.

Procedure for determining compensation

- Compensation is determined by an appropriate body, such as the general shareholders' meeting and the Board of Directors, after a fair, transparent, and rigorous review by the Director Compensation Committee, which is composed mainly of outside directors and which issues an opinion, to ensure transparency and objectivity.

Compensation paid

Category	Total compensation (millions of yen)	Compensation breakdown (millions of yen)		Number of individuals
		Basic remuneration	Bonus	
Directors (including total for outside directors)	454 (28)	359 (28)	94 (-)	10 (2)
Corporate auditors (including total for outside corporate auditors)	96 (39)	96 (39)	- (-)	5 (3)
Total	550	455	94	15

Notes

1. The number of individuals above includes one corporate auditor who retired on January 31, 2016.
2. Epson introduced a stock performance (stock-based) component to the compensation system to link compensation more closely to share price, so Epson stock accounts for a portion of the basic remuneration.
3. A resolution passed at the general shareholders' meeting of June 26, 2001, established the maximum basic remuneration at ¥70 million per month for directors and at ¥12 million per month for corporate auditors.
4. The compensation paid includes ¥94 million in director bonuses (bonuses to be paid to the eight directors, excluding outside directors), which were approved at the June 28, 2016 annual general shareholders' meeting. There is no bonus system for corporate auditors.
5. An outside corporate auditor who retired at the closing of the annual general shareholders' meeting held on June 28, 2016 will be paid a retirement benefit of ¥15 million pursuant to a resolution of the annual general shareholders' meeting held on June 23, 2006 on the payment of officer retirement benefits.
6. Stock options are not granted.

(ii) Compensation for performance in and after the 2016 fiscal year

The introduction of a more transparent and fair performance-linked stock compensation plan was approved at the annual general shareholders' meeting on June 28, 2016. The plan for officers is designed to strengthen a sense of shared interest with shareholders and to show a commitment to sustaining growth and increasing corporate value over the long term.

Basic policy

The basic policies regarding the officer compensation system are as follows.

Compensation for officers who have executive duties

- (a) Compensation shall provide incentive to improve business performance in order to increase corporate value in both the near, medium, and long terms.
- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.
- (c) Compensation shall be commensurate with period performance so that they can demonstrate their management capabilities to the fullest during their tenure.

Compensation for officers who do not have executive duties

- (a) The composition of compensation shall guarantee independence so that these officers can suitably exert their general management supervisory function, etc.

- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.

Compensation system

- Officer compensation consists of the following components: basic remuneration, bonus, and stock compensation.

Basic remuneration

Basic remuneration is monetary compensation that is paid monthly in an amount decided by taking into account all factors such as the officer's position and responsibilities.

It reflects the results of performance evaluations based on criteria set according to the roles of the officers.

Bonus

The bonus is monetary compensation that is paid once per year in an amount decided in accordance with considerations such as the level of achievement with respect to annual operating performance targets.

It reflects the results of performance evaluations based on criteria set according to the roles of the officers.

Stock compensation

Under stock compensation, a trust scheme is used to deliver Company shares to officers, the number of shares being based on points system, where in officers are awarded points depending on the level of achievement with respect to medium- and long-term operating performance targets, such as business profit, ROS and ROE.

- Given their role of fulfilling a general management supervisory function, etc., from a perspective that is independent from executive functions, officers who do not have executive duties do not receive performance and share price-linked bonuses and stock compensation.

Procedure for determining compensation

- Compensation is determined by general shareholders' meeting and the Board of Directors or Audit & Supervisory Committee, after a fair, transparent, and rigorous review by the Director Compensation Committee, which is composed mainly of outside directors and which issues an opinion, to ensure transparency and objectivity.

(7) Securities held by the Company

a. Balance sheet total of stocks held for reasons other than pure investment
20 companies ¥12,894 million

b. Issuing company, number, and balance sheet total of stocks held for reasons other than pure investment

Previous fiscal year

Special investment securities

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	9,636	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Mizuho Financial Group, Inc.	15,008,880	3,168	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Seiko Holdings Corporation	1,644,080	996	To maintain and strengthen the business relationship with a major buyer of Epson products
The Hachijuni Bank, Ltd.	489,500	415	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Hakuto Co., Ltd.	190,000	272	To maintain and strengthen the business relationship with a major buyer of Epson products
Marubun Corporation	332,640	263	To maintain and strengthen the business relationship with a major buyer of Epson products
King Jim Co., Ltd.	221,980	180	To maintain and strengthen the business relationship with a major buyer of Epson products
Otsuka Corporation	30,000	153	To maintain and strengthen the business relationship with a major buyer of Epson products
Joshin Denki Co., Ltd.	70,000	66	To maintain and strengthen the business relationship with a major buyer of Epson products
Pixelworks, Inc.	100,000	60	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Nippon BS Broadcasting Corporation	33,200	41	To maintain and strengthen the business relationship with a company whose parent company is major buyer of Epson products

Fiscal year under review

Special investment securities

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	7,810	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Mizuho Financial Group, Inc.	15,008,880	2,522	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Seiko Holdings Corporation	1,644,080	733	To maintain and strengthen the business relationship with a major buyer of Epson products
Marubun Corporation	332,640	255	To maintain and strengthen the business relationship with a major buyer of Epson products
The Hachijuni Bank, Ltd.	489,500	237	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Hakuto Co., Ltd.	190,000	188	To maintain and strengthen the business relationship with a major buyer of Epson products
King Jim Co., Ltd.	221,980	186	To maintain and strengthen the business relationship with a major buyer of Epson products
Otsuka Corporation	30,000	178	To maintain and strengthen the business relationship with a major buyer of Epson products
Joshin Denki Co., Ltd.	70,000	60	To maintain and strengthen the business relationship with a major buyer of Epson products
Nippon BS Broadcasting Corporation	33,200	35	To maintain and strengthen the business relationship with a company whose parent company is major buyer of Epson products
Pixelworks, Inc.	100,000	24	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products

- c. Stocks held purely for investment purposes
None

(8) Accounting audits

(a) Names and other details of certified public accountants performing audits

Name of CPA		Audit company	No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Hidetoshi Watanabe	Ernst & Young ShinNihon LLC	3
Designated and Engagement Partner, Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	3
Designated and Engagement Partner, Certified Public Accountant	Takahiro Yamazaki	Ernst & Young ShinNihon LLC	5

(b) Composition of auditing team

The auditing team comprises 52 staff including 23 certified public accountants, eight junior accountants, and 21 other accounting staff.

(9) Number of directors

Epson's Articles of Incorporation provide for a maximum of nine directors who are not members of the Audit & Supervisory Committee and a maximum of five directors who are members of the Audit & Supervisory Committee.

(10) Election and retirement of directors

According to its Articles of Incorporation, directors of the Company can be elected by a majority vote by at least one-third of shareholders with voting rights, and not through cumulative voting.

Provisions regarding the retirement of directors do not vary from the provisions of the Companies Act.

(11) Matters requiring resolutions of shareholders' meetings that can be implemented by resolutions of the Board of Directors

Treasury stock acquisition

The Company's Articles of Incorporation allow the Company to acquire treasury stock through stock market trade and other means by resolution of the Board of Directors. This enables a more flexible capital policy in response to a changing business environment.

Director exemption from liability

When liability falls under the requirements stipulated in Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation allow the Company to exempt the directors from liability for damages in Article 423, Paragraph 1 of the Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the Board of Directors. This allows the directors to fully apply themselves to their expected role of building an organization capable of aggressive business expansion.

Interim dividend

The Company's Articles of Incorporation allow the Company to declare an interim dividend with a date of record of September 30 every year by resolution of the board of directors. This provides the Company with flexibility in paying dividends to shareholders.

(12) Special resolution requirements of the general shareholders' meeting

The Company's Articles of Incorporation set forth the requirements for a special resolution of the general shareholders' meeting stipulated in Article 309, Paragraph 2 of the Companies Act as a two-thirds majority vote by at least one-third of shareholders with voting rights. This policy is intended to ensure smooth operation of the general shareholders' meeting by relaxing the quorum requirements for special resolutions at the general shareholders' meeting.

2. Details of audit remuneration**(1) Remuneration for audits by certified public accountants**

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	158	2	149	0
Consolidated subsidiaries	66	2	65	3
Total	225	5	214	4

(2) Other important remuneration**Previous fiscal year**

Total payments for audits carried out on behalf of 63 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2015, amounted to ¥562 million.

Fiscal year under review

Total payments for audits carried out on behalf of 64 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2016, amounted to ¥590 million.

(3) Non-audit work performed by auditing certified public accountant at filing company**Previous fiscal year**

Remuneration paid for non-audit work performed by the certified public accountant was for various consultancy services.

Fiscal year under review

Remuneration paid for non-audit work performed by the certified public accountant was for various consultancy services.

(4) Governing policy for auditor remuneration

This does not apply because remuneration for auditing services is determined according to the nature of the audit work.

3. Basic policy regarding company control

Epson's board of directors agreed on a basic policy governing persons who control our financial and business policy decisions (hereinafter the "basic policy").

(1) Overview

Epson believes that its shareholders should be determined through free trade on the market. Therefore, the decision as to whether to accept a takeover offer that would allow another party to acquire a controlling share of Epson and thus gain power over the Company's financial and business decisions should ultimately be put before the shareholders.

To ensure and enhance the corporate value and common interests of shareholders, Epson believes it is essential for Epson's directors, managers, and employees to work as a team to create value, to pursue the Epson tradition of creativity and challenge, and to earn and keep the trust of its customers.

Not all large-scale acquisitions of shares enhance the value of the company whose shares are being acquired, nor do they always serve the common interests of shareholders. Epson recognizes the need to use all necessary and appropriate means to protect the Company's corporate value and the common interests of its shareholders against persons seeking to improperly acquire large numbers of shares in an attempt to gain control over decisions concerning the Company's financial and business policies.

(2) Summary of measures in support of the basic policy

1) Specific actions in support of the basic policy

In March 2016 the Company established the Epson 25 Corporate Vision, a document that describes Epson's goals over the decade between the 2016 and 2025 fiscal years. At the same time, the Company established the Epson 25 Mid-Range Business Plan (FY2016-2018), a three-year plan for the first phase of work toward achieving the Epson 25 vision.

Under the Phase 1 Mid-Range Business Plan Epson will build a robust foundation for business by sustaining the results of successful strategic initiatives pursued to date, developing products for the future, and aggressively investing as needed.

2) Efforts to deter parties who are deemed inappropriate based on Epson's basic policy in gaining control over the Company's financial and business policy decision making

Aiming to ensure and enhance corporate value and the common interests of its shareholders, Epson introduced a series of measures to prevent large-scale acquisition of Epson shares. The measures were approved at the June 2008 Ordinary General Meeting of Shareholders and updated at the June 2011 Ordinary General Meeting of Shareholders. The old measures were formally reworded and shareholders approved their updating at the June 24, 2014 Ordinary General Meeting of Shareholders. (The updated measures are called "the Plan," below.)

The purpose of the Plan is to prevent large-scale acquisitions of Epson stock certificates that do not enhance corporate value or that are not in the common interests of shareholders by having shareholders decide whether to allow such acquisitions and by giving the Epson board of directors the time and information they need to present shareholders with an alternative proposal and enable the board to discuss and negotiate with the acquirer on behalf of shareholders. Specifically, a party that intends to acquire or make a takeover bid for 20% or more of stock certificates outstanding shall be required to submit in advance to the Epson board of directors a statement of intent as well as sufficient and necessary information for decision making on the part of shareholders and for evaluation and consideration by a special committee. The party shall also be required to comply with the procedures defined in the Plan. Furthermore, the Plan allows for the activation of provisions to halt the acquisition in question if, for example, it is not conducted in line with the Plan or it is deemed contrary to corporate value as a company or the common interest of its shareholders.

To prevent the Epson board of directors from making arbitrary decisions about using anti-takeover measures, the decision to invoke preventive measures is subject to the assessment of a special committee made up of highly independent external parties. Actions of the special committee shall include examination of stock acquisition details, requesting information from the Epson board of directors regarding alternative proposals, disclosing information to shareholders, and negotiating with parties intending to make acquisitions. The special committee shall advise the Epson board of directors regarding the necessity of anti-takeover measures, and the Epson board of directors shall promptly accept or reject a resolution to invoke preventive measures, paying the utmost consideration to that advice.

(3) Decisions made by the Epson board of directors regarding specific actions and the justification for those decisions

The actions described in (2) 1) above were specifically formulated to enhance both Epson's corporate value and the common interests of its shareholders in a continuous and sustained manner. These actions support the basic policy.

As well as having been introduced and updated in order to ensure and enhance corporate value and the common interests of shareholders, the Plan is in accordance with the basic policy outlined in (1) above.

Specifically, the Plan guarantees fairness and objectivity, is reasonable, and supports Epson's corporate value and the common interests of its shareholders because, among other things, a) it was introduced (and updated) after being approved by shareholders at the Ordinary General Meeting of Shareholders; b) it contains provisions for reasonable and objective implementation; c) a special committee comprising members with a high degree of independence from Epson management was established and activation of the Plan is subject to the assessment of that special committee; d) the special committee may solicit expert opinions from third parties at Epson's expense; and e) the Plan was determined to be valid for approximately three years from the introduction and update and may be abolished by the board of directors at any time. The Plan is not for keeping Epson executive officers in their posts.

Management

Directors, audit & supervisory committee member and executive officers of the Company as of the date when the annual securities report (*yukashoken-houkokusho*) was submitted and their functions are listed below.

Name	Position	Current function
Minoru Usui	President (Representative Director)	
Shigeki Inoue	Senior Managing Director (Representative Director)	Chief Operating Officer, Wearable Products Operations Division, and General Administrative Manager, Corporate Planning Division
Yoneharu Fukushima	Managing Director	Chief Operating Officer, Robotics Solutions Operations Division, and General Administrative Manager, First Technology Development Division
Koichi Kubota	Managing Director	Chief Operating Officer, Printer Operations Division, and Deputy General Administrative Manager, Corporate Planning Division
Masayuki Kawana	Director	General Administrative Manager, Human Resources Division, and President, Orient Watch Co., Ltd.
Tatsuaki Seki	Director	General Administrative Manager, Management Control Division
Hideaki Omiya	Outside Director	
Mari Matsunaga	Outside Director	
Noriyuki Hama	Director (Full-Time Audit & Supervisory Committee Member)	
Michihiro Nara	Outside Director (Audit & Supervisory Committee Member)	

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Name	Position	Current function
Chikami Tsubaki	Outside Director (Audit & Supervisory Committee Member)	
Yoshio Shirai	Outside Director (Audit & Supervisory Committee Member)	
Tadaaki Hagata	Managing Executive Officer	President, Epson Precision (Philippines), Inc.
Motonori Okumura	Executive Officer	General Administrative Manager, Second Technology Development Division
Junichi Watanabe	Executive Officer	Chief Operating Officer, Visual Products Operations Division, and General Administrative Manager, Production Planning Division
Kiyofumi Koike	Executive Officer	Chairman, Epson (China) Co., Ltd.
Yasumasa Kitamatsu	Executive Officer	Deputy General Administrative Manager, Second Technology Development Division
Hideki Shimada	Executive Officer	Deputy Chief Operating Officer, Printer Operations Division
Masayuki Kitamura	Executive Officer	Chief Operating Officer, Microdevices Operations Division
Akihiro Fukaishi	Executive Officer	Deputy Chief Operating Officer, Professional Printing Operations Division
Sunao Murata	Executive Officer	Chief Operating Officer, Professional Printing Operations Division
Yoshiyuki Moriyama	Executive Officer	Deputy Chief Operating Officer, Wearable Products Operations Division
Toshiya Takahata	Executive Officer	General Administrative Manager, Intellectual Property Division

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Name	Position	Current function
Tsuyoshi Kitahara	Executive Officer	Deputy General Administrative Manager, First Technology Development Division
Naoyuki Saeki	Executive Officer	President, Epson Sales Japan Corporation
Nobuyuki Shimotome	Executive Officer	Deputy General Administrative Manager, First Technology Development Division
Kazuyoshi Yamamoto	Executive Officer	President, Epson Europe B.V.
Munenori Ando	Executive Officer	President, Epson (China) Co., Ltd.
Hitoshi Igarashi	Executive Officer	Deputy Chief Operating Officer, Printer Operations Division
Keith Kratzberg	Executive Officer	President, Epson America, Inc.
Isamu Otsuka	Executive Officer	President, Epson Atmix Corporation
Taro Shigemoto	Special Audit & Supervisory Officer	

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Consolidated Statement of Financial Position**Years ended March 31, 2015 and 2016:**

	Notes	Millions of yen		Thousands of
		March 31, 2015	March 31, 2016	U.S. dollars March 31, 2016
Assets				
Current assets				
Cash and cash equivalents	8,35	245,330	230,498	2,045,598
Trade and other receivables	9,35	167,482	151,660	1,345,935
Inventories	10	220,426	201,608	1,789,208
Income tax receivables		1,963	1,232	10,933
Other financial assets	11,35	3,544	1,674	14,856
Other current assets	12	11,539	14,335	127,247
Subtotal		650,287	601,010	5,333,777
Non-current assets held for sale		96	441	3,913
Total current assets		650,383	601,451	5,337,690
Non-current assets				
Property, plant and equipment	13,15	227,257	244,463	2,169,533
Intangible assets	14	19,170	18,179	161,332
Investment property	17	4,758	1,967	17,456
Investments accounted for using the equity method		3,232	1,605	14,243
Net defined benefit assets	23	7	-	-
Other financial assets	11,35	25,345	21,962	194,905
Other non-current assets	12	5,958	5,122	45,496
Deferred tax assets	18	70,168	46,587	413,445
Total non-current assets		355,898	339,888	3,016,410
Total assets		1,006,282	941,340	8,354,100

