

# Annual Report 2019

SEIKO EPSON CORPORATION

April 2018 - March 2019



## **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

|   | Millions of yen       |                       |                       |                       |                                | Thousands of U.S. dollars |
|---|-----------------------|-----------------------|-----------------------|-----------------------|--------------------------------|---------------------------|
|   | 2015                  | 2016                  | 2017                  | 2018                  | 2019                           | 2019                      |
| For the years ended March 31  |                       |                       |                       |                       |                                |                           |
| Revenue   | 1,086,341             | 1,092,481             | 1,024,856             | 1,102,116             | <b>1,089,676</b>               | <b>9,828,411</b>          |
| Profit before tax   | 132,536               | 91,530                | 67,470                | 62,663                | <b>72,040</b>                  | <b>649,770</b>            |
| Profit for the period attributable to owners of the parent company        | 112,560               | 45,772                | 48,320                | 41,836                | <b>53,710</b>                  | <b>484,441</b>            |
| Total comprehensive income for the period                                 | 145,483               | (1,469)               | 55,982                | 41,581                | <b>49,542</b>                  | <b>446,847</b>            |
| Equity attributable to owners of the parent company                       | 494,325               | 467,818               | 492,196               | 512,727               | <b>540,181</b>                 | <b>4,872,201</b>          |
| Total assets  | 1,006,282             | 941,340               | 974,387               | 1,033,350             | <b>1,038,389</b>               | <b>9,365,824</b>          |
| Equity attributable to owners of the parent company, per share (Note 2)   | Yen<br>1,381.66       | Yen<br>1,307.58       | Yen<br>1,397.40       | Yen<br>1,455.67       | <b>Yen<br/>1,533.57</b>        | <b>\$<br/>13.83</b>       |
| Basic earnings per share (Note 2)   | Yen<br>314.61         | Yen<br>127.94         | Yen<br>136.82         | Yen<br>118.78         | <b>Yen<br/>152.49</b>          | <b>\$<br/>1.38</b>        |
| Diluted earnings per share (Note 2)                                       | Yen<br>314.61         | Yen<br>127.94         | Yen<br>136.82         | Yen<br>118.75         | <b>Yen<br/>152.44</b>          | <b>\$<br/>1.37</b>        |
| Equity attributable to owners of the parent company ratio                 | %<br>49.12            | %<br>49.70            | %<br>50.51            | %<br>49.62            | <b>%<br/>52.02</b>             | -                         |
| Return on equity  | %<br>26.28            | %<br>9.51             | %<br>10.07            | %<br>8.33             | <b>%<br/>10.20</b>             | -                         |
| Price earnings ratio  | times<br>6.77         | times<br>14.21        | times<br>17.13        | times<br>15.92        | <b>times<br/>11.12</b>         | -                         |
| Dividend payout ratio   | %<br>18.3             | %<br>46.9             | %<br>43.9             | %<br>52.2             | <b>%<br/>40.7</b>              | -                         |
| Total shareholder return<br>(Comparison index: TOPIX (Dividend included)) | %<br>136.4<br>(130.7) | %<br>120.6<br>(116.5) | %<br>157.1<br>(133.7) | %<br>132.7<br>(154.9) | <b>%<br/>124.4<br/>(147.1)</b> | -                         |
| Net cash from (used in) operating activities                              | 108,828               | 113,054               | 96,873                | 84,279                | <b>76,961</b>                  | <b>694,155</b>            |
| Net cash from (used in) investing activities                              | (32,735)              | (51,558)              | (75,759)              | (74,661)              | <b>(82,738)</b>                | <b>(746,261)</b>          |
| Net cash from (used in) financing activities                              | (55,392)              | (67,171)              | (26,691)              | 37                    | <b>(49,430)</b>                | <b>(445,837)</b>          |
| Cash and cash equivalents at end of period                                | 245,330               | 230,498               | 221,782               | 229,678               | <b>175,238</b>                 | <b>1,580,571</b>          |
| Number of employees   | persons<br>69,878     | persons<br>67,605     | persons<br>72,420     | persons<br>76,391     | <b>persons<br/>76,647</b>      | -                         |

### Notes

- The Consolidated Financial Statements have been prepared on the basis of International Financial Reporting Standards (IFRS) from the year ended March 31, 2014.
- 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. "Equity attributable to owners of the parent company, per share," "Basic earnings per share" and "Diluted earnings per share" were calculated under the assumption that the shares split took effect at the beginning of the year ended March 31, 2015.

U.S. dollar amounts are presented for the convenience of the readers. This translation should not be construed to imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars. The exchange rate of ¥110.87 = U.S.\$1 at the end of the reporting period has been used for the purpose of presentation.

## **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 global 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.

#### **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, color image scanners, and related consumables, as well as dry process office papermaking systems.

##### **Professional printing business**

This business is primarily responsible for large-format 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.

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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, dry process office papermaking systems, and others | Tohoku Epson Corporation<br>Akita Epson Corporation<br>Epson Portland Inc.<br>Epson Telford Ltd.<br>Fratelli Robustelli S.r.l. | Epson Sales Japan Corporation<br>Epson America, Inc.<br>Epson Europe B.V.<br>Epson (U.K.) Ltd.<br>Epson Deutschland GmbH<br>Epson France S.A.S.<br>Epson Italia S.p.A.<br>For.Tex S.r.l.<br>Epson Iberica, S.A.U.<br>Epson (China) Co., Ltd.<br>Epson Korea Co., Ltd.<br>Epson Hong Kong Ltd.<br>Epson Taiwan Technology & Trading Ltd. |
| Professional printing | Large-format inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers, and related consumables, and others               | Epson Engineering (Shenzhen) Ltd.<br>PT. Epson Batam<br>PT. Indonesia Epson Industry<br>Epson Precision (Philippines), Inc.    | Epson Singapore Pte. Ltd.<br>PT. Epson Indonesia<br>Epson (Thailand) Co., Ltd.<br>Epson Philippines Corporation<br>Epson Australia Pty. Ltd.<br>Epson India Pvt. Ltd.   |
| Others                | PCs and other equipment  | —  | Epson Sales Japan Corporation<br>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 mainly for business, education, the home, and event; high-temperature polysilicon TFT LCD panels for 3LCD projectors; and smart glasses.

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 glasses, and others | Epson Engineering (Shenzhen) Ltd.<br>Epson Precision (Philippines), Inc. | Epson Sales Japan Corporation<br>Epson America, Inc.<br>Epson Europe B.V.<br>Epson (U.K.) Ltd.<br>Epson Deutschland GmbH<br>Epson France S.A.S.<br>Epson Italia S.p.A.<br>Epson Iberica, S.A.U.<br>Epson (China) Co., Ltd.<br>Epson Korea Co., Ltd.<br>Epson Hong Kong Ltd.<br>Epson Taiwan Technology & Trading Ltd.<br>Epson Singapore Pte. Ltd.<br>PT. Epson Indonesia<br>Epson (Thailand) Co., Ltd.<br>Epson Philippines Corporation<br>Epson Australia Pty. Ltd.<br>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 wristwatches, watch movements and others, 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 wristwatches and watch movements.