SEIKO EPSON CORPORATION

	Notes	Millions of yen		Thousands of
		March 31,	March 31,	U.S. dollars
		2015	2016	March 31,
				2016
<u>Liabilities and equity</u>				
Liabilities				
Current liabilities				
Trade and other payables	19,35	140,047	130,624	1,159,247
Income tax payables		8,384	6,830	60,614
Other financial liabilities	20,35	75,745	62,479	554,481
Provisions	21	24,322	23,019	204,286
Other current liabilities	22	106,942	102,065	905,824
Total current liabilities		355,442	325,019	2,884,452
Non-current liabilities				
Other financial liabilities	20,35	112,466	81,741	725,425
Net defined benefit liabilities	23	31,234	54,845	486,732
Provisions	21	6,141	4,941	43,849
Other non-current liabilities	22	2,977	3,114	27,656
Deferred tax liabilities	18	711	1,001	8,883
Total non-current liabilities		153,531	145,644	1,292,545
Total liabilities		508,973	470,663	4,176,997
Equity				
Share capital	24	53,204	53,204	472,168
Capital surplus	24	84,321	84,321	748,322
Treasury shares	24	(20,464)	(20,471)	(181,673)
Other components of equity	24	83,073	57,989	514,635
Retained earnings		294,191	292,775	2,598,287
Equity attributable to owners of the parent company		494,325	467,818	4,151,739
Non-controlling interests		2,982	2,858	25,364
Total equity		497,308	470,676	4,177,103
Total liabilities and equity		1,006,282	941,340	8,354,100

Consolidated Statement of Comprehensive Income**Years ended March 31, 2015 and 2016:**

	Notes	Millions of yen		Thousands of U.S. dollars
		Year ended March 31,		Year ended March 31,
		2015	2016	2016
Revenue	7,26	1,086,341	1,092,481	9,695,429
Cost of sales	10,13, 14	(690,416)	(694,821)	(6,166,321)
Gross profit		395,924	397,660	3,529,108
Selling, general and administrative expenses	13,14, 27	(294,648)	(312,708)	(2,775,186)
Other operating income	29	39,907	14,807	131,407
Other operating expense	13,30	(9,802)	(5,732)	(50,878)
Profit from operating activities		131,380	94,026	834,451
Finance income	31	3,268	1,652	14,660
Finance costs	31	(2,320)	(4,252)	(37,733)
Share of profit of investments accounted for using the equity method		207	104	922
Profit before tax		132,536	91,530	812,300
Income taxes	18	(18,631)	(45,421)	(403,097)
Profit from continuing operations		113,904	46,109	409,203
Loss from discontinued operations	32	(1,118)	(42)	(373)
Profit for the period		112,785	46,067	408,830
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss, net of tax				
Remeasurement of net defined benefit liabilities (assets)	33	(1,512)	(22,161)	(196,671)
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	33	2,121	(2,610)	(23,163)
Subtotal		608	(24,771)	(219,834)
Items that may be reclassified subsequently to profit or loss, net of tax				
Exchange differences on translation of foreign operations	33	30,113	(21,309)	(189,121)
Net changes in fair value of cash flow hedges	33	1,718	(1,215)	(10,782)
Share of other comprehensive income of investments accounted for using the equity method	33	257	(240)	(2,129)
Subtotal		32,089	(22,765)	(202,032)
Total other comprehensive income, net of tax		32,698	(47,536)	(421,866)
Total comprehensive income for the period		145,483	(1,469)	(13,036)

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

SEIKO EPSON CORPORATION

	Millions of yen		Thousands of U.S. dollars	
	Year ended March 31,		Year ended March 31,	
	Notes	2015	2016	2016
Profit for the period attributable to:				
Owners of the parent company		112,560	45,772	406,221
Non-controlling interests		225	294	2,609
Profit for the period		112,785	46,067	408,830
Total comprehensive income for the period attributable to:				
Owners of the parent company		144,841	(1,456)	(12,930)
Non-controlling interests		642	(12)	(106)
Total comprehensive income for the period		145,483	(1,469)	(13,036)

	Notes	Yen		U.S. dollars
		Year ended March 31,		Year ended March 31,
		2015	2016	2016
Earnings per share for the period:				
Basic earnings per share for the period	34	314.61	127.94	1.14
Earnings per share from continuing operations for the period:				
Basic earnings per share for the period	34	317.74	128.06	1.14
Earnings per share from discontinued operations for the period:				
Basic loss per share for the period	34	(3.13)	(0.12)	(0.00)

Consolidated Statement of Changes in Equity**Years ended March 31, 2015 and 2016:**

Millions of yen													
Equity attributable to owners of the parent company													
Notes	Other components of equity									Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
	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, 2014	53,204	84,321	(20,457)	-	5,332	45,046	(662)	49,716	195,587	362,371	2,385	364,757	
Profit for the period	-	-	-	-	-	-	-	-	112,560	112,560	225	112,785	
Other comprehensive income	-	-	-	(1,512)	2,253	29,821	1,718	32,281	-	32,281	416	32,698	
Total comprehensive income for the period	-	-	-	(1,512)	2,253	29,821	1,718	32,281	112,560	144,841	642	145,483	
Acquisition of treasury shares	24	-	(6)	-	-	-	-	-	-	(6)	-	(6)	
Dividends	25	-	-	-	-	-	-	-	(12,880)	(12,880)	(95)	(12,975)	
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	50	50	
Transfer from other components of equity to retained earnings	-	-	-	1,512	(436)	-	-	1,075	(1,075)	-	-	-	
Total transactions with the owners	-	-	(6)	1,512	(436)	-	-	1,075	(13,955)	(12,887)	(45)	(12,932)	
As of March 31, 2015	53,204	84,321	(20,464)	-	7,149	74,868	1,055	83,073	294,191	494,325	2,982	497,308	

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

SEIKO EPSON CORPORATION

Millions of yen

Notes	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					Total 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							
As of April 1, 2015	53,204	84,321	(20,464)	-	7,149	74,868	1,055	83,073	294,191	494,325	2,982	497,308		
Profit for the period	-	-	-	-	-	-	-	-	45,772	45,772	294	46,067		
Other comprehensive income	-	-	-	(22,160)	(2,600)	(21,252)	(1,215)	(47,229)	-	(47,229)	(307)	(47,536)		
Total comprehensive income for the period	-	-	-	(22,160)	(2,600)	(21,252)	(1,215)	(47,229)	45,772	(1,456)	(12)	(1,469)		
Acquisition of treasury shares	24	-	(6)	-	-	-	-	-	-	(6)	-	(6)		
Dividends	25	-	-	-	-	-	-	-	(25,044)	(25,044)	(111)	(25,155)		
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-		
Transfer from other components of equity to retained earnings	-	-	-	22,160	(15)	-	-	22,145	(22,145)	-	-	-		
Total transactions with the owners	-	-	(6)	22,160	(15)	-	-	22,145	(47,189)	(25,050)	(111)	(25,162)		
As of March 31, 2016	53,204	84,321	(20,471)	-	4,533	53,616	(160)	57,989	292,775	467,818	2,858	470,676		

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Thousands of U.S. dollars

Notes	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					Total 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							
As of April 1, 2015	472,168	748,322	(181,620)	-	63,465	664,429	9,363	737,257	2,610,852	4,386,979	26,465	4,413,444		
Profit for the period	-	-	-	-	-	-	-	-	406,221	406,221	2,609	408,830		
Other comprehensive income	-	-	-	(196,671)	(23,094)	(188,604)	(10,782)	(419,151)	-	(419,151)	(2,715)	(421,866)		
Total comprehensive income for the period	-	-	-	(196,671)	(23,094)	(188,604)	(10,782)	(419,151)	406,221	(12,930)	(106)	(13,036)		
Acquisition of treasury shares	24	-	(53)	-	-	-	-	-	-	(53)	-	(53)		
Dividends	25	-	-	-	-	-	-	-	(222,257)	(222,257)	(995)	(223,252)		
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-		
Transfer from other components of equity to retained earnings	-	-	-	196,671	(142)	-	-	196,529	(196,529)	-	-	-		
Total transactions with the owners	-	-	(53)	196,671	(142)	-	-	196,529	(418,786)	(222,310)	(995)	(223,305)		
As of March 31, 2016	472,168	748,322	(181,673)	-	40,229	475,825	(1,419)	514,635	2,598,287	4,151,739	25,364	4,177,103		

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Consolidated Statement of Cash Flows

Years ended March 31, 2015 and 2016:

	Notes	Millions of yen		Thousands of U.S. dollars
		Year ended		Year ended
		March 31,		March 31,
		2015	2016	2016
Cash flows from operating activities				
Profit for the period		112,785	46,067	408,830
Depreciation and amortisation		44,907	45,923	407,552
Impairment loss and reversal of impairment loss		3,563	(2,210)	(19,613)
Finance (income) costs, net		(948)	2,600	23,073
Share of (profit) loss of investments accounted for using the equity method		(207)	(104)	(922)
Loss (gain) on sales and disposal of property, plant and equipment, intangible assets and investment property, net		(4,288)	(6,886)	(61,111)
Income taxes		18,631	45,421	403,097
Decrease (increase) in trade receivables		(2,279)	10,661	94,613
Decrease (increase) in inventories		(19,252)	6,610	58,661
Increase (decrease) in trade payables		21	(8,915)	(79,117)
Increase (decrease) in net defined benefit liabilities		(25,355)	1,514	13,436
Other, net		8,842	(3,215)	(28,514)
Subtotal		136,419	137,468	1,219,985
Interest and dividend income received		2,481	1,664	14,767
Interest expenses paid		(1,552)	(1,218)	(10,809)
Payments for loss on litigation		(859)	(4,144)	(36,776)
Income taxes paid		(27,660)	(20,715)	(183,848)
Net cash provided by (used in) operating activities		108,828	113,054	1,003,319
Cash flows from investing activities				
Proceeds from sales of investment securities		249	51	452
Purchase of property, plant and equipment		(37,045)	(59,614)	(529,055)
Proceeds from sales of property, plant and equipment		272	582	5,165
Purchase of intangible assets		(5,738)	(6,538)	(58,022)
Proceeds from sales of intangible assets		29	31	275
Proceeds from sales of investment property		14,012	13,969	123,970
Purchase of investments in subsidiaries		(1,097)	(500)	(4,437)
Other, net		(3,417)	460	4,091
Net cash provided by (used in) investing activities		(32,735)	(51,558)	(457,561)
Cash flows from financing activities				
Net increase (decrease) in current borrowings		(30,167)	(1,819)	(16,152)
Repayment of non-current borrowings		(2,000)	(86)	(763)
Proceeds from issuance of bonds issued		10,000	-	-
Redemption of bonds issued		(20,000)	(40,000)	(354,987)
Payments of lease obligations		(241)	(103)	(914)
Dividends paid	25	(12,880)	(25,044)	(222,257)
Dividends paid to non-controlling interests		(95)	(111)	(995)
Purchase of treasury shares		(6)	(6)	(53)
Net cash provided by (used in) financing activities		(55,392)	(67,171)	(596,121)
Effect of exchange rate changes on cash and cash equivalents		13,118	(9,155)	(81,266)
Net increase (decrease) in cash and cash equivalents		33,819	(14,832)	(131,629)
Cash and cash equivalents at beginning of period	8	211,510	245,330	2,177,227
Cash and cash equivalents at end of period	8	245,330	230,498	2,045,598

Notes to Consolidated Financial Statements

1. Reporting Entity

Seiko Epson Corporation (the “Company”) is a stock corporation domiciled in Japan. The addresses of the Company’s registered head office and principal business offices are available on the Company’s website (<http://www.epson.jp>). The details of businesses and principal business activities of the Company and its affiliates (“Epson”) are stated in “7. Segment Information.”

2. Basis of Preparation

(1) Compliance with IFRS

Epson’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) as issued by the International Accounting Standards Board which are applied based on the provision of Article 93 of Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, as Epson meets the criteria of a “Specified Companies applying Designated IFRS” defined under Article 1-2 of Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

(2) Basis of Measurement

Except for the financial instruments stated in “3. Significant Accounting Policies,” Epson’s consolidated financial statements are prepared on the cost basis.

(3) Functional Currency and Presentation Currency

Epson’s consolidated financial statements are presented in Japanese yen (hereinafter referred to as “yen” or “¥”), which is the functional currency of the Company. The units are in millions of yen unless otherwise noted, and figures less than one million yen are rounded down.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 112.68 to U.S. \$1 as of March 31, 2016.

(4) Reporting Period of Subsidiaries

The fiscal year end date of certain overseas subsidiaries is December 31, and Epson consolidates financial results of those subsidiaries in conformity with the provisional settlement of accounts as of the consolidated fiscal year end.

3. Significant Accounting Policies

(1) Basis of Consolidation

Consolidated financial statements of Epson include financial statements of the Company and subsidiaries, and interests in investments in associates and joint ventures.

(A) Subsidiaries

A subsidiary is an entity that is controlled by Epson. Epson controls the entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date of a subsidiary is the date on which Epson obtains control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which Epson loses control.

All intergroup balances, transactions, unrealised profit or loss arising from intergroup transaction are eliminated on consolidation. Comprehensive income for subsidiaries is attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(B) Associates

An associate is an entity over which Epson has significant influence that is the power to participate in the financial and operating policy decisions of the entity. Investments in associates are accounted for using the equity method from the date on which Epson has the significant influence until the date on which it ceases to have the significant influence.

(C) Joint Ventures

A joint venture is a joint arrangement whereby Epson and the other parties that have joint control of the arrangement have rights to the net assets of the arrangement. The joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities, that significantly affect the returns of the arrangement, require the unanimous consent of the parties sharing control. Epson accounts for that investment using the equity method.

(2) Business Combinations

Each business combination is accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by Epson, the liabilities incurred by Epson to former owners of the acquiree and the equity interests issued by Epson. As the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Epson's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, goodwill is recognised in the consolidated statement of financial position. If the difference is a negative monetary value, the resulting gain is immediately recognised as profit in the consolidated statement of comprehensive income. Acquisition-related costs incurred are recognised as expenses except for the costs to issue debt or equity securities.

(3) Foreign Currency Translation

Consolidated financial statements of Epson are presented in Japanese yen, which is the functional currency of the Company. Each company in Epson determines its functional currency and measures its results and financial position in that currency.

Foreign currency transaction is translated into the functional currency at a spot exchange rate at the date of transaction or a rate that approximates the actual rate at the date of the transaction. Foreign currency monetary items are translated using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items are recognised in profit or loss. However, exchange differences arising on financial instruments designated as hedging instruments for net investments in foreign operations, financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognised in other comprehensive income.

Assets and liabilities of foreign operations are translated into Japanese yen at the closing date, while income and expenses of foreign operations are translated into Japanese yen at exchange rates at the dates of the transactions or a rate that approximates the exchange rates at the dates of the transactions. All resulting exchange differences are recognised in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is recognised in profit or loss in the period of disposition.

(4) Financial Instruments

Epson accounts for financial instruments in accordance with IFRS 9 "Financial Instruments" (announced in November 2009, revised in October 2010), which Epson has early adopted.

(A) Financial Assets**(i) Initial Recognition and Measurement**

Financial assets are classified into financial assets measured at fair value and amortised cost at initial recognition. Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met. Otherwise, they are classified as financial assets measured at fair value.

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied continuously.

All financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial assets, except when classified in the category of financial assets measured at fair value through profit or loss.

Epson recognises trade and other receivables on the date they are originated. All other financial assets are recognised on the trade date when Epson becomes a party to the contractual provisions of the instrument.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are measured at amortised cost using the effective interest method.

(b) Financial Assets Measured at Fair Value

Financial assets other than those measured at amortised cost are measured at fair value.

Changes in fair value of financial assets measured at fair value are recognised in profit or loss. However, changes in fair value of equity instruments designated as measured at fair value through other comprehensive income are recognised in other comprehensive income and the cumulative change in fair value in other comprehensive income is transferred to retained earnings when equity instruments are derecognised or the decline in its fair value is significant. Dividends on the financial assets are recognised in profit or loss for each fiscal year.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from them expire or when they are transferred in transactions in which substantially all the risks and rewards of ownership are transferred.

(B) Impairment of Financial Assets

At the end of each fiscal year, Epson assesses whether there is any objective evidence that financial assets measured at amortised cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower. Epson assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

If there is any objective evidence that impairment losses on financial assets measured at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognised, the carrying amount of the financial asset is reduced by an allowance account and impairment loss is recognised in profit or loss. If the amount of the impairment loss provided decreases due to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit or loss through the allowance account.

(C) Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortised cost. Epson determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortised cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

After initial recognition, financial liabilities are measured based on the classification as follows:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss

Financial liabilities measured at fair value through profit or loss include financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortised Cost

Financial liabilities measured at amortised cost are measured at amortised cost using the effective interest method.

(iii) Derecognition

Financial liabilities are derecognised when the obligation is discharged, canceled or expired.

(D) Offsetting a Financial Asset and a Financial Liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and Epson intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(E) Derivatives Accounting

Epson utilizes derivatives, including forward foreign exchange contracts and non-deliverable forwards, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value.

Changes in fair value of derivatives are recognised in profit or loss in the consolidated statement of comprehensive income. However, the gains or losses on hedging instruments relating to the effective portion of cash flow hedges and hedges of net investments in foreign operations are recognised in other comprehensive income in the consolidated statement of comprehensive income.

(F) Hedge Accounting

At the inception of a hedge, Epson formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument's effectiveness is assessed in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risks. Even though these hedges are expected to be highly effective in offsetting changes in fair value or cash flows, they are assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedges were designated. Epson classifies hedging relationships that meet the qualifying criteria for hedge accounting in the following categories and applies hedge accounting to the hedging relationships.

(i) Fair Value Hedge

The gain or loss on the derivative is recognised in profit or loss in the consolidated statement of comprehensive income. The hedging gain or loss on the hedged items attributable to the hedged risks adjust the carrying amount of the hedged item and is recognised in profit or loss in the consolidated statement of comprehensive income.

(ii) Cash Flow Hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognised immediately in profit or loss in the consolidated statement of comprehensive income.

The amounts of hedging instruments recognised in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognised in other comprehensive income are accounted for as adjustments to the initial carrying amount of non-financial assets or liabilities.

When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognised in other comprehensive income are reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, amounts that have been recognised in other comprehensive income continue to be recognised in equity until the forecast transactions or firm commitments occur.

(iii) Hedges of a Net Investment in Foreign Operation

Hedges of a net investment in foreign operation are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognised in profit or loss in the consolidated statement of comprehensive income. On the disposal of the foreign operation, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income is reclassified from equity to profit or loss.

(G) Fair Value of Financial Instruments

Fair value of financial instruments that are traded in an active market as of the end of fiscal year refers to quoted market prices or dealer quotations.

If there is no active market, fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value as such that has a short maturity of three months or less from the date of acquisition.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost or net realizable value, and the cost of inventories is assigned by using the weighted-average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment

The cost of property, plant and equipment includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalisation.

After recognition as an asset, property, plant, and equipment is measured by using the cost model and is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major assets are as follows:

- Buildings and structures: 10 to 35 years
- Machinery and vehicles: 2 to 12 years

The estimated useful lives, depreciation method and residual value are reviewed at each fiscal year end and, if expectations differ from previous estimates, the effect of changes in accounting estimates is recognised prospectively.

(8) Intangible Assets**(A) Goodwill**

Goodwill acquired in a business combination is measured at the amount recognised at the acquisition date less any accumulated impairment losses.

Goodwill is not amortised and allocated to a cash-generating unit that is identified according to locations and types of businesses. The cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. An impairment loss is recognised in profit or loss in the consolidated statement of comprehensive income and not reversed in a subsequent period.

(B) Intangible Assets other than Goodwill

The cost of a separately acquired intangible asset is measured initially at cost, and the cost of intangible asset acquired in a business combination is its fair value at the acquisition date. The cost of internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.

After initial recognition, an intangible asset is measured by using the cost model and is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

An intangible asset with a finite useful life is amortised using the straight-line method over its estimated useful life. The estimated useful life of major intangible asset with a finite useful life is as follows:

- Software: 3 to 5 years

The estimated useful lives and amortisation method are reviewed at each fiscal year end and, if expectations differ from previous estimates, the effect of changes in accounting estimates is recognised prospectively.

An intangible asset with an indefinite useful life or an intangible asset not yet available for use are not amortised and tested for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

(9) Leases

Epson classifies a lease as finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset and a lease as operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an asset.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The asset is depreciated using the straight-line method over the shorter of the lease term and its estimated useful life which is consistent with that for depreciable assets that are owned. Contingent rents are recognised as expenses in the periods in which they are incurred.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term in the consolidated statement of comprehensive income.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.

After recognition as an asset, investment property is measured by using the cost model and is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated using the straight-line method over its estimated useful life. The estimated useful life of major investment properties is 35 years.

(11) Impairment of Non-financial Assets

Epson assesses whether there is any indication that an asset may be impaired. If any such indication exists, or irrespective of whether there is any indication of impairment, where impairment testing is required, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount for each asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount is measured at the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. If carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised in profit or loss. In determining an asset's value in use, an estimate of the future cash flows expected to derive from the asset are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset.

An impairment loss for goodwill is recognised in profit or loss in the consolidated statement of comprehensive income and not reversed in a subsequent period. Epson assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. If the recoverable amount exceeds the carrying amount of the asset, an impairment loss is reversed to the carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised for the asset in prior years.

(12) Non-current Assets Held for Sale and Discontinued Operations

Epson classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The non-current asset or disposal group as held for sale is available for immediate sale in its present condition and its sale is highly probable when Epson management commits to a plan to sell the asset or disposal group.

Epson measures the non-current asset or disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The non-current asset is not depreciated or amortised while it is classified as held for sale or while it is part of a disposal group classified as held for sale.

A discontinued operation is a component of an entity, that is a cash-generating unit or a group of cash-generating units, that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

(13) Post-employment Benefits

Epson has defined benefit plans and defined contribution plans as post-employment benefits plans.

For each defined benefit plan, Epson calculates the present value of defined benefit obligations and the related current service cost and past service cost, using the projected unit credit method. For a discount rate, a discount period is set based on the estimated timing of benefit payments in each period, and the discount rate is determined by reference to market yields as of the end of fiscal year on high quality corporate bonds for the period corresponding to the discount period. The net defined benefit liability (asset) is measured by deducting the fair value of any plan assets (including adjustments of the net defined benefit asset and the asset ceiling, if necessary)

from the present value of the defined benefit obligation. Net interest on the net defined benefit liability (asset) is recognised in profit or loss. Remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income and transferred to retained earnings immediately. Past service cost is recognised as an expense at the earlier of when a plan amendment or curtailment occurs and when any related restructuring costs or termination benefits are recognised.

The contribution payable to a defined contribution plan is recognised as an expense.

(14) Provisions

Epson recognises provision when it has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits is required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation.

(15) Revenue

(A) Sale of Goods

Epson recognises revenue from the sale of goods when the significant risks and rewards of ownership of the goods have been transferred to the buyers, Epson retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the economic benefits associated with the transaction will flow to Epson, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The risks and rewards of ownership of the goods are usually transferred at the time of delivery of the goods to customers. The amount of revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates.

(B) Interest

Interest is recognised using the effective interest method.

(C) Dividends

Dividends are recognised when the shareholder's right to receive payment is established.

(D) Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(E) Rendering of Services

Revenues arising from rendering of services are recognised by reference to the stage of completion of the transaction as of the end of fiscal year.

(16) Government Grants

A government grant is recognised at fair value when there is reasonable assurance that Epson will comply with the conditions attaching to it, and that the grant will be received.

Grants related to assets are deducted in calculating the carrying amount of the asset.

Grants related to income are recognised in profit or loss on a systematic basis over the periods in which Epson recognises as expenses the related costs for which the grants are intended to compensate.

(17) Borrowing Costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, that necessarily takes a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period when they are incurred.

(18) Income Taxes

Income taxes are presented as the total of current tax expense and deferred tax expense.

Current tax is the amount of income taxes payable or recoverable and is recognised as an expense or income and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognised either in other comprehensive income or directly in equity or a business combination. For the calculation of the tax amount, Epson uses the tax rates and tax laws that have been enacted or substantively enacted by the end of fiscal year.

Deferred tax expense is calculated based on a temporary difference that is the difference between the carrying

amount of the assets or liabilities in the consolidated financial statements and their tax bases. A deferred tax asset is recognised for all deductible temporary differences, the carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax liability is not recognised for taxable temporary differences when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction. Also a deferred tax liability is not recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is not recognised for deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that it is not probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of fiscal year.

(19) Treasury Shares

Treasury shares are measured at their cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognised in equity.

(20) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusting by the number of treasury shares.

(21) Dividends

Year-end dividend distributions to the shareholders of the Company are recognised as liabilities in the period in which the distribution is approved by the Annual Shareholders' Meeting. Interim dividend distributions are recognised as liabilities in the period in which the distribution is approved by Epson's Board of Directors.

4. Significant Accounting Estimates and Judgments

The preparation of Epson's consolidated financial statements includes management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclosed contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.

The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognised in the period of the change and subsequent periods.

Among the above estimates and assumptions, the following were items that may have a material effect on the amounts recognised in Epson's consolidated financial statements:

(1) Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Property

Epson performs an impairment test for property, plant and equipment, goodwill, intangible assets and investment property when there is any indication that the recoverable amount has fallen below the carrying amount of the assets.

The impairment test is performed by comparing the carrying amount and the recoverable amount of assets. If the recoverable amount falls below the carrying amount, impairment losses are recognised. Recoverable amount is determined with certain assumptions of useful life, future cash flow of an asset, discount rate and long-term growth rate. These assumptions are based on the best estimates and judgments of management, but they could be affected by variable and uncertain future economic conditions. Any changes in these assumptions could have a material impact on Epson's consolidated financial statements in future periods.

The method for calculating the recoverable amount is stated in “13. Property, Plant and Equipment.”

(2) Post-employment Benefits

Epson has several types of post-employment benefit plans, including defined benefit plans.

The present value of defined benefit obligations on each of these plans and the related service costs and others are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates.

The actuarial assumptions are determined based on the best estimates and judgments of management, but they could be affected by variable and uncertain future economic conditions. Any changes in these assumptions could have a material impact on Epson’s consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are stated in “23. Post-employment Benefits.”

(3) Provisions

Epson recognises various provisions, including provisions for product warranties and provisions for loss on litigation, in the consolidated statement of financial position.

These provisions are recognised based on the best estimates of the expenditures required to settle the obligations, taking into account risks and uncertainty related to the obligations as of the fiscal year end date.

Expenditures necessary for settling the obligations are calculated by taking all possible future results into account; however, they may be affected by unexpected events or changes in conditions which may have a material impact on Epson’s consolidated financial statements in future periods.

The nature and amount of recognised provisions are stated in “21. Provisions.”

(4) Income Taxes

Epson, which conducts business around the world, makes reasonable estimates of income tax to be paid to local tax authorities in accordance with local laws and regulations, and recognises income taxes payable and current tax expense based on these estimates.

Calculating income taxes payable and current tax expense requires estimates and judgments on various factors, including, for example, the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or experience of prior tax investigation.

Therefore, there may be differences between the amount recognised as income taxes payable and current tax expense and the amount of actual income taxes payable and current tax expense. These differences may have a material impact on Epson’s consolidated financial statements in future periods.

In addition, deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. In recognising the deferred tax assets, Epson judges the possibility of future taxable income and reasonably estimate the timing and amount of future taxable income based on the business plan. The timing and amount of taxable income may be affected by variable and uncertain future economic conditions, and changes could have a material impact on Epson’s consolidated financial statements in future periods.

The content and amounts related to income taxes are stated in “18. Income Taxes.”

(5) Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the fiscal year end date and by taking into account the probability of these contingencies and their impact on financial reporting.

The content of contingencies is stated in “39. Contingencies.”

5. Changes in Accounting Policies

There is no application of accounting standard and interpretation newly by Epson from the fiscal year 2015.

6. New Accounting Standards Not Yet Adopted

Basis of preparation by the date of approval of the consolidated financial statements, new accounting standards, amended standards and new interpretations that have been issued, but have not been early adopted by Epson are as follows.

The implications from adoption of these standards and interpretations are assessed by Epson.

IFRS		Mandatory adoption (from the year beginning)	Timing of adoption by Epson	Description of new and revised standards
IFRS 9	Financial Instruments	January 1, 2018	To be determined	Amendments to hedge accounting Limited changes to classification and measurement of financial assets, and introduction of an expected credit loss impairment model
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	To be determined	Amendments to accounting treatment for recognising revenue
IFRS 16	Leases	January 1, 2019	To be determined	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

7. Segment Information

(1) Outline of Reportable Segments

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

From the beginning of this fiscal year, Epson changed its organisational structure and the reportable segments into three segments: "Printing Solutions", "Visual Communications" and "Wearable & Industrial Products". They are determined by types of products, nature of products, and markets. Segment information for the year ended March 31, 2015 has been reclassified based on new reportable segments.

Epson conducts development, manufacturing and sales within its reportable segments as follows:

Reportable segments	Main products
Printing Solutions	Inkjet printers, serial impact dot matrix printers, page printers, color image scanners, commercial inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers and related consumables, personal computers and others.
Visual Communications	3LCD projectors, HTPS-TFT panels for 3LCD projectors, smart eyewear and others.
Wearable & Industrial Products	Watches, watch movements, sensing systems, industrial robots, IC handlers, crystal units, crystal oscillators, quartz sensors, CMOS LSIs, Metal powders, surface finishing and others.

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(2) Revenues and Performances for Reportable Segments

Revenues and performances for reportable segments were as follows. Transactions between the segments were mainly based on prevailing market prices.

FY2014: Year ended March 31, 2015

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Millions of yen							
Revenue							
External revenue	730,534	176,938	167,589	1,075,062	808	10,470	1,086,341
Inter-segment revenue	333	247	5,889	6,470	581	(7,052)	-
Total revenue	730,867	177,186	173,478	1,081,532	1,390	3,418	1,086,341
Segment profit (loss) (Business profit) (Note 1)	111,442	19,421	10,338	141,202	(318)	(39,608)	101,275
					Other operating income (expense)		30,104
					Profit from operating activities		131,380
					Finance income (costs), net		948
					Share of profit of investments accounted for using the equity method		207
					Profit before tax		132,536
Other items							
	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation expense	(23,011)	(7,242)	(8,075)	(38,329)	(20)	(6,127)	(44,478)
Impairment loss and Reversal of impairment loss on other than financial assets	(38)	(81)	(590)	(710)	-	(2,852)	(3,563)
Segment assets	372,246	119,363	138,596	630,206	564	375,511	1,006,282
Capital expenditures	22,190	6,876	8,360	37,427	12	7,987	45,427

(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 (¥39,608) million comprised "Eliminations" of ¥334 million and "Corporate expenses" of (¥39,943) million. The corporate expenses included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) Adjustments to segment assets of ¥375,511 million comprised "Eliminations" of (¥4,583) million and "Corporate assets" of ¥380,095 million.

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FY2015: Year ended March 31, 2016

Millions of yen

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products				
Revenue							
External revenue	736,033	183,997	164,384	1,084,415	753	7,312	1,092,481
Inter-segment revenue	336	35	6,031	6,403	651	(7,055)	-
Total revenue	736,369	184,033	170,415	1,090,819	1,404	257	1,092,481
Segment profit (loss)							
(Business profit) (Note 1)	104,740	15,593	9,817	130,150	(566)	(44,632)	84,951
					Other operating income (expense)		9,074
					Profit from operating activities		94,026
					Finance income (costs), net		(2,600)
					Share of profit of investments accounted for using the equity method		104
					Profit before tax		91,530

Other items

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products				
Depreciation and amortisation expense	(24,183)	(7,420)	(8,171)	(39,775)	(21)	(5,602)	(45,399)
Impairment loss and Reversal of impairment loss on other than financial assets	(251)	(406)	(203)	(861)	-	3,071	2,210
Segment assets	348,610	108,097	130,867	587,576	638	353,125	941,340
Capital expenditures	36,623	10,763	10,293	57,680	40	11,701	69,423

(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 (¥44,632) million comprised "Eliminations" of ¥470 million and "Corporate expenses" of (¥45,102) million. The corporate expenses included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) Adjustments to segment assets of ¥353,125 million comprised "Eliminations" of (¥3,999) million and "Corporate assets" of ¥357,124 million.

SEIKO EPSON CORPORATION

FY2015: Year ended March 31, 2016

Thousands of U.S. dollars

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products				
Revenue							
External revenue	6,532,073	1,632,925	1,458,857	9,623,855	6,683	64,891	9,695,429
Inter-segment revenue	2,991	310	53,523	56,824	5,777	(62,601)	-
Total revenue	6,535,064	1,633,235	1,512,380	9,680,679	12,460	2,290	9,695,429
Segment profit (loss)							
(Business profit) (Note 1)	929,535	138,383	87,122	1,155,040	(5,023)	(396,095)	753,922
					Other operating income (expense)		80,529
					Profit from operating activities		834,451
					Finance income (costs), net		(23,073)
					Share of profit of investments accounted for using the equity method		922
					Profit before tax		812,300

Other items

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products				
Depreciation and amortisation expense	(214,625)	(65,850)	(72,515)	(352,990)	(186)	(49,726)	(402,902)
Impairment loss on other than financial assets	(2,237)	(3,603)	(1,801)	(7,641)	-	27,254	19,613
Segment assets	3,093,824	959,327	1,161,403	5,214,554	5,662	3,133,884	8,354,100
Capital expenditures	325,027	95,518	91,347	511,892	354	103,861	616,107

(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 (\$396,095) thousand comprised "Eliminations" of \$4,171 thousand and "Corporate expenses" of (\$400,266) thousand. The corporate expenses included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) Adjustments to segment assets of \$3,133,884 million comprised "Eliminations" of (\$35,480) million and "Corporate assets" of \$3,169,364 million.