#### **Sensing equipment business**

This business is primarily engaged in developing, manufacturing and selling sensing 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, IC handlers and other production systems that dramatically increase productivity.

### **Microdevices and others business**

This business deals with small, accurate, energy-efficient devices for external customers, and also develops and manufactures devices tailored to needs of 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, manufactures, 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.

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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       | <b>Watches</b><br>Wristwatches, watch movements, and others                             | Akita Epson Corporation<br>Epson Precision (Shenzhen) Ltd.<br>Orient Watch (Shenzhen) Ltd.<br>Epson Precision (Johor) Sdn. Bhd. | Epson Sales Japan Corporation<br>Epson (China) Co., Ltd.<br>Epson Hong Kong Ltd.  |
|                         | Sensing equipment   | Akita Epson Corporation   | Epson Sales Japan Corporation   |
| Robotics solutions      | Industrial robots, IC handlers, and others  | Epson Engineering (Shenzhen) Ltd.   | Epson Sales Japan Corporation<br>Epson America, Inc.<br>Epson Deutschland GmbH<br>Epson (China) Co., Ltd.<br>Epson Hong Kong Ltd.<br>Epson Taiwan Technology & Trading Ltd. |
| Microdevices and others | <b>Quartz devices</b><br>Crystal units, crystal oscillators, quartz sensors, and others | Miyazaki Epson Corporation<br>Epson Precision Malaysia Sdn. Bhd.<br>Epson Precision (Thailand) Ltd.                             | Epson America, Inc.<br>Epson Europe Electronics GmbH<br>Epson Hong Kong Ltd.<br>Epson Taiwan Technology & Trading Ltd.  |
|                         | <b>Semiconductors</b><br>CMOS LSIs, and others  | Tohoku Epson Corporation<br>Singapore Epson Industrial Pte. Ltd.  | Epson Singapore Pte. Ltd.   |
|                         | <b>Others</b><br>Metal powders, surface finishing                                       | Epson Atmix Corporation<br>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, 2019

| Name of plant<br>(location)                           | Business segment  | Type of facilities   | Book value (Millions of yen) |                                   |                                |       |        | Number of employees<br>(Persons) |
|---|---|--|------------------------------|-----------------------------------|--------------------------------|-------|--------|----------------------------------|
|   |   |  | Buildings and structures     | Machinery, equipment and vehicles | Land (Area: m <sup>2</sup> )   | Other | Total  |                                  |
| Head Office<br>(Suwa-shi, Nagano)                     | Overall administration and other                        | Other facilities   | 1,463                        | 212                               | 1,201<br>(42,384)<br>[2,136]   | 81    | 2,958  | 482                              |
| Tokyo Office<br>(Shinjuku-ku, Tokyo)                  | Overall administration and other                        | Other facilities   | 616                          | –                                 | –<br>(–)                       | 99    | 715    | 80                               |
| Hirooka Office<br>(Shiojiri-shi, Nagano)              | Printing solutions<br>Other                             | Printer development and design and component manufacturing facilities<br>Research and development facilities | 38,488                       | 19,105                            | 6,630<br>(216,780)<br>[12,558] | 3,682 | 67,907 | 5,940                            |
| Matsumoto Minami Plant<br>(Matsumoto-shi, Nagano)     | Other   | Other facilities   | 1,288                        | 27                                | 3,764<br>(179,759)<br>[1,758]  | 202   | 5,282  | 609                              |
| Toyoshina Plant<br>(Azumino-shi, Nagano)              | Visual communications<br>Wearable & Industrial products | 3LCD projector, smart glasses and factory automation product development and design facilities               | 3,323                        | 1,412                             | 749<br>(75,912)<br>[33,982]    | 1,488 | 6,974  | 1,560                            |
| Suwa Minami Plant<br>(Fujimi-machi, Suwa-gun, Nagano) | Printing solutions<br>Visual communications<br>Other    | Printer component and liquid crystal panel manufacturing facilities<br>Research and development facilities   | 5,951                        | 13,942                            | 1,443<br>(113,082)<br>[28,909] | 743   | 22,081 | 1,117                            |
| Chitose Plant<br>(Chitose-shi, Hokkaido)              | Visual communications                                   | Liquid crystal panel manufacturing facilities  | 2,169                        | 3,599                             | 1,375<br>(160,529)             | 156   | 7,302  | 227                              |
| Ina Plant<br>(Minowa-machi, Kamiina-gun, Nagano)      | Wearable & Industrial products                          | Crystal device development and design facilities   | 1,819                        | 1,565                             | 129<br>(39,943)<br>[1,503]     | 188   | 3,703  | 506                              |
| Fujimi Plant<br>(Fujimi-machi, Suwa-gun, Nagano)      | Wearable & Industrial products<br>Other                 | Sensing equipment and semiconductor development and design facilities<br>Research and development facilities | 6,790                        | 2,996                             | 1,996<br>(247,143)             | 660   | 12,443 | 660                              |
| Sakata Plant<br>(Sakata-shi, Yamagata)                | Wearable & Industrial products                          | Semiconductor manufacturing facilities<br>Other  | 7,647                        | 4,721                             | 2,177<br>(538,829)             | 542   | 15,088 | 23                               |
| Hino Office<br>(Hino-shi, Tokyo)                      | Wearable & Industrial products                          | Other facilities   | 1,981                        | 1                                 | 3,221<br>(15,681)              | 54    | 5,258  | 253                              |
| Shiojiri Plant<br>(Shiojiri-shi, Nagano)              | Wearable & Industrial products                          | Watch development, design and manufacturing facilities   | 1,659                        | 2,361                             | 1,068<br>(43,061)<br>[6,067]   | 352   | 5,441  | 781                              |

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## (2) Domestic subsidiaries