(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,
	2015	2016	2016
Japan	163,689	168,114	1,491,959
China	26,464	25,704	228,115
Other	70,223	77,520	687,986
Total	260,377	271,338	2,408,060

(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,
	2015	2016	2016
Japan	276,238	264,012	2,343,024
The United States	205,215	227,849	2,022,089
China	148,176	144,466	1,282,090
Other	456,710	456,152	4,048,226
Total	1,086,341	1,092,481	9,695,429

(Note) Revenue is segmented by country based on the location of the customers.

(4) Major Customers Information

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

8. Cash and Cash Equivalents

The breakdown of “Cash and cash equivalents” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Cash and deposits	111,330	102,404	908,803
Short-term investments	134,000	128,093	1,136,795
Total	245,330	230,498	2,045,598

9. Trade and Other Receivables

The breakdown of “Trade and other receivables” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Notes and trade receivables	156,440	140,623	1,247,985
Other receivables	12,563	12,463	110,605
Allowance account for credit losses	(1,521)	(1,426)	(12,655)
Total	167,482	151,660	1,345,935

Trade and other receivables are presented net of the allowance account for credit losses in the consolidated statement of financial position.

Trade and other receivables are classified as financial assets measured at amortised cost.

10. Inventories

The breakdown of “Inventories” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Merchandise and finished goods	140,825	122,013	1,082,827
Work in process	54,360	52,256	463,755
Raw materials	19,250	20,363	180,715
Supplies	5,989	6,975	61,911
Total	220,426	201,608	1,789,208

The amount of inventories included in cost of sales recognised as an expense totaled (¥676,128) million and (¥687,289) million ((\$6,099,476) thousand) for the years ended March 31, 2015 and 2016, respectively. Losses recognised as cost of sales as a result of valuations for the years ended March 31, 2015 and 2016 were (¥32,138) million and (¥29,158) million ((\$258,768) thousand), respectively. In addition, Epson has no inventories pledged as collateral.

11. Other Financial Assets

(1) The breakdown of “Other financial assets”

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Derivative assets	3,181	1,383	12,273
Equity securities	19,639	16,060	142,527
Bonds receivable	108	88	780
Time deposits	44	37	328
Other	5,980	6,119	54,323
Allowance account for credit losses	(64)	(53)	(470)
Total	28,889	23,637	209,761
Current assets	3,544	1,674	14,856
Non-current assets	25,345	21,962	194,905
Total	28,889	23,637	209,761

Derivative assets are classified as financial assets measured at fair value through profit or loss, excluding a case where hedge accounting is applied. Equity securities held for other than trading purposes are classified as financial assets measured at fair value through other comprehensive income, and time deposits and bonds receivable are classified as financial assets measured at amortised cost.

(2) Names of major equity securities measured at fair value through other comprehensive income, their fair values and dividends received

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2015		March 31, 2016		March 31, 2016	
	Fair value	Dividends received	Fair value	Dividends received	Fair value	Dividends received
NGK Insulators, Ltd.	9,636	93	7,810	123	69,311	1,091
Mizuho Financial Group, Inc.	3,168	105	2,522	116	22,381	1,029

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

12. Other Assets

The breakdown of “Other current assets” and “Other non-current assets” was as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2015	2016	March 31, 2016
Prepaid expense	13,620	13,887	123,242
Advances to suppliers	1,954	1,724	15,299
Other	1,922	3,845	34,202
Total	17,497	19,457	172,743
Current assets	11,539	14,335	127,247
Non-current assets	5,958	5,122	45,496
Total	17,497	19,457	172,743

13. Property, Plant and Equipment
(1) Schedule of Property, Plant and Equipment

The schedules of the cost, accumulated depreciation and accumulated impairment losses, and carrying amount of “Property, plant and equipment” were as follows:

Millions of yen

Cost	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2014	470,871	440,677	170,468	5,184	2,561	1,089,762
Individual acquisition	810	6,682	7,613	24,001	580	39,687
Acquisition of subsidiary	1,416	44	145	-	-	1,606
Transfer to(from) investment property	(9,462)	-	-	-	-	(9,462)
Transfer to(from) non-current assets held for sale	(396)	-	-	-	-	(396)
Sale or disposal	(7,057)	(14,268)	(12,145)	(45)	(12)	(33,529)
Exchange differences on translation of foreign operations	6,968	14,422	14,004	334	4	35,734
Transfer from construction in progress	5,332	14,134	5,714	(25,206)	24	-
Other	(13)	(1,641)	(1,190)	(125)	(19)	(2,989)
As of March 31, 2015	468,469	460,050	184,611	4,143	3,137	1,120,412
Individual acquisition	3,997	7,658	8,787	43,874	764	65,083
Acquisition of subsidiary	717	253	62	-	-	1,033
Transfer to(from) investment property	(182)	-	-	-	-	(182)
Transfer to(from) non-current assets held for sale	(1,267)	(40)	(111)	-	-	(1,418)
Sale or disposal	(17,675)	(10,000)	(9,699)	(79)	(187)	(37,641)
Exchange differences on translation of foreign operations	(5,173)	(11,160)	(7,430)	(901)	(11)	(24,678)
Transfer from construction in progress	9,267	16,038	6,112	(31,418)	-	-
Other	195	(1,230)	85	(534)	(1,210)	(2,694)
As of March 31, 2016	458,348	461,570	182,418	15,084	2,492	1,119,913

Thousands of U.S. dollars

Cost	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2015	4,157,516	4,082,800	1,638,365	36,767	27,860	9,943,308
Individual acquisition	35,472	67,962	77,981	389,368	6,808	577,591
Acquisition of subsidiary	6,372	2,245	550	-	-	9,167
Transfer to(from) investment property	(1,615)	-	-	-	-	(1,615)
Transfer to(from) non-current assets held for sale	(11,245)	(354)	(985)	-	-	(12,584)
Sale or disposal	(156,860)	(88,746)	(86,075)	(701)	(1,670)	(334,052)
Exchange differences on translation of foreign operations	(45,908)	(99,041)	(65,938)	(7,996)	(126)	(219,009)
Transfer from construction in progress	82,241	142,332	54,242	(278,815)	-	-
Other	1,723	(10,908)	763	(4,758)	(10,756)	(23,936)
As of March 31, 2016	4,067,696	4,096,290	1,618,903	133,865	22,116	9,938,870

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Millions of yen

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2014	(337,763)	(381,837)	(146,481)	(0)	(1,122)	(867,205)
Depreciation expense (Note)	(9,398)	(14,186)	(14,129)	-	(9)	(37,724)
Impairment losses	(2,960)	(249)	(135)	-	-	(3,345)
Acquisition of subsidiary	(765)	(43)	(128)	-	-	(937)
Transfer to(from) investment property	6,175	-	-	-	-	6,175
Transfer to(from) non-current assets held for sale	300	-	-	-	-	300
Sale or disposal	6,830	13,725	11,910	0	5	32,472
Exchange differences on translation of foreign operations	(3,185)	(10,445)	(11,674)	-	(2)	(25,307)
Other	(35)	1,595	1,010	-	(152)	2,417
As of March 31, 2015	(340,803)	(391,441)	(159,629)	-	(1,280)	(893,155)
Depreciation expense (Note)	(8,797)	(15,443)	(13,888)	-	(38)	(38,168)
Impairment losses	(725)	(149)	(357)	(161)	-	(1,395)
Acquisition of subsidiary	(43)	(79)	(47)	-	-	(169)
Transfer to(from) investment property	136	-	-	-	-	136
Transfer to(from) non-current assets held for sale	832	40	106	-	-	979
Sale or disposal	17,454	9,555	9,373	55	27	36,466
Exchange differences on translation of foreign operations	2,337	8,718	6,393	-	9	17,459
Other	2	1,184	84	-	1,124	2,396
As of March 31, 2016	(329,606)	(387,615)	(157,965)	(105)	(157)	(875,449)

Thousands of U.S. dollars

Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2015	(3,024,520)	(3,473,917)	(1,416,657)	-	(11,379)	(7,926,473)
Depreciation expense (Note)	(78,070)	(137,051)	(123,251)	-	(357)	(338,729)
Impairment losses	(6,471)	(1,322)	(3,168)	(1,419)	-	(12,380)
Acquisition of subsidiary	(381)	(701)	(417)	-	-	(1,499)
Transfer to(from) investment property	1,206	-	-	-	-	1,206
Transfer to(from) non-current assets held for sale	7,394	354	940	-	-	8,688
Sale or disposal	154,898	84,797	83,182	488	259	323,624
Exchange differences on translation of foreign operations	20,740	77,369	56,735	-	99	154,943
Other	54	10,509	746	-	9,974	21,283
As of March 31, 2016	(2,925,150)	(3,439,962)	(1,401,890)	(931)	(1,404)	(7,769,337)

(Note) Depreciation expense for property, plant and equipment was included in cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income.

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Millions of yen

Carrying Amount	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2014	133,107	58,839	23,986	5,183	1,438	222,556
As of March 31, 2015	127,665	68,609	24,982	4,143	1,856	227,257
As of March 31, 2016	128,741	73,955	24,452	14,978	2,335	244,463

Thousands of U.S. dollars

Carrying Amount	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2015	1,132,996	608,883	221,708	36,767	16,481	2,016,835
As of March 31, 2016	1,142,546	656,328	217,013	132,934	20,712	2,169,533

The carrying amount of property, plant and equipment includes the carrying amount of the following leased assets:

Millions of yen

Leased Assets	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2014	223	62	116	402
As of March 31, 2015	109	98	76	284
As of March 31, 2016	63	188	46	298

Thousands of U.S. dollars

Leased Assets	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2015	977	869	674	2,520
As of March 31, 2016	559	1,677	408	2,644

(2) Impairment Losses

Epson's business assets are generally grouped by business segment under the Company's management accounting system, and their cash flows are continuously monitored. Assets planned to be sold and idle assets are separately assessed for impairment on the individual asset level.

Impairment losses recognised in the years ended March 31, 2015 and 2016, represent the losses related to idle assets that Epson has no plan to use in the future, and the carrying amount was reduced to the recoverable amounts. They were recognised as other operating expense in the consolidated statement of comprehensive income. The recoverable amounts of these assets are determined using their fair values less disposal cost, which were assessed on the basis of reasonable estimates such as a valuation by an external real estate appraiser. The valuation is made in accordance with the income approach using Level 3 inputs which include the future cash flow.

14. Intangible Assets

The schedules of the cost, accumulated amortisation and accumulated impairment losses, and carrying amount of “Intangible assets” were as follows:

Millions of yen						
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2014	37,622	15,536	6,255	1,848	4,403	65,666
Individual acquisition	4,149	770	1,338	-	124	6,383
Acquisition of subsidiary	125	-	161	402	0	689
Sale or disposal	(2,385)	-	-	-	(32)	(2,417)
Exchange differences on translation of foreign operations	892	-	1	75	(57)	912
Other	1,181	-	(336)	-	(333)	511
As of March 31, 2015	41,586	16,306	7,421	2,326	4,104	71,744
Individual acquisition	5,809	273	571	-	11	6,665
Acquisition of subsidiary	1	-	2	313	2	320
Sale or disposal	(1,544)	-	(0)	-	(33)	(1,578)
Exchange differences on translation of foreign operations	(792)	-	(11)	(57)	(320)	(1,182)
Other	(303)	0	(2)	-	(1,770)	(2,075)
As of March 31, 2016	44,756	16,580	7,980	2,582	1,994	73,894

Thousands of U.S. dollars						
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2015	369,062	144,720	65,859	20,642	36,421	636,704
Individual acquisition	51,553	2,422	5,067	-	107	59,149
Acquisition of subsidiary	8	-	17	2,777	37	2,839
Sale or disposal	(13,702)	-	(0)	-	(302)	(14,004)
Exchange differences on translation of foreign operations	(7,028)	-	(97)	(505)	(2,859)	(10,489)
Other	(2,698)	0	(26)	-	(15,690)	(18,414)
As of March 31, 2016	397,195	147,142	70,820	22,914	17,714	655,785

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Millions of yen

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2014	(28,005)	(12,219)	(3,541)	-	(2,953)	(46,719)
Amortisation expense (Note)	(3,839)	(1,036)	(1,380)	-	(556)	(6,813)
Impairment losses	(3)	-	(77)	-	(5)	(86)
Acquisition of subsidiary	(114)	-	(112)	-	-	(227)
Sale or disposal	2,343	-	-	-	5	2,349
Exchange differences on translation of foreign operations	(582)	-	(18)	-	(0)	(600)
Other	(476)	-	-	-	-	(476)
As of March 31, 2015	(30,678)	(13,255)	(5,130)	-	(3,509)	(52,574)
Amortisation expense (Note)	(4,666)	(1,037)	(1,363)	-	(382)	(7,449)
Impairment losses	(31)	-	-	-	(0)	(32)
Acquisition of subsidiary	(0)	-	(0)	-	(0)	(0)
Sale or disposal	1,538	-	0	-	8	1,546
Exchange differences on translation of foreign operations	563	-	9	-	308	881
Other	142	(0)	-	-	1,771	1,913
As of March 31, 2016	(33,132)	(14,293)	(6,484)	-	(1,805)	(55,715)

Thousands of U.S. dollars

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2015	(272,257)	(117,642)	(45,526)	-	(31,152)	(466,577)
Amortisation expense (Note)	(41,409)	(9,203)	(12,096)	-	(3,399)	(66,107)
Impairment losses	(283)	-	-	-	(0)	(283)
Acquisition of subsidiary	(0)	-	(0)	-	(0)	(0)
Sale or disposal	13,649	-	0	-	71	13,720
Exchange differences on translation of foreign operations	4,996	-	79	-	2,743	7,818
Other	1,268	(0)	-	-	15,708	16,976
As of March 31, 2016	(294,036)	(126,845)	(57,543)	-	(16,029)	(494,453)

(Note) Amortisation expense for intangible assets was included in cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income.

Millions of yen

Carrying Amount	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2014	9,617	3,316	2,714	1,848	1,450	18,947
As of March 31, 2015	10,907	3,050	2,291	2,326	594	19,170
As of March 31, 2016	11,624	2,286	1,496	2,582	188	18,179

Thousands of U.S. dollars

Carrying Amount	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2015	96,805	27,078	20,333	20,642	5,269	170,127
As of March 31, 2016	103,159	20,297	13,277	22,914	1,685	161,332

15. Finance Lease Transactions

Epson leases host computers and computer terminals as a lessee.

The total of future minimum lease payments, future finance costs and their present value for leased assets recognised based on the finance lease contracts by maturity were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Not later than 1 year			
Total of future minimum lease payments	72	92	816
Future finance costs	(2)	(3)	(36)
Present value	70	88	780
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	111	150	1,331
Future finance costs	(2)	(5)	(44)
Present value	108	145	1,287
Later than 5 years			
Total of future minimum lease payments	0	0	0
Future finance costs	(0)	(0)	(0)
Present value	0	0	0
Total			
Total of future minimum lease payments	185	242	2,147
Future finance costs	(4)	(9)	(80)
Present value	180	233	2,067

*16. Operating Lease Transactions***(1) Future Minimum Lease Payments under Non-cancellable Operating Leases**

The total of future minimum lease payments under non-cancellable operating leases was as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2015	2016	March 31, 2016
Not later than 1 year	4,497	5,277	46,831
Later than 1 year and not later than 5 years	8,663	11,926	105,858
Later than 5 years	1,529	1,046	9,282
Total	14,690	18,251	161,971

(2) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognised as an expense was as follows:

	Millions of yen		Thousands of
	Year ended March 31,		U.S. dollars
	2015	2016	Year ended March 31, 2016
Total of minimum lease payments	7,399	8,264	73,340
Contingent rents	114	120	1,064

17. Investment Property
(1) Schedule of Investment Property

The schedule of the carrying amount of “Investment property” was as follows:

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31,
			2016
Balance at the beginning of the year	10,273	4,758	42,225
Expenditure after acquisition	459	-	-
Transfer from(to) property, plant and equipment	3,286	45	409
Depreciation expense	(170)	(90)	(798)
Impairment losses and reversal of impairment losses	(126)	3,637	32,277
Sale or disposal	(8,972)	(6,335)	(56,249)
Exchange differences on translation of foreign operations	6	(46)	(408)
Balance at the end of the year	4,758	1,967	17,456
Breakdown of “Balance at the beginning of the year”			
Cost	11,491	11,595	102,901
Accumulated depreciation and accumulated impairment losses	(1,217)	(6,837)	(60,676)
Total	10,273	4,758	42,225
Breakdown of “Balance at the end of the year”			
Cost	11,595	4,173	37,024
Accumulated depreciation and accumulated impairment losses	(6,837)	(2,205)	(19,568)
Total	4,758	1,967	17,456

(2) Fair Value

The carrying amount and the fair value of “Investment property” were as follows:

	Millions of yen				Thousands of	
	March 31, 2015		March 31, 2016		U.S. dollars	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment property	4,758	4,380	1,967	1,468	17,456	13,028

The fair value of investment property is determined on the basis of a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the income approach using Level 3 inputs which include the future cash flow.

18. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown of “Deferred tax assets” and “Deferred tax liabilities” by major causes of their occurrence were as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2015	2016	March 31, 2016
Inter-company profits and write downs on inventories	22,654	18,995	168,574
Carryforward of unused tax losses	29,168	9,032	80,156
Net defined benefit liabilities	5,280	7,983	70,846
Fixed assets (Note 1)	7,425	6,113	54,250
Other	27,948	22,947	203,685
Total deferred tax assets	92,477	65,073	577,511
Undistributed profit	(14,186)	(12,922)	(114,678)
Fixed assets (Note 1)	(3,813)	(3,078)	(27,316)
Other	(5,019)	(3,486)	(30,955)
Total deferred tax liabilities	(23,020)	(19,488)	(172,949)
Net deferred tax assets (Note 2)	69,457	45,585	404,562

(Note 1) “Fixed assets” include impairment losses and excess of depreciation of property, plant and equipment, intangible assets and investment property.

(Note 2) The difference between the net amount of deferred tax assets recognised in the years ended March 31, 2015 and 2016, less the respective net amounts of deferred tax assets recognised directly in equity and in other comprehensive income, is mainly attributable to the impact of foreign exchange movements.

Epson assesses its ability to utilize carryforward of unused tax losses in future periods based on the Mid-Range Business Plan and financial forecasts approved by the Board of Directors annually. This takes account of Epson’s medium and long-term strategy and financial plans and the expected future economic outlook. The ability to utilize carryforward of unused tax losses in future periods for recognising deferred tax assets also takes account of material tax adjusting items, the expected future taxable income and the period (if any) in which carryforward of unused tax losses might expire. Epson believes that the recognised deferred tax assets are probable and the tax benefits can be realised based on the prior taxable income and the expected future taxable income when the deferred tax assets can be recognised.

Epson does not recognise deferred tax assets for some carryforward of unused tax losses and some deductible temporary differences. Epson reduces the amount of the deferred tax assets to the extent that it is no longer probable that the tax benefits can be realised with based on an individual analysis of each company’s condition as a result of assessing the recoverability of the deferred tax assets.

The amounts of carryforward of unused tax losses, for which deferred tax assets have not been recognised, as of March 31, 2015 and 2016, were ¥8,247 million and ¥64,751 million (\$574,645 thousand), respectively. The amounts of deductible temporary differences, for which deferred tax assets have not been recognised, as of March 31, 2015 and 2016, were ¥240,737 million and ¥324,150 million (\$2,876,730 thousand), respectively. The deductible temporary differences are not expired under present tax laws. The expiration schedule of carryforward of unused tax losses was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
1st year	-	-	-
2nd year	-	-	-
3rd year	-	-	-
4th year	-	-	-
5th year and thereafter	8,247	64,751	574,645
Total	8,247	64,751	574,645

Epson has no taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised as of March 31, 2015 and 2016.

(2) Tax Expense

“Tax expense” recognised as an expense was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Current tax expense	(23,216)	(19,720)	(175,008)
Deferred tax expense	4,584	(25,700)	(228,089)
Total	(18,631)	(45,421)	(403,097)

Deferred tax expense increased by ¥3,424 million and ¥1,575 million (\$13,977 thousand) mainly due to the effect of changes in Japanese applicable tax rates for the years ended March 31, 2015 and 2016, respectively.

Deferred tax expense includes the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period, and expenses or benefits arising from write-downs of deferred tax assets or the reversal of previous write-downs of deferred tax assets. These effects increased/decreased the deferred tax expense by ¥13,253 million and (¥11,740) million (\$104,188 thousand) for the years ended March 31, 2015 and 2016, respectively.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the actual tax rate was as follows.

Epson is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rates calculated based on these taxes were 35.4% and 32.8% for the years ended March 31, 2015 and 2016, respectively. The Special Corporation Tax for Reconstruction has been abolished in this fiscal year. Foreign subsidiaries are subject to income tax at their locations.

	%	
	Year ended March 31, 2015	Year ended March 31, 2016
Effective statutory tax rate	35.4	32.8
Different tax rates applied to foreign subsidiaries	(5.4)	(3.4)
Expenses not deductible for tax purposes	(0.8)	1.0
Reassessment of recoverability of deferred tax assets	(18.8)	16.7
Other	3.7	2.5
Actual tax rate	14.1	49.6

19. Trade and Other Payables

The breakdown of “Trade and other payables” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Notes and trade payables	80,359	69,972	620,979
Other payables	59,688	60,651	538,268
Total	140,047	130,624	1,159,247

Trade and other payables are classified as financial liabilities measured at amortised cost.

20. Other Financial Liabilities

The breakdown of “Other financial liabilities” was as follows:

	Millions of yen		Thousands of U.S. dollars	%	Due
	March 31,		March 31,	Average interest rate (Note 1)	
	2015	2016	2016		
Derivative financial liabilities	259	823	7,303	-	-
Current borrowings	35,380	31,104	276,038	1.15	-
Current portion of non-current borrowings	53	500	4,437	0.65	-
Current portion of bonds issued (Note 2)	39,978	29,989	266,143	-	-
Non-current borrowings	50,533	50,000	443,734	0.68	2017
Bonds issued (Note 2)	59,853	29,928	265,601	-	-
Other	2,153	1,874	16,650	-	-
Total	188,211	144,220	1,279,906		
Current liabilities	75,745	62,479	554,481		
Non-current liabilities	112,466	81,741	725,425		
Total	188,211	144,220	1,279,906		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2016.

(Note 2) The summary of issuing conditions of the bonds issued was as follows:

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Company	Name of bonds issued	Issue date	% interest rate	Collateral	Maturity date	Millions of yen		Thousands of
						March 31,		U.S. dollars
						2015	2016	March 31, 2016
The Company	The 5th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 3, 2010	0.58	Non	Sep 3, 2015	20,000 (20,000)	-	-
The Company	The 7th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jun 14, 2011	0.72	Non	Jun 14, 2016	20,000 (20,000)	20,000 (20,000)	177,493 (177,493)
The Company	The 8th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 12, 2012	0.55	Non	Sep 11, 2015	20,000 (20,000)	-	-
The Company	The 9th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 12, 2012	0.67	Non	Sep 12, 2017	10,000	10,000	88,746
The Company	The 10th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 11, 2013	0.33	Non	Sep 9, 2016	10,000 (10,000)	10,000	88,746 (88,746)
The Company	The 11th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 11, 2013	0.57	Non	Sep 11, 2018	10,000	10,000	88,746
The Company	The 12th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jun 13, 2014	0.35	Non	Jun 13, 2019	10,000	10,000	88,746
						100,000 (40,000)	60,000 (30,000)	532,477 (266,239)

*The figures in parentheses represent the current portion of bonds issued.

Derivative financial liabilities were classified as financial liabilities measured at fair value through profit or loss excluding those which hedge accounting was applied to, and bonds issued and borrowings were classified as financial liabilities measured at amortised cost. There were no financial covenants on bonds issued and borrowings that had a significant impact on Epson's financing activities.

21. Provisions

The breakdown and the schedule of “Provisions” were as follows:

FY2014: Year ended March 31, 2015

Millions of yen

	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2014	10,100	7,443	1,431	3,452	5,371	27,799
Arising during the year	10,699	7,973	102	1,076	6,429	26,280
Utilised	(9,788)	(7,443)	(76)	(916)	(4,482)	(22,707)
Unused amounts reversed	(324)	-	-	-	(691)	(1,016)
Exchange differences on translation of foreign operations	690	(149)	17	(285)	(164)	108
As of March 31, 2015	11,376	7,823	1,474	3,326	6,461	30,463
Current liabilities	10,043	7,823	30	866	5,558	24,322
Non-current liabilities	1,333	-	1,443	2,460	902	6,141
Total	11,376	7,823	1,474	3,326	6,461	30,463

FY2015: Year ended March 31, 2016

Millions of yen

	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2015	11,376	7,823	1,474	3,326	6,461	30,463
Arising during the year	11,729	10,037	824	19	5,154	27,765
Utilised	(10,831)	(7,823)	(66)	(3,265)	(6,038)	(28,025)
Unused amounts reversed	(514)	-	-	-	(94)	(608)
Exchange differences on translation of foreign operations	(575)	(965)	(21)	52	(124)	(1,634)
As of March 31, 2016	11,185	9,072	2,211	133	5,358	27,960
Current liabilities	9,806	9,072	299	5	3,835	23,019
Non-current liabilities	1,378	-	1,911	127	1,522	4,941
Total	11,185	9,072	2,211	133	5,358	27,960

FY2015: Year ended March 31, 2016

Thousands of U.S. dollars

	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2015	100,958	69,426	13,081	29,517	57,367	270,349
Arising during the year	104,089	89,075	7,311	168	45,762	246,405
Utilised	(96,121)	(69,426)	(585)	(28,966)	(53,625)	(248,723)
Unused amounts reversed	(4,561)	-	-	-	(834)	(5,395)
Exchange differences on translation of foreign operations	(5,102)	(8,564)	(186)	461	(1,110)	(14,501)
As of March 31, 2016	99,263	80,511	19,621	1,180	47,560	248,135
Current liabilities	87,034	80,511	2,653	44	34,044	204,286
Non-current liabilities	12,229	-	16,968	1,136	13,516	43,849
Total	99,263	80,511	19,621	1,180	47,560	248,135

(1) Provision for product warranties

Epson recognises an accrual for estimated future warranty costs based on the rate of historical service contract expenses to sales. Other specific warranty provisions are made for those products where future warranty expenses can be specifically estimated. Most of these expenses are expected to be incurred in the next fiscal year.

(2) Provision for rebates

Epson recognises provisions for rebates, related to sales made on or prior to the fiscal year end, that are paid to distributors or customers based on direct outcomes such as the sales performance or early payment. These expenses are expected to be paid in the next fiscal year.

(3) Asset retirement obligations

Epson recognises a provision for retirement costs of property, plant and equipment for which Epson is required to bear, and which derive from the acquisition, construction, development or normal use of such assets to the amount that it is probable that Epson will pay in light of historical experience. These expenses are expected to be paid mainly after five years or more. However, they may be affected by future business plans.

(4) Provision for loss on litigation

Epson recognises a provision for loss on litigation based on the estimated future compensation payment and litigation expenses which need to be provided at each fiscal year end. These expenses are expected to be paid after three years or more.

22. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Accrued expense	26,916	25,948	230,280
Accrued bonus to employees	34,124	28,564	253,496
Accrued employee’s unused paid vacations	25,069	25,052	222,328
Other	23,809	25,615	227,376
Total	109,920	105,179	933,480
Current liabilities	106,942	102,065	905,824
Non-current liabilities	2,977	3,114	27,656
Total	109,920	105,179	933,480

23. Post-employment Benefits

The Company and some Japanese subsidiaries have the following defined benefit plans: defined benefit corporate pension plans and lump-sum severance plans. In addition, they also have defined contribution plans.

Some overseas subsidiaries have defined benefit plans and defined contribution plans.

Epson's major defined benefit plans are administered by the Corporate Pension Fund (the "Fund") in accordance with the Defined-Benefit Corporate Pension Act (Act No. 50 of 2001).

The benefits of defined benefit plans are determined based on conditions, such as years of service, the salary proportional method based on average employee salaries for services or final base salaries for retirement benefits and a funded method based on the points employees have earned for each year of service.

The Fund has a Board of Representatives consisting of representatives of the Company and its Japanese subsidiaries and representatives of the plan participants in accordance with the rules of the Fund. The Board of Representatives is responsible for changes in the rules of the Fund, dismissal of the board members including members who execute operations related to the administration and investment of pension reserves for the Fund, and resolutions of the business report and the closing of account.

(1) Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations was as follows:

	Millions of yen		Thousands of
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Balance at the beginning of the year	293,895	293,035	2,600,594
Service cost	10,687	10,480	93,006
Interest cost	4,337	3,673	32,596
Remeasurement			
Actuarial gains and losses arising from changes in demographic assumptions	2,749	(2,811)	(24,946)
Actuarial gains and losses arising from changes in financial assumptions	19,492	20,008	177,564
Past service cost and losses (gains) arising from settlements	(30,071)	(2,270)	(20,145)
Exchange differences on translation of foreign operations	1,175	(2,039)	(18,095)
Benefits paid	(9,229)	(8,625)	(76,544)
Balance at the end of the year	293,035	311,452	2,764,030

(2) Schedule of Plan Assets

The schedule of the plan assets was as follows.

Epson's major defined benefit plans are regulated by maintaining a balance between the pension obligations and plan assets through reviewing the financial condition of the fund that affects future benefits.

Epson plans to pay contributions of ¥8,038 million (\$71,334 thousand) for the year ending March 31, 2017.

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Balance at the beginning of the year	237,543	261,808	2,323,464
Interest income	3,807	2,972	26,384
Remeasurement			
Return on plan assets	20,257	(4,993)	(44,311)
Gains (losses) arising from settlements	-	(2,270)	(20,145)
Exchange differences on translation of foreign operations	396	(1,310)	(11,643)
Contributions by the employer	7,345	7,342	65,157
Contributions by plan participants	1,223	1,177	10,445
Benefits paid	(8,764)	(8,119)	(72,053)
Balance at the end of the year	261,808	256,606	2,277,298

(3) Schedule of Right to Reimbursement

As Epson's major defined benefit plans are corporate defined benefit pension plans, there are no contributions from third parties.

(4) Effect of Asset Ceiling

There was no effect from the asset ceiling.

(5) Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities or assets recognised in the consolidated statement of financial position were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Funded defined benefit obligations	286,837	305,438	2,710,657
Plan assets	(261,808)	(256,606)	(2,277,298)
Subtotal	25,029	48,831	433,359
Unfunded defined benefit obligations	6,198	6,014	53,373
Net defined benefit liabilities or assets recognised in the consolidated statement of financial position	31,227	54,845	486,732
Net defined benefit liabilities	31,234	54,845	486,732
Net defined benefit assets	(7)	-	-
Net defined benefit liabilities and assets recognised in the consolidated statement of financial position	31,227	54,845	486,732

(6) Breakdown of Plan Assets

The breakdown of plan assets by major category was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Investments quoted in active markets			
Equity securities	24,580	19,923	176,810
Bonds receivable	117	48	425
Alternative investments (Note 2)	20,934	6,926	61,466
Cash and deposits	4,433	4,630	41,089
Other	3,666	3,196	28,384
Total	53,732	34,725	308,174
Investments unquoted in active markets			
Pooled funds (Equity securities)	40,690	29,647	263,107
Pooled funds (Bonds receivable)	69,875	62,220	552,183
General accounts of life insurance companies (Note 1)	84,780	93,829	832,722
Alternative investments (Note 2)	12,729	36,183	321,112
Total	208,075	221,881	1,969,124

(Note 1) A certain interest rate and principal for the general accounts of life insurance companies are guaranteed by life insurance companies.

(Note 2) Alternative investments are the investments through hedge funds, multi-asset funds, securitization funds and other funds.

(Note 3) In plan assets, there are no transferable financial instruments, real estate held by Epson or other assets used by Epson.

The investment strategy for Epson's plan assets was as follows:

Epson's plan assets under defined benefit plans are managed in accordance with the rules of the Fund for securing stable returns in the middle- and long-term in order to ensure the redemption of the defined benefit obligations. Epson sets a best qualified asset mix policy through performing pension ALM, which is combined management of assets and liabilities by an external agency to secure stable returns. Epson invests plan assets consistently with the asset mix policy which includes setting of the risk, target rate of return and composition ratio of plan assets by asset category.

(7) Matters Related to Actuarial Assumptions

The major item of actuarial assumptions was as follows:

	%	
	March 31, 2015	March 31, 2016
Discount rate	1.3	0.8

The valuation of defined benefit obligations reflects judgments on uncertain future events. The sensitivities of defined benefit obligations due to changes of 1% in the discount rate as of March 31, 2016 were as follows. Each of these sensitivities assumes that other variables remain fixed. Negative figures show a decrease in the defined benefit obligations, while positive figures show an increase.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2016	March 31, 2016
Discount rate (1% increase)	(45,953)	(407,818)
Discount rate (1% decrease)	53,392	473,837

The weighted-average duration of the defined benefit obligations at March 31, 2016 was 15.4 years.

(8) Defined Contribution Plans

Expenses for the defined contribution plans were ¥17,875 million and ¥19,340 million (\$171,636 thousand) for the years ended March 31, 2015 and 2016, respectively.

24. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

(A) Authorised Shares

The number of authorized shares as of March 31, 2015 and 2016 was 607,458,368 ordinary shares and 1,214,916,736 ordinary shares, respectively. Increase in the number of authorized shares during the year ended March 31, 2016 resulted from the Company's common shares split with an effective date of April 1, 2015.

(B) Fully Paid Issued Shares

The schedule of the number of issued shares, the amount of "Share capital" and "Capital surplus" was as follows:

	a share	Millions of yen		Thousands of U.S. dollars	
	Number of ordinary issued shares (Note1)	Share capital	Capital surplus	Share capital	Capital surplus
As of April 1, 2014	199,817,389	53,204	84,321		
Increase (decrease)	-	-	-		
As of March 31, 2015	199,817,389	53,204	84,321	472,168	748,322
Increase (decrease) (Note2)	199,817,389	-	-	-	-
As of March 31, 2016	399,634,778	53,204	84,321	472,168	748,322

(Note1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(Note2) Increase in the number of ordinary issued shares during the year ended March 31, 2016 resulted from the Company's common shares split with an effective date of April 1, 2015.