As of March 31, 2019

| Company name<br>(location)                      | Business segment                                     | Type of facilities  | Book value (Millions of yen) |                                   |                              |       |       | Number of employees<br>(Persons) |
|---|--|---|------------------------------|-----------------------------------|------------------------------|-------|-------|----------------------------------|
|   |  |   | Buildings and structures     | Machinery, equipment and vehicles | Land (Area: m <sup>2</sup> ) | Other | Total |                                  |
| Tohoku Epson Corporation (Sakata-shi, Yamagata) | Printing solutions<br>Wearable & Industrial products | Printer component and semiconductor manufacturing facilities                      | 3                            | 15                                | —<br>(—)                     | 462   | 481   | 1,953                            |
| Akita Epson Corporation (Yuzawa-shi, Akita)     | Printing solutions<br>Wearable & Industrial products | Printer component, watch movements and sensing equipment manufacturing facilities | 4,274                        | 91                                | 677<br>(87,969)              | 391   | 5,435 | 1,133                            |
| Epson Atmix Corporation (Hachinohe-shi, Aomori) | Wearable & Industrial products                       | Manufacturing facilities for metal powders, etc.                                  | 3,624                        | 2,981                             | 310<br>(30,653)<br>[34,208]  | 122   | 7,039 | 308                              |

## (3) Overseas subsidiaries

As of March 31, 2019

| Company name<br>(location)                                  | Business segment  | Type of facilities  | Book value (Millions of yen) |                                   |                               |       |        | Number of employees<br>(Persons) |
|---|---|---|------------------------------|-----------------------------------|-------------------------------|-------|--------|----------------------------------|
|   |   |   | Buildings and structures     | Machinery, equipment and vehicles | Land (Area: m <sup>2</sup> )  | Other | Total  |                                  |
| Epson Engineering (Shenzhen) Ltd. (Shenzhen, China)         | Printing solutions<br>Visual communications<br>Wearable & Industrial products | Printer, 3LCD projector and factory automation product manufacturing facilities             | 3,721                        | 3,557                             | —<br>(—)<br>[64,104]          | 2,973 | 10,252 | 8,456                            |
| Singapore Epson Industrial Pte. Ltd. (Singapore)            | Wearable & Industrial products  | Watch component and semiconductor manufacturing facilities and surface finishing facilities | 2,509                        | 1,443                             | —<br>(—)<br>[41,567]          | 343   | 4,296  | 812                              |
| PT. Epson Batam (Batam, Indonesia)                          | Printing solutions  | Printer consumables manufacturing facilities  | 668                          | 4,362                             | —<br>(—)<br>[8,644]           | 257   | 5,288  | 3,025                            |
| PT. Indonesia Epson Industry (Bekasi, Indonesia)            | Printing solutions  | Printer manufacturing facilities  | 6,210                        | 6,451                             | —<br>(—)<br>[254,871]         | 7,614 | 20,276 | 10,855                           |
| Epson Precision (Thailand) Ltd. (Chachoengsao, Thailand)    | Wearable & Industrial products  | Crystal device manufacturing facilities   | 2,656                        | 2,285                             | 616<br>(97,435)               | 142   | 5,700  | 1,430                            |
| Epson Precision (Philippines), Inc. (Lipa, Philippines)     | Printing solutions<br>Visual communications                                   | Printer and 3LCD projector manufacturing facilities   | 26,811                       | 12,139                            | 481<br>(117,489)<br>[130,000] | 7,077 | 46,508 | 16,300                           |
| Epson Precision Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia) | Wearable & Industrial products  | Crystal device manufacturing facilities   | 385                          | 3,060                             | 318<br>(32,437)               | 25    | 3,790  | 2,067                            |

### Notes

1. The above amounts 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 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 fiscal year under review were concentrated in key strategic areas, primarily for commercializing new products, increasing production capacity, 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 ¥82.0 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 increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities amounted to ¥46.8 billion in the fiscal year under review.

#### **Visual communications segment**

Investment used for commercializing new products such as 3LCD projectors, and for increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities amounted to ¥11.4 billion in the fiscal year under review.

#### **Wearable & Industrial products segment**

Investment used for commercializing new products such as wristwatches, sensing equipment, factory automation products, crystal devices and semiconductors, and for increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities amounted to ¥13.9 billion in the fiscal year under review.

#### **Other and overall**

Investment used for strengthening R&D structure, etc. amounted to ¥9.8 billion in the fiscal year under review.

## 4. Plans for new additions or disposals

Epson plans to allocate ¥85.0 billion to capital expenditures for the fiscal year ending March 31, 2020.

| Business segment               | Planned amount of capital expenditures (Billions of yen) | Main type and purpose of equipment and facilities   |
|--------------------------------|--|---|
| Printing solutions             | 43.0   | Commercializing new products, increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities, etc. |
| Visual communications          | 16.0   | Commercializing new products, increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities, etc. |
| Wearable & Industrial products | 16.0   | Commercializing new products, increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities, etc. |
| Other and overall              | 10.0   | Strengthening R&D and manufacturing structures, etc.  |
| Total                          | 85.0   | —   |

### Notes

1. The above amounts do not include consumption tax.
2. The above amounts include capital expenditures through finance leases and operating leases.
3. Required funds will be covered by current funds in hand.
4. 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     | HP Inc.                                     | U.S.A.  | License to use patents relating to information-related equipment                                     | March 28, 2018 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     | Canon Incorporated                          | Japan   | License to use patents relating to information-related equipment                                     | August 22, 2008 until the expiry of the patents    |
| Seiko Epson Corporation     | BROTHER INDUSTRIES, LTD.                    | Japan   | License to use patents relating to information-related equipment                                     | June 28, 2018 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 we submitted our Annual Securities Report.

### 1. Our operating results could be adversely affected by fluctuations in printer sales.

The ¥723.6 billion in revenue in the printing solutions segment in the year ended March 2019 accounted for about two-thirds of Epson's ¥1,089.6 billion in consolidated revenue. Inkjet printers (including printer consumables) for the home, office, and for commercial 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 technology<sup>1</sup> that we use in our inkjet printers competes with the thermal inkjet technologies<sup>2</sup> of other companies;
- The 3LCD technology<sup>3</sup> that we use in our projectors competes with other companies' DLP technologies<sup>4</sup>, and Epson's projectors also compete against flat panel displays (FPDs)<sup>5</sup> 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.

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

<sup>2</sup> Thermal 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.

<sup>3</sup> 3LCD 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.

<sup>4</sup> DLP 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.

<sup>5</sup> FPD 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, etc. 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 creating value sought by customers. 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 we 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 Epson's rich legacy of efficient, compact, and precision technologies. 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 progress of digitalization, and could affect sales of Epson products. Moreover, there is no guarantee that Epson's current mid-range business plan, business strategies, and actions specified therein will succeed or be realized.

Under these business circumstances, Epson will also continue to 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 competition with other companies intensifies, 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 be adversely affected.

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

Ink cartridges etc., 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 and profit 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 2019. 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 2019, our overseas employees accounted for approximately 75% 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 such as electrical power and communications; currency exchange restrictions; insufficient skilled labor; changes in regional labor environments; changes in tax systems overseas and uncertainty with regard to tax administration by

tax authorities; protectionist trade regulations; geopolitical risks; and laws, ordinances, regulations or the like that could affect the import and export of Epson products.