(2) Treasury Shares

The schedule of the number of treasury shares and the corresponding amount was as follows:

	a share	Millions of yen		Thousands of U.S. dollars
	Number of shares	Amount	Amount	Amount
As of April 1, 2014	20,927,083	20,457		
Increase (decrease) (Note1)	1,574	6		
As of March 31, 2015	20,928,657	20,464		181,620
Increase (decrease) (Note2)	20,931,739	6		53
As of March 31, 2016	41,860,396	20,471		181,673

(Note1) Increase in the number of treasury shares during the year ended March 31, 2015 resulted from the purchase of odd shares.

(Note2) Increase in the number of treasury shares during the year ended March 31, 2016 resulted from the purchase of odd shares and the Company's common shares split with an effective date of April 1, 2015.

(3) Other Components of Equity

(A) Remeasurement of net defined benefit liabilities (assets)

Remeasurement of net defined benefit liabilities (assets) comprise actuarial gain and loss on the present value of defined benefit obligations and the return on plan assets excluding amounts included in net interest. The amount is recognised as other comprehensive income when occurred and is transferred immediately from other components of equity to retained earnings.

(B) Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
This is the valuation difference in fair value of financial assets measured at fair value through other comprehensive income.

(C) Exchange differences on translation of foreign operations
This is a foreign currency translation difference that occurs when consolidating financial statements of foreign operations are prepared in foreign currencies.

(D) Net changes in fair value of cash flow hedges
Epson uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.

25. Dividends

Dividends paid were as follows:

FY2014: Year ended March 31, 2015

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 24, 2014)	Ordinary shares	6,618	37	March 31, 2014	June 25, 2014
Board of Directors (October 31, 2014)	Ordinary shares	6,261	35	September 30, 2014	December 5, 2014

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2015)	Ordinary shares	14,311	80	March 31, 2015	June 26, 2015
Board of Directors (October 29, 2015)	Ordinary shares	10,733	30	September 30, 2015	December 4, 2015

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Thousands of U.S. dollars	U.S. dollars	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2015)	Ordinary shares	127,005	0.70	March 31, 2015	June 26, 2015
Board of Directors (October 29, 2015)	Ordinary shares	95,252	0.26	September 30, 2015	December 4, 2015

(Note) The Company completed the Company's ordinary shares split with an effective date of April 1, 2015 based on the resolution by the Company's Board of Directors on January 30, 2015. Dividends per share whose basis date was prior to March 31, 2015 was stated by the actual dividends paid which was before the shares split.

Dividends whose basis dates were during the years ended March 31, 2015 and 2016, but whose effective dates were subsequent to March 31, 2015 and 2016 were as follows:

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FY2014: Year ended March 31, 2015

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2015)	Ordinary shares	14,311	80	March 31, 2015	June 26, 2015

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 28, 2016)	Ordinary shares	10,733	30	March 31, 2016	June 29, 2016

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Thousands of U.S. dollars	U.S. dollars	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 28, 2016)	Ordinary shares	95,252	0.26	March 31, 2016	June 29, 2016

26. Revenue

The breakdown of “Revenue” was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Sale of goods	1,071,687	1,080,551	9,589,554
Royalty income	8,201	4,137	36,714
Other	6,452	7,793	69,161
Total	1,086,341	1,092,481	9,695,429

27. Selling, General and Administrative Expenses

The breakdown of “Selling, general and administrative expenses” was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Employee benefit expense	(94,749)	(98,355)	(872,870)
Research and development expense	(47,837)	(53,172)	(471,884)
Promotion expense	(28,722)	(32,284)	(286,510)
Advertising expense	(19,823)	(22,624)	(200,780)
Service contract expense	(20,109)	(21,269)	(188,755)
Transportation expense	(18,162)	(16,590)	(147,231)
Other	(65,245)	(68,410)	(607,156)
Total	(294,648)	(312,708)	(2,775,186)

28. Employee Benefit Expenses

The employee benefit expenses included in the consolidated statement of comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Salaries and wages	(206,796)	(211,849)	(1,880,094)
Legal welfare expense	(19,660)	(19,519)	(173,225)
Welfare expense	(10,653)	(11,188)	(99,290)
Expenses of post-employment benefits			
Expense for defined contribution plans	(17,875)	(19,340)	(171,636)
Expense for defined benefit plans	(12,303)	(32,334)	(286,972)
Total	(267,289)	(294,232)	(2,611,217)

29. Other Operating Income

The breakdown of “Other operating income” was as follows:

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31, 2016
Gain on sales of property, plant and equipment, intangible assets and investment property	5,270	7,733	68,627
Income from reversal of impairment loss	-	3,828	33,972
Foreign exchange gain	-	931	8,262
Income from a revision of the defined benefit plan (Note)	30,071	-	-
Other	4,564	2,314	20,546
Total	39,907	14,807	131,407

(Note) As a result of a revision to the defined benefit plan, Epson recognised a ¥30,071 million decline in expenses associated with past service costs at the Company and certain domestic subsidiaries. This resulted in a ¥30,071 million increase in other operating income for the year ended March 31, 2015.

30. Other Operating Expense

The breakdown of “Other operating expense” was as follows:

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31, 2016
Impairment loss	(3,563)	(1,618)	(14,359)
Loss on litigation	(510)	(829)	(7,357)
Loss on the disposal of property, plant and equipment and intangible assets	(745)	(755)	(6,700)
Foreign exchange loss	(2,595)	-	-
Other	(2,388)	(2,529)	(22,462)
Total	(9,802)	(5,732)	(50,878)

31. Finance Income and Finance Costs

The breakdowns of “Finance income” and “Finance costs” were as follows:

Finance Income	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Interest income	2,159	1,275	11,315
Dividend income	278	340	3,017
Foreign exchange gain (Note)	567	-	-
Other	263	36	328
Total	3,268	1,652	14,660

Finance Costs	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Interest expense	(1,559)	(1,319)	(11,705)
Foreign exchange loss (Note)	-	(2,177)	(19,320)
Employee benefit expense	(531)	(700)	(6,212)
Other	(229)	(55)	(496)
Total	(2,320)	(4,252)	(37,733)

(Note) The increase or decrease in the fair value of currency derivatives is included in the foreign exchange gain (loss).

32. Discontinued Operations

As of April 1, 2010, Epson transferred a part of its business and some assets in the field of small- and medium-sized liquid crystal displays to Sony Corporation and Sony Mobile Display Corporation and terminated the production operation at the end of December, 2010. The profit and loss related to allegations concerning a LCD price-fixing cartel that occurred during the years ended March 31, 2015 and 2016 was classified into “Discontinued operations”.

As of November 16, 2012, Epson concluded an agreement with Hoya Corporation (“Hoya”) about the transfer of the optical products business of the Company and related subsidiaries to Hoya group.

After the Company and related subsidiaries transferred their optical products business to Hoya Group on February 1, 2013, the profit and loss related to the optical products business was classified into “Discontinued operations”.

(1) Reportable Segments

Small- and medium-sized liquid crystal displays business: Other

Optical products business: Other

(2) The analysis of profit and loss of discontinued operations

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31,
			2016
Selling, general and administrative expenses	(459)	(42)	(373)
Other operating income	1,000	-	-
Other operating expense	(1,659)	-	-
Loss from operating activities	(1,118)	(42)	(373)
Loss before tax	(1,118)	(42)	(373)
Loss from discontinued operations	(1,118)	(42)	(373)

(3) The analysis of cash flow of discontinued operations

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31,
			2016
Net cash provided by (used in) operating activities	(411)	(1,060)	(9,407)
Total	(411)	(1,060)	(9,407)

33. Other Comprehensive Income

The amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" were as follows:

FY2014: Year ended March 31, 2015

Millions of yen					
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	(1,016)	-	(1,016)	(496)	(1,512)
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	2,244	-	2,244	(123)	2,121
Exchange differences on translation of foreign operations	31,219	(1,106)	30,113	-	30,113
Net changes in fair value of cash flow hedges	2,418	149	2,568	(850)	1,718
Share of other comprehensive income of investments accounted for using the equity method	257	-	257	-	257
Total	35,124	(956)	34,167	(1,469)	32,698

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2015: Year ended March 31, 2016

Millions of yen					
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	(22,465)	-	(22,465)	304	(22,161)
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	(3,547)	-	(3,547)	937	(2,610)
Exchange differences on translation of foreign operations	(21,309)	-	(21,309)	-	(21,309)
Net changes in fair value of cash flow hedges	175	(1,953)	(1,777)	561	(1,215)
Share of other comprehensive income of investments accounted for using the equity method	(240)	-	(240)	-	(240)
Total	(47,386)	(1,953)	(49,340)	1,803	(47,536)

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2015: Year ended March 31, 2016

Thousands of U.S. dollars					
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	(199,369)	-	(199,369)	2,698	(196,671)
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	(31,478)	-	(31,478)	8,315	(23,163)
Exchange differences on translation of foreign operations	(189,121)	-	(189,121)	-	(189,121)
Net changes in fair value of cash flow hedges	1,562	(17,332)	(15,770)	4,988	(10,782)
Share of other comprehensive income of investments accounted for using the equity method	(2,129)	-	(2,129)	-	(2,129)
Total	(420,535)	(17,332)	(437,867)	16,001	(421,866)

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

34. Earnings per Share

Basis of calculating basic earnings per share

(1) Profit attributable to ordinary shareholders of the parent company

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Profit from continuing operations attributable to owners of the parent company	113,678	45,815	406,594
Loss from discontinued operations attributable to owners of the parent company	(1,118)	(42)	(373)
Profit used for calculation of basic earnings per share	112,560	45,772	406,221

(2) Weighted-average number of ordinary shares outstanding during the year

	Thousands of shares	
	Year ended March 31, 2015	Year ended March 31, 2016
Weighted-average number of ordinary shares	357,779	357,775

(Note) The Company completed the Company's ordinary shares split with an effective date of April 1, 2015 based on the resolution by the Company's Board of Directors on January 30, 2015. As a result, each share of the Company's ordinary shares was split into two shares. Basic earnings per share was calculated under the assumption that the shares split took effect at the beginning of the previous fiscal year.

35. Financial Instruments

(1) Capital Management

Epson selects the most effective fund management method focusing on the preservation of funds in view of safeness and flexibility. In addition, Epson obtains financing from bank loans and bonds issued. Epson has a policy not to transact derivatives for speculation purposes, but for avoiding the risks stated below.

Epson manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (equity attributable to owners of the parent company). The amounts were as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2015	2016	March 31, 2016
Interest-bearing debt	185,978	141,755	1,258,020
Cash and cash equivalents	(245,330)	(230,498)	(2,045,598)
Net interest-bearing debt	(59,351)	(88,743)	(787,578)
Capital (equity attributable to owners of the parent company)	494,325	467,818	4,151,739

Epson monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a sound and flexible financial condition for future investment. Epson monitor credit ratings for financial soundness and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

(2) Financial Risk Management

Epson is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks) in the process of its business activities; and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are quarterly reported by the financial and general accounting department to the Executive Committee of the Company.

Epson's policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, Epson do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as notes and trade receivables, resulting from the operating activities of Epson are exposed to customer credit risks.

Epson holds mainly bonds receivable as investments of surplus funds and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuers' credit risks.

In addition, through derivative transactions that Epson conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, Epson is exposed to the credit risks of the financial institutions which are counterparties to these transactions.

In principle, Epson sets credit lines or transaction conditions with respect to trade receivables for counterparties based on Epson's Credit Control Regulation in order to prevent credit risks relating to counterparties. In addition, the receivable balances of counterparties are monitored in order to mitigate the credit risks. The financial and general accounting department of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company. There is no over-concentrated credit risk for a single customer.

With regard to the investment of cash surpluses and derivatives, Epson invests in bonds receivable and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks based on Epson's Capital Management Regulation. In addition, the financial and general accounting department of the Company regularly monitors the performances of these transactions and reports the results to the Executive Committee of the Company.

The analysis of the aging of "Trade and other receivables" and "Other Financial Assets" that are past due but not impaired as of March 31, 2016 was as follows. It includes amounts considered recoverable by credit insurance and collateral.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2016	March 31, 2016
Within 30 days	5,973	53,027
Over 30 days, within 60 days	536	4,756
Over 60 days, within 90 days	140	1,242
Over 90 days	247	2,192
Total	6,898	61,217

Epson uses an allowance account for credit losses to record impairment losses on the uncollectible amounts of individually significant trade receivables at the end of the reporting period and to record impairment losses on trade receivables that are not individually significant at an amount based on the historical loan loss ratio at the end of the reporting period. The allowance account for credit losses against the financial assets is included in "Trade and other receivables" and "Other Financial Assets" in the consolidated statement of financial position.

The schedule of the allowance account for credit losses of "Trade and other receivables" and "Other Financial Assets" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Balance as of April 1	1,758	1,586	14,075
Addition (Note)	478	669	5,927
Decrease (utilised)	(483)	(724)	(6,425)
Decrease (reversal)	(311)	(12)	(106)
Other	145	(39)	(346)
Balance as of March 31	1,586	1,479	13,125

(Note) "Trade and other receivables" and "Other Financial Assets" for which impairment was recognised individually at March 31, 2015 and 2016 were ¥52 million and ¥45 million (\$399 thousand), respectively; and their corresponding allowance account for credit losses were ¥52 million and ¥45 million (\$399 thousand), respectively.

(4) Liquidity Risk

Epson raises funds by borrowings and bonds issued; however, these liabilities are exposed to the liquidity risk that it would not be able to repay liabilities on the due date due to the deterioration of the financing environment.

Epson establishes a financing plan based on the annual business plan and the financial and general accounting department of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the Executive Committee of the Company. In addition, Epson manages liquidity risks with the balance of liquidity-in-hand maintained at a proper level by working out the financing plan on a timely basis, and by taking into consideration the financial environment.

The financial liability balance (including derivative financial instruments) by maturity was as follows:

FY2014: As of March 31, 2015

Millions of yen

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	140,047	140,047	140,047	-	-	-	-	-
Borrowings	85,966	85,966	35,433	533	50,000	-	-	-
Bonds issued	99,831	100,000	40,000	30,000	10,000	10,000	10,000	-
Lease obligations	180	185	72	51	31	18	9	0
Other	1,973	1,973	3	98	108	419	185	1,158
Total	327,999	328,172	215,557	30,682	60,140	10,438	10,194	1,159
Derivative financial liabilities								
Foreign exchange forward contract	259	259	259	-	-	-	-	-
Total	259	259	259	-	-	-	-	-

FY2015: As of March 31, 2016

Millions of yen

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	130,624	130,624	130,624	-	-	-	-	-
Borrowings	81,604	81,604	31,604	50,000	-	-	-	-
Bonds issued	59,917	60,000	30,000	10,000	10,000	10,000	-	-
Lease obligations	233	242	92	76	48	19	4	0
Other	1,641	1,641	0	63	337	34	94	1,111
Total	274,021	274,112	192,322	60,140	10,386	10,053	98	1,111
Derivative financial liabilities								
Foreign exchange forward contract	823	823	823	-	-	-	-	-
Total	823	823	823	-	-	-	-	-

FY2015: As of March 31, 2016

Thousands of U.S. dollars

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	1,159,247	1,159,247	1,159,247	-	-	-	-	-
Borrowings	724,209	724,209	280,475	443,734	-	-	-	-
Bonds issued	531,744	532,477	266,239	88,746	88,746	88,746	-	-
Lease obligations	2,067	2,147	816	703	425	168	35	0
Other	14,583	14,583	17	569	3,001	303	834	9,859
Total	2,431,850	2,432,663	1,706,794	533,752	92,172	89,217	869	9,859
Derivative financial liabilities								
Foreign exchange forward contract	7,303	7,303	7,303	-	-	-	-	-
Total	7,303	7,303	7,303	-	-	-	-	-

(5) Foreign Exchange Risk

Epson operates businesses globally and, therefore, is exposed to the following risks due to foreign exchange fluctuation:

(A) The risk that the profit or loss and cash flow in each functional currency of Epson is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of Epson.

(B) The risk that the equity of Epson is influenced by foreign exchange fluctuation when equity denominated in each functional currency of Epson is translated into Japanese yen and consolidated.

(C) The risk that the profit or loss of Epson is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of Epson is translated into Japanese yen and consolidated.

Epson hedges against risk (A) using derivatives or foreign currency-denominated interest-bearing debt when future cash flow is projected or when receivables and payables are fixed. As a rule, the net of foreign currency-denominated operating receivables and payables is hedged mainly using forward foreign exchange contracts.

Epson does not hedge against risk (B) and (C), in principle.

In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with Epson's Foreign Exchange Management Regulation, Epson establishes a foreign currency hedge policy based on the current conditions and forecast of the foreign exchange market, implements the aforementioned hedges under the supervision of the Foreign Exchange Management Committee of the Company. The financial and general accounting department of the Company regularly reports the performances to the Executive Committee of the Company.