## **6. Procuring parts 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 quality problems of supplier's parts, 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 have strengthened 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 environmental risks.**

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. In addition, with heightened concern about the response to global climate change accompanying the Paris Agreement, which was adopted at the 21st



Conference of the Parties to the United Nations Framework Convention on Climate Change, companies increasingly need to set more ambitious goals for emissions reductions and strive to accomplish these goals. Given this situation, Epson is proactively engaged in environmental conservation efforts on multiple fronts in line with a mid-range action plan and “Environmental Vision 2050,” a document that states our long-term goals for reducing our greenhouse gases (GHG) emissions and other environmental impacts. 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. Our goals for GHG emissions reduction have been approved by the Science Based Targets initiative (SBTi); and we have worked on activities to reduce GHG emissions over the medium- to long term, including the activities to drive the use of renewable energy.

As a result of these efforts, Epson has reduced its GHG emissions (Scope 1 and 2) for the 2018 fiscal year to 500,000 tons. This represents an approximately 15% reduction since the 2017 fiscal year, a base fiscal year.

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, our business plans could be adversely affected.

#### **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 operating results.

#### **12. There are risks inherent in pension systems.**

We have a defined-benefit pension plan and a lump-sum retirement payment plan 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. Concerning regulatory investigations and investigations conducted by relevant authorities, etc.**

Epson develops its business globally, and it could become the subject of various regulatory investigations or investigations conducted by relevant authorities, etc. in any of its businesses in any country or region. For example, in addition to Epson currently being subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and those protecting fair trade, Epson will in the future be required even more to respond to various laws and regulations and compliance relating to activities pertaining to its efforts to strengthen its sales activities directed at new customers, which will include public organizations, etc.

Under these circumstances, in Epson, we consider compliance to be one of the most important management policies, and for a long time, we have been conducting appropriate, preventive and controlled activities. Going forward, overseas agencies related to competition law have been conducting investigations or information gathering that have been targeting specific industries, etc., and as part of such investigation, Epson also is being

investigated in relation to the market situation and marketing methods in general. Furthermore, sometimes inconsistencies or potential inconsistencies arise in relation to not only anti-bribery regulations, advertising and labeling regulations, personal information protection and privacy regulations but also security trade control, and stricter laws and regulations may get introduced or a strengthening of the operation of laws and regulations may be carried out by the relevant authorities.

Should violations occur in regard to these related laws and regulations, or should investigations or proceedings be carried out by the relevant authorities, such events could interfere with Epson's sales activities. They could also potentially damage Epson's credibility, result in a large civil fine, or result in constraints being placed on Epson's sales activities. Any of these, as well as the added costs to comply with the relevant regulations could adversely affect Epson's operating results and its future business expansion.

As of the date we submitted our Annual Securities Report, investigations into laws and regulations, etc. targeting Epson are provided below.

The investigation of the Company by a certain anti-monopoly-related authority regarding allegations of involvement in a liquid crystal display price-fixing cartel has been completed.

Furthermore, regarding the inkjet printer products sold in France, authorities have initiated investigations following an allegation made by a consumer organization in the country in 2017, pursuant to consumer protection law. The consumer organization alleges that Epson shortens the life of its products, which was never Epson's intention. Giving the highest priority to quality and environment, Epson will continue to offer designs that meet customer needs.

Progress, result and resolution timing of the investigations, and their impact on Epson's operating results and its future business development are not predictable at this time.

#### **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 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. With Reprobel subsequently filing a suit against EEB, the two lawsuits were adjointed. EEB's claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

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 to be disclosed 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 infectious diseases such as new strains of the influenza virus, infection by computer viruses, leaks or theft of customer data, reputational damage on social networking services (SNS), failures of mission-critical internal IT systems, cyber-attacks, supply chain disruptions caused by natural disasters on suppliers, and acts of terrorism or war.

The central region of Nagano Prefecture, home to some of our key plants and offices, is an area that is at comparatively high risk of earthquakes due to the presence of an active fault zone along the Itoigawa-Shizuoka geotectonic line. Accordingly, in addition to earthquake-proofing its equipment and facilities, Epson conducts disaster drills, has prepared earthquake disaster management and response plans, and has 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.

## Management Analysis of Financial Position, Operating Results and Cash Flows

### 1. Operating results overview

#### (1) Operating results

On the whole, the global economy continued its gradual recovery during the year under review. Regionally, the U.S. economy continued to steadily recover, fueled by an increase in consumer spending and improvement in the employment situation. Europe and Latin America also gradually recovered, though the economies of some countries, such as Argentina, regressed. The Chinese economy had been picking up, but trade friction with the U.S. as well as other factors caused capital expenditure demand to decelerate. The Japanese economy continued to register signs of a gradual economic recovery, as consumer spending picked up in response to a stable employment and improved income situation. There is concern of further economic deceleration moving forward. An expansion of the effects of U.S.-China trade friction, the direction of Brexit, and political risks in Latin America are among the factors fueling a growing sense of uncertainty.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥110.86 and ¥128.40, respectively. The yen-dollar exchange rate was nearly the same as in the previous period while the value of the yen against the euro increased by 1%.

In this business environment, operating results in the fiscal year under review are as follows.

(Billions of yen)

|  | Year ended<br>March 31,<br>2018 | Year ended<br>March 31,<br>2019 | Change | Percentage of<br>change | Main reason(s) for change   |
|--|---------------------------------|---------------------------------|--------|-------------------------|---|
| Revenue  | 1,102.1                         | 1,089.6                         | (12.4) | (1.1%)                  | Decreased revenue in Wearable & Industrial Products Segment and decreases caused by the impact of foreign exchange rates  |
| Cost of sales                                      | (701.2)                         | (677.0)                         | 24.2   | –                       | Changes in revenue and decreases caused by the impact of foreign exchange rates   |
| Gross profit                                       | 400.8                           | 412.6                           | 11.7   | 2.9%                    |   |
| Selling, general and administrative expenses       | (326.0)                         | (342.1)                         | (16.0) | –                       | Increases caused by the strategic investment in future growth   |
| Business profit *                                  | 74.7                            | 70.4                            | (4.2)  | (5.7%)                  | Decreases caused by the strategic investment in future growth and impact of foreign exchange rates  |
| Other operating income and Other operating expense | (9.7)                           | 0.8                             | 10.6   | –                       | Decreases in foreign exchange losses and increases caused by gain on sales of idle properties   |
| Profit from operating activities                   | 65.0                            | 71.3                            | 6.3    | 9.8%                    |   |
| Finance income and Finance costs                   | (2.4)                           | 0.5                             | 2.9    | –                       | Decreases in foreign exchange losses  |
| Profit before tax                                  | 62.6                            | 72.0                            | 9.3    | 15.0%                   |   |
| Income taxes                                       | (20.8)                          | (17.9)                          | 2.9    | –                       | Decreases compared with income taxes in the previous fiscal year which include the impact of increases caused by a reversal of deferred tax assets accompanying U.S. tax reform |
| Profit for the period                              | 41.7                            | 54.0                            | 12.2   | 29.4%                   |   |

\* Business profit is calculated after deducting cost of sales and selling, general and administrative expenses from revenue.