The breakdown of currency derivatives was follows:

Derivative transactions to which hedge accounting is not applied

	Millions of yen						Thousands of U.S. dollars		
	March 31,						March 31,		
	2015		Fair value	2016		Fair value	2016		Fair value
Contract amount	Over one year	Contract amount		Over one year	Contract amount		Over one year		
Foreign exchange forward contract									
Buying	3,238	-	(52)	4,146	-	57	36,794	-	505
Selling	34,957	-	1,383	32,978	-	732	292,679	-	6,496
Non-Deliverable Forward									
Selling	2,940	-	36	2,754	-	(24)	24,440	-	(212)
Total	41,136	-	1,367	39,879	-	765	353,913	-	6,789

Derivative transactions to which hedge accounting is applied

	Millions of yen						Thousands of U.S. dollars		
	March 31,						March 31,		
	2015		Fair value	2016		Fair value	2016		Fair value (Note)
Contract amount	Over one year	Contract amount		Over one year	Contract amount		Over one year		
Foreign exchange forward contract									
Selling	37,030	-	1,557	35,755	-	28	317,315	-	248
Non-Deliverable Forward									
Selling	8,172	-	(44)	7,504	-	(240)	66,595	-	(2,129)
Total	45,203	-	1,512	43,259	-	(212)	383,910	-	(1,881)

(Note) Cash flow hedge is applied, and derivative transactions are measured at fair value in the consolidated statement of financial position.

Foreign Exchange Sensitivity Analysis

In cases where each currency other than the functional currency that denominates the financial instruments held by Epson as of March 31, 2016 increases by 10% in value against the functional currency, the impact on profit before tax in the consolidated statement of comprehensive income was as follows.

The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2016	March 31, 2016
Profit before tax	1,698	15,069

(6) Interest Rate Risk

Epson's interest rate risk arises from cash equivalents and interest-bearing debt. Borrowings and bonds issued with floating rates are subject to the effects of changes in future cash flows caused by the fluctuation of market interest rates; while, borrowings and bonds issued with fixed rates are subject to the effects of changes in the fair value caused by the fluctuation of market interest rates.

In response to the fluctuation of market interest rates, Epson reduces the interest rate risk by implementing an interest rate swap and adjusting appropriate proportion of financing between floating rates and fixed rates.

In accordance with Epson's Capital Management Regulation, the interest rate swap is approved by the finance officer of the Company.

Interest Rate Sensitivity Analysis

In cases where the interest rate of financial instruments held by Epson as of March 31, 2016 increases by 100bp, the impact on profit before tax in the consolidated statement of comprehensive income was as follows:

The analysis included financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, were constant.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2016	March 31, 2016
Profit before tax	819	7,268

(7) Market Price Fluctuation Risk

With respect to equity securities, Epson regularly assesses the fair value and financial conditions of the issuers, and reviews the portfolio held by taking into account the relationship with counterparty entities in accordance with Epson's Securities Operation Regulation.

Epson intends to hold equity instruments not for short-term trading but for long-term investment. Therefore, Epson does not sell the instruments actively. The equity price fluctuation risks are calculated based on the price of equity instruments at the fiscal year end. In cases where the equity price changes by 5% in value, the impact on other comprehensive income before tax effects as of March 31, 2016 was ¥806 million (\$7,152 thousand) due to the changes in the fair value.

(8) Fair Value of Financial Instruments

(A) Fair value measurement

The fair values of financial assets and liabilities are determined as follows:

(Derivatives)

The fair values are calculated based on prices obtained from financial institutions.

(Equity securities and bonds receivable)

When market values for equity securities and bonds receivable are available, such values are used as the fair values. The fair values of the equity securities and bonds receivable whose market values are unavailable are measured by using the discounted cash flow method, price comparison method based on the prices of similar types of securities and bonds and other valuation methods.

(Borrowings)

As current borrowings are settled on a short-term basis, the fair values approximate their carrying amounts. For non-current borrowings with floating rates, it is assumed that the fair value is equal to the carrying amounts, because the rates are affected in the short term by fluctuations in market interest rates, and because Epson's credit status has not greatly changed since they were implemented. The fair values of non-current borrowings with fixed rates are calculated by the total sum of the principal and interest discounted using the interest rates that would be applied if similar new borrowings were conducted.

(Bonds issued)

The fair values of bonds issued are determined based on market prices.

(Lease obligations)

The fair values are calculated based on the present value of the total amount discounted by the interest rate corresponding to the period to maturity and the credit risk per each lease obligation classified per certain period.

(Other)

Other financial instruments are settled mainly on a short-term basis, and the fair values approximate the carrying amounts.

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(B) Fair values of financial instruments

The carrying amounts and the fair values of the financial instruments were as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31,					
	2015		2016		2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value						
Derivative financial assets	3,181	3,181	1,383	1,383	12,273	12,273
Equity securities	19,639	19,639	16,060	16,060	142,527	142,527
Financial assets measured at amortised cost						
Cash and cash equivalents	245,330	245,330	230,498	230,498	2,045,598	2,045,598
Trade and other receivables	167,482	167,482	151,660	151,660	1,345,935	1,345,935
Bonds receivable	108	108	88	88	780	780
Other	5,960	5,960	6,104	6,104	54,181	54,181
Financial liabilities measured at fair value						
Derivative financial liabilities	259	259	823	823	7,303	7,303
Financial liabilities measured at amortised cost						
Trade and other payables	140,047	140,047	130,624	130,624	1,159,247	1,159,247
Interest-bearing debt						
Borrowings	85,966	86,118	81,604	81,728	724,209	725,310
Bonds issued	99,831	100,466	59,917	60,297	531,744	535,117
Lease obligations	180	180	233	233	2,067	2,067
Other	1,973	1,973	1,641	1,641	14,583	14,583

(C) Fair value hierarchy

The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities

Level 2: Fair value calculated using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly

Level 3: Fair value calculated using valuation techniques including inputs unobservable input for the assets and liabilities

Epson does not have any financial instruments for which there is significant measurement uncertainty and subjectivity which needs to subdivide each level stated above for disclosure.

The transfers between levels in the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Classification by hierarchy regarding financial assets and liabilities measured at fair value

FY2014: As of March 31, 2015

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	3,181	-	3,181
Equity securities	17,232	-	2,406	19,639
Total	17,232	3,181	2,406	22,821
Financial liabilities				
Derivative financial liabilities	-	259	-	259
Total	-	259	-	259

FY2015: As of March 31, 2016

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	1,383	-	1,383
Equity securities	14,006	-	2,054	16,060
Total	14,006	1,383	2,054	17,444
Financial liabilities				
Derivative financial liabilities	-	823	-	823
Total	-	823	-	823

FY2015: As of March 31, 2016

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	12,273	-	12,273
Equity securities	124,299	-	18,228	142,527
Total	124,299	12,273	18,228	154,800
Financial liabilities				
Derivative financial liabilities	-	7,303	-	7,303
Total	-	7,303	-	7,303

There were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy at the end of each reporting period.

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Classification by hierarchy regarding financial assets and liabilities not measured at fair value

FY2014: As of March 31, 2015

	Millions of yen			Total
	Level 1	Level 2	Level 3	
Financial assets				
Bonds receivable	-	108	-	108
Total	-	108	-	108
Financial liabilities				
Borrowings	-	86,118	-	86,118
Bonds issued	-	100,466	-	100,466
Lease obligations	-	-	180	180
Total	-	186,584	180	186,765

FY2015: As of March 31, 2016

	Millions of yen			Total
	Level 1	Level 2	Level 3	
Financial assets				
Bonds receivable	-	88	-	88
Total	-	88	-	88
Financial liabilities				
Borrowings	-	81,728	-	81,728
Bonds issued	-	60,297	-	60,297
Lease obligations	-	-	233	233
Total	-	142,025	233	142,259

FY2015: As of March 31, 2016

	Thousands of U.S. dollars			Total
	Level 1	Level 2	Level 3	
Financial assets				
Bonds receivable	-	780	-	780
Total	-	780	-	780
Financial liabilities				
Borrowings	-	725,310	-	725,310
Bonds issued	-	535,117	-	535,117
Lease obligations	-	-	2,067	2,067
Total	-	1,260,427	2,067	1,262,494

The movement of financial instruments categorized within Level 3 of the fair value hierarchy was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2015	2016	2016
Balance as of April 1	2,606	2,406	21,352
Gains and losses			
Other comprehensive income	(174)	(319)	(2,841)
Sales	(25)	(32)	(283)
Other	0	-	-
Balance as of March 31	2,406	2,054	18,228

36. Principal Subsidiaries

Principal subsidiaries as of March 31, 2016 were as follows:

Company name	Location	Main business	Ownership percentage of voting rights (%) (Note)
Epson Sales Japan Corporation	Shinjuku-ku, Tokyo	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Direct Corporation	Matsumoto-shi, Nagano	Printing solutions	100.0 (100.0)
Orient Watch Co., Ltd.	Shinjuku-ku, Tokyo	Wearable & Industrial products	100.0
Miyazaki Epson Corporation	Miyazaki-shi, Miyazaki	Wearable & Industrial products	100.0
Tohoku Epson Corporation	Sakata-shi, Yamagata	Printing solutions, Wearable & Industrial products	100.0
Akita Epson Corporation	Yuzawa-shi, Akita	Printing solutions, Wearable & Industrial products	100.0
Epson Atmix Corporation	Hachinohe-shi, Aomori	Wearable & Industrial products	100.0
U.S. Epson, Inc.	Long Beach, U.S.A.	Holding company	100.0
Epson America, Inc.	Long Beach, U.S.A.	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Electronics America, Inc.	San Jose, U.S.A.	Wearable & Industrial products	100.0 (100.0)
Epson Portland Inc.	Portland, U.S.A.	Printing solutions	100.0 (100.0)
Epson El Paso, Inc.	El Paso, U.S.A.	Printing solutions	100.0 (100.0)
Epson Europe B.V.	Amsterdam, the Netherlands	Regional headquarters, Printing solutions, Visual communications	100.0
Epson (U.K.) Ltd.	Hemel Hempstead, UK	Printing solutions, Visual communications	100.0 (100.0)
Epson Deutschland GmbH	Dusseldorf, Germany	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Europe Electronics GmbH	Munich, Germany	Wearable & Industrial products	100.0 (100.0)
Epson France S.A.	Levallois-Perret, France	Printing solutions, Visual communications	100.0 (100.0)
Epson Italia s.p.a.	Milan, Italy	Printing solutions, Visual communications	100.0 (100.0)
For.Tex S.r.l.	Como, Italy	Printing solutions	100.0 (100.0)
Epson Iberica, S.A.	Cerdanyola, Spain	Printing solutions, Visual communications	100.0 (100.0)
Epson Telford Ltd.	Telford, UK	Printing solutions	100.0 (100.0)

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Company name	Location	Main business	Ownership percentage of voting rights (%) (Note)
Epson (China) Co., Ltd.	Beijing, China	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Korea Co., Ltd.	Seoul, Korea	Printing solutions, Visual communications	100.0
Epson Hong Kong Ltd.	Hong Kong, China	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Singapore Pte. Ltd.	Singapore	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0
P.T. Epson Indonesia	Jakarta, Indonesia	Printing solutions, Visual communications	100.0 (100.0)
Epson (Thailand) Co., Ltd.	Bangkok, Thailand	Printing solutions, Visual communications	100.0 (100.0)
Epson Australia Pty. Ltd.	North Ryde, Australia	Printing solutions, Visual communications	100.0
Epson India Pvt. Ltd.	Bangalore, India	Printing solutions, Visual communications	100.0 (100.0)
Tianjin Epson Co., Ltd.	Tianjin, China	Printing solutions	80.0 (80.0)
Epson Precision (Hong Kong), Ltd.	Hong Kong, China	Printing solutions, Visual communications	100.0
Epson Engineering (Shenzhen) Ltd.	Shenzhen, China	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	Wearable & Industrial products	100.0 (100.0)
Orient Watch (Shenzhen) Ltd.	Shenzhen, China	Wearable & Industrial products	100.0 (100.0)
Singapore Epson Industrial Pte. Ltd.	Singapore	Wearable & Industrial products	100.0
P.T. Epson Batam	Batam, Indonesia	Printing solutions	100.0 (100.0)
P.T. Indonesia Epson Industry	Bekasi, Indonesia	Printing solutions	100.0
Epson Precision (Philippines), Inc.	Lipa, Philippines	Printing solutions, Visual communications	100.0
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Wearable & Industrial products	100.0
Epson Precision (Johor) Sdn. Bhd.	Johor, Malaysia	Wearable & Industrial products	100.0 (100.0)

(Note) Ownership percentage of voting rights indicated inside parentheses refers to indirect ownership percentage.

37. Related Parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note. There were no significant transactions between the Company, its subsidiaries and other related parties.

The remuneration of directors and other members of key management personnel was as follows:

	Millions of yen		Thousands of
	Year ended		U.S. dollars
	March 31,		Year ended
	2015	2016	March 31,
			2016
Short-term remuneration	563	550	4,881

(Note 1) Epson introduced a stock performance (stock-based) remuneration system to link remuneration more closely to share price, so a certain portion of short-term remuneration is allotted for the purchase of Epson Stock.

(Note 2) A director who retired at the closing of the general shareholders' meeting held on June 24, 2014 received a retirement benefit of ¥41 million based on the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of director retirement benefits.

(Note 3) A statutory auditor (outside statutory auditor) who retired at the closing of the general shareholders' meeting held on June 28, 2016 is going to receipt a retirement benefit of ¥15 million (\$133 thousand) based on the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of director retirement benefits.

38. Commitments

Commitments for the acquisition of assets were as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	March 31,		March 31,
	2015	2016	2016
Acquisition of property, plant and equipment	4,706	6,048	53,674
Acquisition of intangible assets	1,519	1,682	14,927
Total	6,226	7,730	68,601

39. Contingencies

Material litigation

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

Provisions are not recognised either if an outflow of resources embodying economic benefits is not probable or to estimate the financial effect is not practicable. Epson was contending the following material actions.

(1) The liquid crystal display price-fixing cartel

The civil actions have been brought against the Company and certain of its consolidated subsidiaries by customers in the U.S., regarding allegations of involvement in a liquid crystal display price-fixing cartel.

Moreover, the Company and certain of its consolidated subsidiaries are currently under investigation by a certain anti-monopoly-related authority.

(2) 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 Reprobel (“Reprobel”), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. After that, Reprobel 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.

Verwertungsgesellschaft Wort (“VG Wort”), the organization for collecting copyright fees on behalf of copyright holders in Germany, filed a civil lawsuit in January 2004 against Epson Deutschland GmbH (“EDG”), a consolidated subsidiary of the Company, seeking payment of copyright fees for single-function printers. While taking the court procedures, EDG had settlement discussions with VG Wort through Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V. (“BITKOM”), a German business association of IT industry. Finally, BITKOM and VG Wort reached an agreement to settle, upon which the court dismissed the case and it was closed.

40. Subsequent Events

Share repurchase

The Company resolved at the meeting of its Board of Directors held on April 28, 2016 to repurchase its own shares pursuant to Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to Article 165, Paragraph 3 of the Act.

(1) Reason for the repurchase

To optimize capital efficiency and to further enhance shareholder returns

(2) Class of shares to be repurchased

Ordinary shares

(3) Total number of repurchasable shares

7 million shares (maximum) (1.95% of the total number of issued shares (excluding treasury stock))

(4) Total repurchase cost

10 billion yen (maximum)

(5) Repurchase period

May 2, 2016 - June 30, 2016

(6) Repurchase method

Through securities company using discretionary transactions method

41. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Minoru Usui (President and Representative Director) and Tatsuaki Seki (Director and General Administrative Manager, Management Control Division) on June 28, 2016.