A breakdown of operating results in each segment is provided below.

**Printing Solutions Segment**

Printer business revenue decreased. Inkjet printer revenue as a whole moved sideways. Although revenue from high-capacity ink tank inkjet printers grew with ongoing expansion of sales in both emerging and developed markets, these gains were offset by a combination of negative foreign exchange effects and shrinking revenue from ink cartridge printers, the result of limiting promotions to appropriate level and maintaining prices even as competitors aggressively stepped up their own price promotions. Consumables revenue decreased. Although revenue from ink bottles for high-capacity ink tank inkjet printers grew, ink cartridge sales slipped along with the consumer ink cartridge printer install base. Foreign exchange effects also negatively impacted consumables revenue. Serial impact dot matrix (SIDM) printer revenue declined as the market contracted.

Revenue in the professional printing business was consistent with the previous period. Large-format inkjet printer revenue as a whole was flat year on year, as solid sales in the growing signage and textile printer markets were offset by a combination of negative foreign exchange effects and weaker sales in the photo and graphics markets, where competitors aggressively conducted promotion activities. Point-of-sale (POS) system product revenue was flat year on year.

Segment profit in the printing solutions business was flat year on year despite the revenue growth in high-capacity ink tank inkjet printers and the positive effects of the change in the method of accounting for printhead inventory devaluations. This sideways movement is mainly attributable to strategic investment in future growth and the negative foreign exchange effects resulting from plummeting currencies in Latin America and some other emerging nations.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥723.6 billion, down 1.8% year on year. Segment profit was ¥94.5 billion, down 0.4% year on year.

**Visual Communications Segment**

Revenue in the visual communications segment increased, although it was tempered by negative foreign exchange effects. The increase was largely due to an improved model mix in which high added value 3LCD laser projectors in the high-brightness zone accounted for a higher percentage of total unit shipments, as well as to strong sales of ultra-short throw education projectors.

Segment profit in the visual communications segment declined because the effects of higher revenue were offset by strategic investment in future growth and negative foreign exchange effects.

As a result of the foregoing factors, revenue in the visual communications segment was ¥203.3 billion, up 2.2% year on year. Segment profit was ¥21.2 billion, down 13.1% year on year.

**Wearable & Industrial Products Segment**

Revenue in the wearable products business decreased due to sluggish demand for movements and a slow overseas watch market.

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

Revenue in the microdevices business decreased. Semiconductor revenue was flat year on year, but quartz business revenue fell on lower demand for crystal devices in the contracting Chinese mobile and consumer electronics markets.

Segment profit in the wearable & industrial products segment declined in response to lower crystal device and robotics solutions revenue and foreign exchange effects.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥163.4 billion, down 2.3% year on year. Segment profit was ¥5.5 billion, down 23.0% year on year.

## Other

Other revenue was flat year on year, amounting to ¥0.9 billion, as was the segment loss of ¥0.5 billion.

## Adjustments

Adjustments to the total profit of reporting segments amounted to negative ¥50.2 billion. (Adjustments in the same period last year were negative ¥51.1 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the reporting segments and expenses associated with things such as new businesses and corporate functions.

## (2) Cash flow performance

Net cash from operating activities during the year totaled ¥76.9 billion. The total for the previous year was ¥84.2 billion. Whereas Epson recorded ¥54.0 billion in profit for the year, there was a ¥24.9 billion increase in inventories and ¥17.5 billion in income taxes paid. Net cash was positively affected by the recording of ¥56.1 billion in depreciation and amortization.

Net cash used in investing activities totaled ¥82.7 billion (compared to ¥74.6 billion in the previous fiscal year).

The Company used ¥90.3 billion in the acquisition of property, plant and equipment, and the purchase of intangible assets. Meanwhile, there were ¥9.3 billion in proceeds from sales of property, plant and equipment.

Net cash used in financing activities totaled ¥49.4 billion (compared to ¥0.0 billion in positive net cash in the previous fiscal year), chiefly due to ¥22.1 billion in dividends paid, a ¥10.0 billion redemption of bonds payable, and a net decrease of ¥16.8 billion in current borrowings.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥175.2 billion (compared to ¥229.6 billion at the end of the previous fiscal year).

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

<https://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, 2019<br>(From April 1, 2018, to March 31, 2019)<br>(Millions of yen) | Change<br>compared to<br>previous fiscal<br>year (%) |
|--------------------------------|---|--|
| Printing solutions             | 712,628   | 96.1   |
| Visual communications          | 201,307   | 96.5   |
| Wearable & Industrial products | 154,186   | 96.3   |
| Total for the segments         | 1,068,122   | 96.2   |
| Other                          | –   | –  |
| Total                          | 1,068,122   | 96.2   |

**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, 2019<br>(From April 1, 2018, to March 31, 2019)<br>(Millions of yen) | Change<br>compared to<br>previous fiscal<br>year (%) |
|--------------------------------|---|--|
| Printing solutions             | 722,958   | 98.2   |
| Visual communications          | 203,305   | 102.2  |
| Wearable & Industrial products | 154,074   | 97.2   |
| Total for the segments         | 1,080,337   | 98.8   |
| Other                          | 187   | 100.1  |
| Total                          | 1,080,525   | 98.8   |

**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. Management analysis and discussion on operating results, etc.**

Recognition and details of analysis/discussions on Epson's operating results, etc. from the management's perspective are as follows:

All forward-looking statements hereunder were made at Epson's discretion based on the forecasts and certain assumptions at the end of the fiscal year. These statements may differ from actual results and are not guarantees of the achievement.

#### **(1) Operating results, etc.**

##### **Financial position**

Total assets at the end of the fiscal year were ¥1,038.3 billion, an increase of ¥5.0 billion from the previous fiscal year end. While cash and cash equivalents decreased by ¥54.4 billion due largely to the acquisition of property, plant and equipment, and intangible assets and to the dividends paid, total assets increased chiefly due to a ¥27.5 billion increase in inventories, a ¥27.1 billion increase in property, plant and equipment and intangible assets, and a ¥7.8 billion increase in trade and other receivables.