Report of Independent Auditors



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Independent Auditor's Report

The Board of Directors
Seiko Epson Corporation

We have audited the accompanying consolidated financial statements of Seiko Epson Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 28, 2016

Additional Information

1. Principal subsidiaries and affiliates

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
(Consolidated subsidiaries)					
Epson Sales Japan Corporation *	Shinjuku-ku, Tokyo	4,000 (million JPY)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of the Company's products, Interlocking directors, Financial assistance, Rental of assets
Epson Direct Corporation	Matsumoto-shi, Nagano	150 (million JPY)	Printing solutions	100.0 (100.0)	Sales of PCs, etc., Rental of assets
Orient Watch Co., Ltd.	Shinjuku-ku, Tokyo	100 (million JPY)	Wearable & Industrial products	100.0	Sales of watches, Interlocking directors, Financial assistance, Rental and borrowing of assets
Miyazaki Epson Corporation	Miyazaki-shi, Miyazaki	100 (million JPY)	Wearable & Industrial products	100.0	Manufacture of crystal devices
Tohoku Epson Corporation	Sakata-shi, Yamagata	100 (million JPY)	Printing solutions, Wearable & Industrial products	100.0	Manufacture of printer components and semiconductors, Interlocking directors
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Printing solutions, Wearable & Industrial products	100.0	Manufacture of printer components and sensing systems, Financial assistance
Epson Atmix Corporation	Hachinohe-shi, Aomori	450 (million JPY)	Wearable & Industrial products	100.0	Manufacture and sales of metal powders, etc., Rental of assets
U.S. Epson, Inc. *	Long Beach, U.S.A.	126,941 (thousand USD)	Holding company	100.0	Holding company in Americas, Interlocking directors
Epson America, Inc. *	Long Beach, U.S.A.	40,000 (thousand USD)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Regional headquarters in Americas, Sales of printers and other PC peripherals, and sales of factory automation products, Interlocking directors
Epson Electronics America, Inc.	San Jose, U.S.A.	10,000 (thousand USD)	Wearable & Industrial products	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc.	Portland, U.S.A.	31,150 (thousand USD)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson El Paso, Inc.	El Paso, U.S.A.	51,000 (thousand USD)	Printing solutions	100.0 (100.0)	Distribution of printer consumables, Interlocking directors

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Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Europe B.V. *	Amsterdam, the Netherlands	95,000 (thousand EUR)	Regional headquarters, Printing solutions, Visual communications	100.0	Regional headquarters in Europe, Sales of printers and other PC peripherals, Interlocking directors, Guaranty of liabilities
Epson (U.K.) Ltd.	Hemel Hempstead, UK	1,600 (thousand GBP)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Guaranty of liabilities
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Wearable & Industrial products	100.0 (100.0)	Sales of electronic devices, Interlocking directors
Epson France S.A.	Levallois- Perret, France	4,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals
Epson Italia s.p.a.	Milan, Italy	3,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
For.Tex S.r.l.	Como, Italy	80 (thousand EUR)	Printing solutions	100.0 (100.0)	Sales of printer consumables, etc.
Epson Iberica, S.A.	Cerdanyola, Spain	1,900 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson Telford Ltd.	Telford, UK	8,000 (thousand GBP)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson (China) Co., Ltd. *	Beijing, China	1,211 (million CNY)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in China, Sales of printers and other PC peripherals, and sales of factory automation products, Interlocking directors
Epson Korea Co., Ltd.	Seoul, Korea	1,466 (million KRW)	Printing solutions, Visual communications	100.0	Sales of printers and other PC peripherals
Epson Hong Kong Ltd.	Hong Kong, China	2,000 (thousand HKD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of printers and other PC peripherals, and sales of watch movements, factory automation products and electronic devices
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	25,000 (thousand TWD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of printers and other PC peripherals, and sales of factory automation products and electronic devices, Guaranty of liabilities

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Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in Asia-Pacific, Sales of printers and other PC peripherals, and sales of electronic devices, Interlocking directors, Guaranty of liabilities
P.T. Epson Indonesia	Jakarta, Indonesia	918,000 (thousand IDR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals
Epson (Thailand) Co., Ltd.	Bangkok, Thailand	103,000 (thousand THB)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (thousand AUD)	Printing solutions, Visual communications	100.0	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson India Pvt. Ltd.	Bangalore, India	108,628 (thousand INR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and other PC peripherals, Interlocking directors, Guaranty of liabilities
Tianjin Epson Co., Ltd.	Tianjin, China	172,083 (thousand CNY)	Printing solutions	80.0 (80.0)	Manufacture of printer consumables, Interlocking directors
Epson Precision (Hong Kong), Ltd. *	Hong Kong, China	81,602 (thousand USD)	Printing solutions, Visual communications	100.0	Procurement of printer and 3LCD projector components
Epson Engineering (Shenzhen) Ltd. *	Shenzhen, China	56,641 (thousand USD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Manufacture of printers, 3LCD projectors, liquid crystal panels and factory automation products, etc., Interlocking directors
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	25,000 (thousand USD)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watches, etc., Interlocking directors
Orient Watch (Shenzhen) Ltd.	Shenzhen, China	37,748 (thousand CNY)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watches, etc.,
Singapore Epson Industrial Pte. Ltd.	Singapore	71,700 (thousand SGD)	Wearable & Industrial products	100.0	Manufacture of semiconductors, and surface finishing, Interlocking directors, Guaranty of liabilities
P.T. Epson Batam	Batam, Indonesia	7,000 (thousand USD)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors, Guaranty of liabilities
P.T. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD)	Printing solutions	100.0	Manufacture of printers, Interlocking directors, Guaranty of liabilities

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Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Precision (Philippines), Inc. *	Lipa, Philippines	157,533 (thousand USD)	Printing solutions, Visual communications	100.0	Manufacture of printers and 3LCD projectors, Interlocking directors, Guaranty of liabilities
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Wearable & Industrial products	100.0	Manufacture of crystal devices, Interlocking directors
Epson Precision (Johor) Sdn. Bhd.	Johor, Malaysia	22,800 (thousand MYR)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watch components, Guaranty of liabilities
45 other companies	—	—	—	—	—
(Equity method affiliates) Three companies					

Notes

1. Ownership percentage of voting rights indicated inside parentheses refers to indirect ownership percentage.
2. * indicates a specified subsidiary (*tokutei-kogaisha*).
3. The revenue (excluding revenues among consolidated subsidiaries) of Epson Sales Japan Corporation and Epson America, Inc. each amounts to more than 10% of the consolidated revenue. Key information on the operations of these subsidiaries is as follows.

Company name	Revenue	Profit before tax	Profit for the period	Total equity	Total assets
Epson Sales Japan Corporation	190,144	4,256	3,179	15,287	65,503
Epson America, Inc.	312,612	1,886	165	32,398	125,839

The amounts for Epson America, Inc. are included in consolidated business results.

2. Distribution of ownership among shareholders

As of March 31, 2016

Category	Share ownership (100 shares per unit)								Shares less than one unit (Shares)
	Government and regional public bodies	Japanese financial institutions	Japanese securities companies	Other Japanese corporations	Foreign institutions and others		Japanese individuals and others	Total	
					Institutions	Individuals			
Number of shareholders (Persons)	–	96	50	398	518	33	48,927	50,022	–
Number of shares owned (Units)	–	1,041,043	124,539	573,930	1,026,714	229	1,228,587	3,995,042	130,578
Percentage of shares owned (%)	–	26.05	3.12	14.37	25.70	0.01	30.75	100.00	–

Notes

1. 41,860,396 shares of treasury stock are included as 418,603 units under “Japanese individuals and others” and 96 shares under “Shares less than one unit.”
2. Six units in the name of Japan Securities Depository Center, Inc. are included under “Other Japanese corporations.”

3. Major shareholders

As of March 31, 2016

Name	Address	Number of shares held	Shareholding ratio (%)
Sanko Kigyo Kabushiki Kaisha	6-1 Ginza 5-chome, Chuo-ku, Tokyo	20,000,000	5.00
Japan Trustee Services Bank, Ltd. (Trustee Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	16,635,900	4.16
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	16,440,000	4.11
Seiko Holdings Corporation	5-11 Ginza 4-chome, Chuo-ku, Tokyo	12,000,000	3.00
Yasuo Hattori	Minato-ku, Tokyo	11,932,612	2.98
Noboru Hattori	Minato-ku, Tokyo	11,199,936	2.80
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo)	8,736,000	2.18
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the re-trust, Trust & Custody Services Bank, Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo	8,153,800	2.04
Seiko Epson Corporation Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	7,677,116	1.92
NGK INSULATORS, LTD.	2-56, Suda-cho, Mizuho-ku, Nagoya-shi, Aichi	6,900,000	1.72
Total	—	119,675,364	29.94

Notes

1. Although the Company holds 41,860,396 shares of treasury stock, the Company is excluded from the above list of major shareholders. (The ratio of the treasury shares held by the Company to the total number of shares issued is 10.47%.)
2. The shares held by Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the re-trust, Trust & Custody Services Bank, Ltd., were contributed by Mizuho Bank, Ltd. to the trust assets of the Retirement benefit trust.

4. Employee stock ownership plans

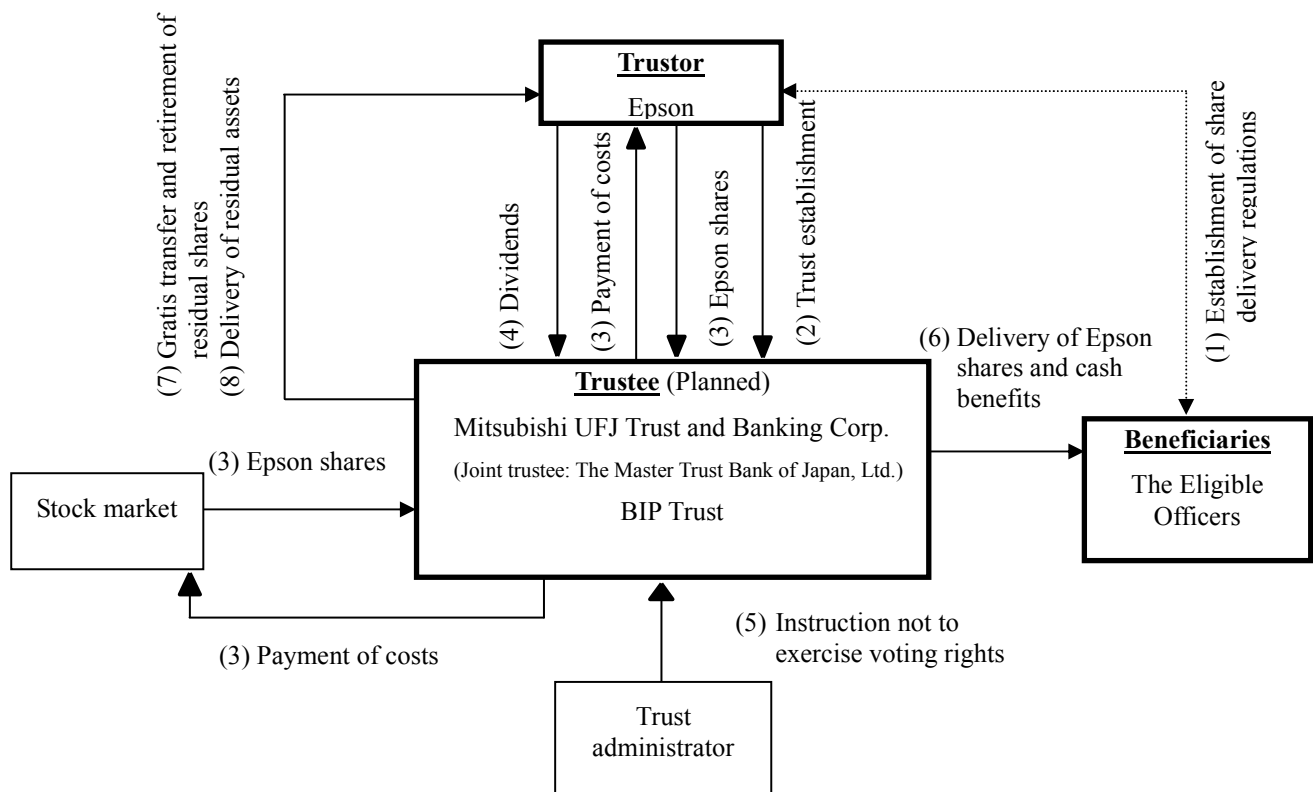
<Performance-Linked Stock Compensation Plan>

On March 16, 2016, Epson's Board of Directors resolved to introduce a transparent & fair performance-linked stock compensation plan for the Company's directors and executive officers who have been engaged by the Company (collectively referred to hereafter as "Eligible Officers," and excluding outside directors and persons such as Audit and Supervisory Committee members who are not directly engaged in the operations of the Company, and persons residing outside Japan). The Plan, details regarding which were resolved at a meeting of the Board of Directors on April 28, 2016, is intended to heighten directors' sense of shared interest with shareholders and to show a commitment to sustaining growth and increasing corporate value over the mid- to long-term.

The introduction of the Plan received approval at the 74th Ordinary General Meeting of Shareholders held on June 28, 2016.

(1) Summary of the Plan

The Plan employs a framework referred to as the officer compensation BIP (Board Incentive Plan) trust (hereinafter, the "BIP Trust"). The BIP Trust is an incentive plan for officers modeled on the U.S. Performance Share and Restricted Stock systems. The Plan provides the officers with Epson's own shares, which will be acquired through the BIP Trust based on the levels of achievement of operating performance targets.



- 1) Epson will establish share delivery regulations related to the content of the Plan.
- 2) In accordance with the trust agreement, Epson contributes funds on the trustee's behalf within the scope of approval by resolution at the General Meeting of Shareholders and establishes a trust with beneficiaries who are the Officers who satisfy the beneficiary requirements (hereinafter, the "Trust").
- 3) According to the trust administrator's instructions, the Trust uses funds contributed as in 2) above as the source of funds to acquire Epon shares from Epson (disposal of treasury shares) or in the stock market.
- 4) The allocation of surplus funds in the Trust for the Epon shares is handled in the same manner as for other Epon shares, and is appropriated for necessary expenses for the Plan.
- 5) Throughout the trust period, voting rights are not to be exercised on Epon shares within the Trust.
- 6) During the trust period, the Eligible Officers are awarded a specific number of points each year based on their position and other factors, in accordance with the share delivery regulations established in 1) above. Such points

fluctuate depending on the levels of achievement of the mid- to long-term operating performance targets of Epson. Furthermore, Epson shares, which correspond to a certain proportion of such points, will be delivered to the Eligible Officers, in principle, after the lapse of three years following the awarding of points. As regards Epson shares corresponding to the remaining portion of points, the Eligible Officers will receive cash equivalent to the amounts obtained through the conversion of such shares into cash within the Trust as prescribed in the trust agreement.

- 7) If residual shares remain in the Trust at the expiry of the trust period in the event that operating performance targets are not met during the trust period, Epson may continue to use the Trust by amending the trust agreement and making additional contribution. Otherwise, Epson will acquire such residual shares, through gratis transfer, and retire them by resolution of the Board of Directors.
- 8) Upon the termination of the Trust, residual assets remaining after allocation to beneficiaries are to be attributed to Epson within the scope of trust expense reserve after subtracting funds for acquiring shares from the trust money. The portion exceeding the trust expense reserve is planned to be donated to organization(s) having no interests with Epson and any of its officers.

Note: The Trustor may continue the Plan by contributing additional money as funds for acquiring its own shares for the Trust within the scope of the funds for acquiring shares, of which the amount is subject to approval by resolution at the General Meeting of Shareholders.

(2) Overview of the trust agreement

1) Type of Trust	Monetary trust other than a designated individually operated monetary trust (third party benefit trust)
2) Purpose of the Trust	Provide incentives to Eligible Officers
3) Trustor	Epson
4) Trustee (planned)	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
5) Beneficiaries	The Officers who meet the beneficiary requirements
6) Trust administrator	A third-party specialist without relationship with Epson
7) Date of trust agreement (planned)	August 2, 2016
8) Trust period (planned)	August 2, 2016 through August 31, 2019
9) Plan launch date (planned)	October 1, 2016
10) Exercise of voting rights	Voting rights not to be exercised
11) Class of shares to be acquired	Common stock of Epson
12) Planned amount of initial trust money	320 million yen (including trust fees and expenses)
13) Maximum amount of trust money (planned)	500 million yen (including trust fees and expenses)
14) Method of acquiring shares	Acquisition in the stock market
15) Period for acquiring shares (planned)	August 4, 2016 through August 31, 2016
16) Vested rightholder	Epson
17) Residual assets	Residual assets that Epson may receive as the vested rightholder shall be within the scope of trust expense reserve after subtracting funds for acquiring shares from the trust money.

(3) Content of trust/stock related business

1) Trust-related business	Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. will handle the trust-related business as trustees of the BIP Trust.
2) Stock-related business	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. will handle the business related to the delivery of Epson shares to the beneficiaries in accordance with a business consignment agreement.

5. Epson stock price

(1) High and low stock prices for the previous five years

Year	70th year	71st year	72nd year	73rd year	74th year
Fiscal year	March 2012	March 2013	March 2014	Mar 2015	Mar 2016
High (¥)	1,499	1,183	3,390	5,970 □2,333	2,357
Low (¥)	881	431	795	2,752 □2,120	1,492

Notes

1. High and low stock prices noted above are based on Tokyo Stock Exchange (First Section) data.
2. The □ mark indicates the highest and lowest ex-rights prices after a stock split (the 2-for-1 stock split implemented on April 1, 2015).

(2) High and low stock prices for the previous six months

Month	October 2015	November	December	January 2016	February	March
High (¥)	2,143	1,966	2,021	1,907	2,000	2,099
Low (¥)	1,681	1,804	1,747	1,492	1,526	1,763

Note

High and low stock prices noted above are based on Tokyo Stock Exchange (First Section) data.

6. Corporate data and investor information

(1) Company name	Seiko Epson Corporation
(2) Founded	May 1942
(3) Head office	3-5 Owa 3-chome, Suwa, Nagano 392-8502, Japan Tel: +81-266-52-3131(main)
(4) Tokyo office	JR Shinjuku Miraina Tower, 4-1-6 Shinjuku, Tokyo 160-8801 , Japan Tel: +81 3-5368-0700(main)
(5) Investor information	
Closing of accounts	March 31
Regular general shareholders' meeting	June
Date for confirmation to shareholders of the cash dividend payment date	March 31
Date for confirmation to shareholders of the interim cash dividend payment date	September 30
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Agent's business address	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 10-11, Higashisuna 7-chome, Koto-ku, Tokyo Tel: +81-3-6701-5000 http://www.tr.mufg.jp/english/
Intermediary offices	Head Office and Branches of Mitsubishi UFJ Trust and Banking Corporation
Posting of public notices	Public notices will be posted electronically. In the event of accidents or other circumstances preventing the electronic posting of information, such information will be made available through the <i>Nihon Keizai Shimbun</i> newspaper (Japanese)
Web address	http://www.pronexus.co.jp/koukoku/6724/6724.html (Japanese)



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