Total liabilities were ¥495.6 billion, down ¥22.6 billion compared to the end of the last fiscal year. Total liabilities decreased mainly because of a ¥24.2 billion decrease in bonds issued, borrowings and lease liabilities. The equity attributable to owners of the parent company totaled ¥540.1 billion, a ¥27.4 billion increase compared to the previous fiscal year end. While the Company paid ¥22.1 billion in dividends, equity attributable to owners of the parent company increased mainly because retained earnings increased owing to the recording of ¥53.7 billion in profit for the period attributable to owners of the parent company.

Working capital, defined as current assets less current liabilities, was ¥325.1 billion, an increase of ¥8.3 billion compared to the end of the previous fiscal year.

##### **Operating results**

The operating results are provided in "Management Analysis of Financial Position, Operating Results and Cash Flows 1. Operating results overview (1) Operating results."

##### **Cash flow performance**

The cash flow performance is provided in "Management Analysis of Financial Position, Operating Results and Cash Flows 1. Operating results overview (2) Cash flow performance."

#### **(2) Capital resources and liquidity**

Epson plans to allocate ¥85.0 billion to capital expenditures for the fiscal year ending March 31, 2020, and required funds will be covered by current funds in hand. The amount of planned capital expenditures for each segment is as described in "Information on the Company 4. Plans for new additions or disposals." The above amount of planned capital expenditures includes capital expenditures through finance leases and operating leases.

In order to stably secure funds necessary for business activities such as capital expenditures, Epson raises funds through utilization of internal funds as well as borrowings from financial institutions and issuance of bonds.

The balance of interest-bearing debt at the end of the fiscal year under review was ¥142.3 billion, down ¥24.2 billion compared to the previous fiscal year end, due to redemption of bonds and a decrease in borrowings. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥175.2 billion, down ¥54.4 billion compared to the end of the last fiscal year, giving Epson sufficient liquidity.

Epson has earned a credit rating from Rating and Investment Information, Inc. The rating was A (single A) as at the end of the fiscal year under review.

#### **(3) Management policy, corporate strategy, objective indices to assess the status of achievement of management goals, etc.**

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

Based on the results described above, as stated in "Management Analysis of Financial Position, Operating Results and Cash Flows 5. Management policy, business environment and issues to be addressed, etc.," Epson



will aim to achieve, for 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), assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, by striving to promote a growth strategy based on the Epson 25 Corporate Vision and the mid-range business plan for achieving the vision and strengthen its business infrastructure and financial structure.

In each area of innovation where its unique strength can be demonstrated, Epson will look to achieve operating performance targets by accomplishing strategies for future growth of each business set forth in “Management policy, business environment and issues to be addressed, etc.” above as well as promoting sustainable growth and increase of its corporate value.

### **Information on differences in main items relating to overview of the status of operation results, etc.**

Matters concerning differences between the main items on IFRS consolidated financial statements and equivalent items on consolidated financial statements prepared based on the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (excluding Article 7 and Article 8, hereinafter referred to as “Japanese accounting standards”) are as follows:

#### **(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, remeasurement of net defined benefit liabilities (assets) is recognized in full as other comprehensive income in the period in which this item is transferred to retained earnings immediately. Past service costs are recognized in profit and 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. Due to these effects, the cost of sales and selling, general and administrative expenses, and finance costs in the previous fiscal year increased by ¥2.3 billion when calculated based on IFRS rather than Japanese standards. The cost of sales and selling, general and administrative expenses, and finance costs in the fiscal year increased by ¥7.4 billion.

#### **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 printheads, microdisplays, sensors, and robotics, all of which are core technologies that evolved from the efficient, compact, and precision technologies that have been an Epson strength since its founding. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.

The corporate R&D division and the R&D units of the operations divisions are teaming up to develop core technologies and devices for the future and to strengthen manufacturing infrastructure. Together, they are laying a technological foundation to create new businesses, strengthen existing ones, and increase the competitiveness of all Epson products.

Total R&D spending during the fiscal year was ¥58.2 billion. The printing solutions segment accounted for ¥25.2 billion, the visual communications segment for ¥10.1 billion, and the wearable and industrial products segment for ¥5.9 billion. The “other” segment and corporate segment accounted for the remaining ¥16.9 billion.

The main R&D accomplishments in each segment are described below.

##### **Printing solutions segment**

In the printer business, Epson launched two new business-spec Epson Smart Charge<sup>1</sup> A4 color inkjet printers, a multifunction model and a single-function model. These models have a 64% smaller footprint than the PX-M840FX (an earlier Smart Charge model) and fit into narrow spaces in a back office or on a counter.

Epson also launched six new models (one of which has two color variations) of high-capacity ink tank (EcoTank) printers. In addition to a pair of compact standard models with a front paper feeder, we released three white models for greater flexibility in matching the printer to the usage environment and two A4 monochrome business printer models that make ideal replacements for office laser printers. The augmented lineup gives customers a chance to select the model that best fits their needs, whether at home or in the office.

In the professional printing business, we launched a new digital label press that uses UV curing ink. This UV label press is equipped with PrecisionCore lineheads that deliver outstanding print results at high print speeds. It also comes equipped with features that reduce operation time and trouble. These features enable the press to accommodate industrial label print jobs as well as short- and medium-run print jobs, thus helping to increase print process efficiency.

On the software end, Epson developed Color Control Technology, a color management technology that enhances color reproduction in commercial and industrial printing. Epson began using this new technology to provide services such as printer color matching, spot color matching, and media profile creation. Color Control Technology, developed to address color-related issues in commercial and industrial printing, helps to ensure that customers get the print quality and high productivity they need.

<sup>1</sup> Smart Charge is a managed print service that allows service subscribers to use printers, ink, and maintenance services provided by Epson for a fixed monthly rate. (Subscribers do not purchase printers, but printer delivery and installation, if needed, may be charged separately.)

##### **Visual communications segment**

Epson expanded and upgraded its lineup of laser projectors by launching six bright new business models (one with two color variations). The models designed for use in meeting rooms and auditoriums provide the brightness, image quality, and reliability of a laser light source in a compact, lightest-in-class<sup>2</sup> body.

The models designed for spatial projection and events are equipped with Epson’s first native 4K panels and deliver crisp, vivid images thanks to the high color reproduction and high-definition of Epson’s 3LCD system. Epson unveiled new transparent smart glasses with dual (binocular) displays that are great for monitoring things such as the piloting of drones and inspection and measurement equipment. We also participated in an investigative commission organized and run by the Fire Equipment and Safety Center of Japan to explore the use of smart glasses in fire prevention and rescue systems using G-space information<sup>3</sup>. We were involved in a joint effort to develop concept models of smart masks and smart goggles based on Epson’s smart glasses technology for use in a next-generation rescue system.

<sup>2</sup> Among laser projectors in Japan that produce at least 6,000 lumens per research conducted by Epson in June 2018

<sup>3</sup> Geospatial information. Information consisting of information that indicates a specific point in space or area location, and position information and information associated with position information

## **Wearable and industrial products segment**

In the wearable products business, Epson launched Orient Star models equipped with the new Series 46 F7-50 movement. The new movement increases the power reserve to 50 hours, up from a previous high of 40 hours. The use of a new front-loaded assembly<sup>4</sup> gives cases a thin profile while realizing a roomy dial and a luxurious-looking case design.

In the robotics solutions business, Epson launched new industrial robots, including a compact 6-axis (vertically articulated) model and a SCARA (horizontally articulated) model. The new 6-axis robot has a 1,000-mm reach, handles payloads up to 6 kg, and takes up about 75% less installation space than Epson's 1,400-mm 6-axis robot arms<sup>5</sup>. This robot saves space in factories, where they are mostly used to transport and assemble small parts for consumer and vehicle electronics. The new SCARA robot is designed for maximum installation simplicity and usability, with a controller built into the base. It has a battery-less motor that reduces running costs, and, with the ability to handle payloads up to 6 kg, can transport larger, heavier objects. This robot can be outfitted with heavy end-effectors to help increase factory productivity.

In September 2018, Epson installed a new robot production line at its Toyoshina Plant, site of the company's robotics R&D center. This move is designed to facilitate closer collaboration with Epson's domestic and foreign production sites, as well as to maximize the efficiency of the cycle for developing challenging key components, establishing designs and mass production technology, and manufacturing the products. The company expects the production line to yield benefits in the form of faster time-to-market and improved assembly efficiency.

In the microdevices business, Epson developed a new axial accelerometer for structural health monitoring<sup>6</sup>. Offering the low noise, durability, and productivity needed to accelerate the spread of serious structural health monitoring systems, this sensor provides high accuracy without sacrificing durability. The product helps to address problems associated with aging social infrastructure and the escalating cost of maintenance by enabling accurate earthquake detection, environmental vibration measurement, industrial equipment and vehicle vibration and path monitoring, and continuous monitoring of structures such as buildings, road infrastructure, bridges, tunnels, and steel towers.

<sup>4</sup> A front loaded assembly (FLA) is a method of assembly in which a movement is inserted from above the case. Movements are ordinarily mounted from below the case, which necessitates a caseback that is larger than the dial. With FLA, however, a taper is made from the case side to the caseback (tapered back) to reduce the height (thickness) of the case.

<sup>5</sup> In comparative tests conducted by Epson based on assumed usage

<sup>6</sup> Technology for diagnosing the health of structures using sensors

## 5. Management policy, business environment and issues to be addressed, etc.

All forward-looking statements hereunder were made at Epson's discretion based on the forecasts and certain assumptions at the end of the fiscal year. These statements may differ from actual results and are not guarantees of the achievement.

### (1) Fundamental management policy

Endowed with a rich legacy of efficient, compact, and precision technologies, Epson seeks to continuously create game-changing customer value and play a central role in creating a better world as an indispensable company by forging innovations through challenges that are bold, imaginative, and exceed our own vision. Using the Epson Management Philosophy and the global tagline below as guides, we will strive to achieve our vision with employees who embrace a common set of values, demonstrate teamwork, and exercise initiative to create value that exceeds customer expectations.

#### Epson Management Philosophy

Epson aspires to be an indispensable company,  
trusted throughout the world for our commitment to openness,  
customer satisfaction and sustainability.

We respect individuality while promoting teamwork,  
and are committed to delivering unique value  
through innovative and creative solutions.

#### EXCEED YOUR VISION

As Epson employees,  
we always strive to exceed our own vision,  
and to produce results that bring surprise and delight  
to our customers.

### (2) Medium- and long-term corporate strategy and issues to be addressed

In March 2019, Epson established the Epson 25 Phase 2 Mid-Range Business Plan (FY2019-2021) (hereinafter, the "Phase 2 Mid-Range Business Plan"), a three-year plan starting in FY2019, toward achieving the Epson 25 Corporate Vision (hereinafter, "Epson 25") that describes what Epson would like to achieve in the days ahead. Although the business environment in which Epson operates is projected to remain unpredictable and challenging, 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 Phase 1 Mid-Range Business Plan (FY2016-2018) review

As stated in Epson 25, established in 2016, Epson envisions creating a new connected age of people, things and information with efficient, compact and precision technologies by 2025. To accomplish this, Epson seeks to drive innovations in four areas where it can leverage its competitive advantages and aims to enrich lives and contribute to sustainability.

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

## Main Accomplishments and Challenges in Phase 1

- We accomplished our goals of strengthening core technologies, increasing production capacity, and launching strategic products, but we still have issues in terms of speed.
- In sales, we made a certain amount of progress in enhancing our sales structures in Japan and Western Europe, and in accumulating customer insights, but there were delays in improving the sales structure in other regions. Meanwhile, we lagged in providing products and services that capitalize on the accumulated insights and fell behind in establishing effective selling techniques.
- We made aggressive capital expenditures and had active research and development programs, but, on the whole, we could have done better in determining priorities.

## ② Phase 2 business plan concept

We will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

## Policies

- 1) Accelerate growth by taking maximum advantage of assets and through collaboration and open innovation
  - Strengthen solution selling business
  - Rapidly strengthen product portfolio, including through collaboration
  - Strengthen external sales of core devices and open innovation
  - Invest management resources in robotics to accelerate growth to make it a core business
- 2) Strengthen global operation under Head Office control
  - Select and focus on priority business areas and regions
  - Improve the organization and allocate personnel to strengthen B2B solution selling
  - Strengthen company-wide integrated IT infrastructure
- 3) Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness
  - Rebuild product portfolios based on priorities
  - Strengthen financial discipline

## ③ Financial targets under Phase 2 business plan and Epson 25

|  |                                | FY2021 Target    | FY2025 Target  |
|--|--------------------------------|------------------|----------------|
| Revenue                                  |                                | ¥1,200 billion   | ¥1,700 billion |
|  | Printing Solutions             | ¥780 billion     | —              |
|  | Visual Communications          | ¥225 billion     | —              |
|  | Wearable & Industrial Products | ¥195 billion     | —              |
| Business profit <sup>1</sup>             |                                | ¥96 billion      | ¥200 billion   |
| ROS                                      |                                | 8%               | 12%            |
| ROE                                      |                                | Sustain over 10% | 15%            |
| Exchange Rate USD/EUR/Other <sup>2</sup> |                                | ¥110/¥125/92     | ¥115/¥125/100  |

<sup>1</sup> Business profit is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

<sup>2</sup> Index showing weighted average variance of rates for currencies other than USD and EUR against a benchmark of 100 in FY2025.

## ④ New initiatives

### Initiatives in each of our innovation areas

#### Inkjet innovation

- In the home & SOHO, and office shared printers\*, Epson is transitioning away from a business model that is reliant on consumables by accelerating the displacement of laser printers and ink cartridge printers with high-capacity ink models such as high-capacity ink tank printers and high-speed linehead inkjet multifunction printers.
  - \* Office shared printer: A printer category for high-print volume office users
- In the commercial and industrial segments, rapidly expand the lineup of high productivity products through platforming and collaboration with partners. Expand business by responding to a diverse range of needs with external print head sales and open innovation.
- Capture needs spawned by rapid digitization and embrace collaboration and open innovation to create new printing services.

#### Visual innovation

- Refine laser light source platforms, expand the lineup in the high-lumen and other segments, and promote the advantages of projectors.
- Develop new markets by creating demand in the spatial design market with accent lighting projectors, and by developing small projectors.
- For smart glasses, accelerate open innovation to broaden the range of their application through enhancing the selection of interface models that enable connections with PCs and smartphones and external sales of optical engine modules.

#### Wearables innovation

- Continue to focus resources on the high-value-added analog watch segment to capitalize on Epson's unique technologies.

#### Robotics innovation

- Accelerate the growth of robotics into a future core business by leveraging a solid foundation of technology and infrastructure while also actively collaborating with partners to further increase product competitiveness and improve its ability to propose solutions.
- Use AI to further improve usability and enter the collaborative robot market.

### **Strengthening sales capabilities**

- Epson will strengthen Head Office control over global sales strategies and management functions while simultaneously transitioning to B2B sales methods that emphasize customer intimacy and solution selling.

### **Sustainability initiatives**

- For our sustainability initiatives, we will approach heightened expectations for achieving sustainability as a business opportunity. For example, we will accelerate innovation using printing and environmental performance, ink versatility and other advantages of inkjet technology to contribute to sustainability.

**⑤ Financial targets under Phase 2 business plan**

1) Cash Flow

- Restore our ability to generate cash flow by steadily growing profit and increasing operations efficiency.
- By allocating generated cash to growth areas based on identified priorities, we will pay steady dividends while maintaining a healthy financial structure.

|              | Phase 1 Mid-range Result     | Phase 2 Mid-range Target   |
|--------------|------------------------------|----------------------------|
| Operating CF | 3-year total: ¥258.1 billion | 3-year total: ¥370 billion |
| FCF          | 3-year total: ¥24.9 billion  | 3-year total: ¥170 billion |

2) R&D Expenses and Capital Expenditure

|                                       | Phase 1 Mid-range Result     | Phase 2 Mid-range Target   |
|---------------------------------------|------------------------------|--|
| R&D expenses                          | 3-year total: ¥161.3 billion | Aggressively invest in new products and key technologies necessary to achieve Epson 25 |
| Capital expenditure (excluding lease) | 3-year total: ¥236.8 billion | 3-year total: ¥200 billion<br>(Production capacity, new products)                      |

**(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

The Company established in March 2016 the Epson 25 Corporate Vision, which describes what the company would like to achieve by the start of the 2025 fiscal year.

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

In the Phase 2 Mid-Range Business Plan (FY2019-2021), which was established in March 2019, we will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

- 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

To ensure and enhance corporate value and the common interests of its shareholders, Epson updated its measures to prevent large-scale acquisitions of Epson shares and received approval for them at the June 2014 Ordinary General Meeting of Shareholders. The measures were then revised for further enhancement of their appropriateness and objectivity, and shareholders approved their updating at the June 28, 2017 General Meeting of Shareholders. (The new measures are called "the Plan" below.)

The purpose of the Plan is to prevent large-scale acquisitions of Epson stock certificates that benefit neither the Company's corporate value nor the common interests of its 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 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 defensive measures if, for example, the proposed acquisition is not conducted in line with the Plan or it is deemed contrary to Epson's corporate value or the common interest of its shareholders.

To prevent the Epson board of directors from making arbitrary decisions about whether to activate takeover defense measures, a special committee composed entirely of highly independent outside directors shall assess the need for a defense. The special committee shall examine the nature of a proposed stock acquisition, request information from the Epson board of directors regarding alternative proposals, provide information to shareholders, and negotiate with a potential acquirer. The special committee shall recommend whether to active a defense to the Epson board of directors. The Epson board of directors shall accept the committee's recommendation and promptly accept or reject a resolution to invoke preventive measures, by following that advice (unless the board concludes that doing so would violate the directors' duty of care).

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

Specifically, the Plan guarantees appropriateness and objectivity, is reasonable, and supports Epson's corporate value and the common interests of its shareholders because among other things, a) it was updated after being approved by shareholders at the general shareholders' meeting; b) it contains provisions for reasonable and objective implementation; c) the special committee comprising Outside Directors 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 Board of Directors is required to follow the recommendations of the special committee regarding the necessity of anti-takeover measures (except in cases where following such advice could be considered a violation of directors' obligation to exercise the duty of due care of a prudent manager); e) the special committee may solicit expert opinions from third parties at Epson's expense; f) the period necessary for each process after an acquirer expressed the intention to purchase is specified; g) in case of acquiring stock acquisition rights from non-qualified parties, it is clarified that any economic profit such as cash will not be delivered; and h) the Plan was determined to be valid for approximately three years and may be abolished by the Board of Directors at any time. The Plan is not for keeping Epson executive officers in their posts.



## 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 purchasing treasury 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.

Based on our start-of-year target, the Company has paid an annual dividend of ¥62 per share.

In line with the basic policy on shareholder return, the Company resolved at the meeting of its board of directors held on April 26, 2019 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. Details are provided in "Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 40. Subsequent Events."

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<br>(Millions of yen) | Cash dividend per share<br>(Yen) |
|---|-------------------------------------|----------------------------------|
| October 30, 2018, by resolution of the board of directors         | 10,924                              | 31                               |
| June 26, 2019, by resolution of the general shareholders' meeting | 10,924                              | 31                               |

#### Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 30, 2018 includes ¥5 million of cash dividends for the Company's shares held through the BIP (Board Incentive Plan) trust (hereinafter referred to as the "BIP trust").
2. The total amount of dividends to be paid based on the resolution of the general shareholders' meeting on June 26, 2019 includes ¥5 million of cash dividends for the Company's shares held through the BIP trust.

## Corporate Governance

### 1. Overview of 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 term, Epson strives to continuously enhance and strengthen corporate governance so as to realize transparent, fair, fast, and decisive decision-making.

Under a company with an Audit & Supervisory Committee, to further increase the effectiveness of corporate governance, Epson further improves the supervisory function of the Board of Directors, further enhances deliberation and speeds up management decision-making.

#### (2) Overview of and reasons for adopting the current system of corporate governance

Epson is structured as a company with an Audit & Supervisory Committee. It has a Board of Directors, an Audit & Supervisory Committee, and a financial auditor. It has also voluntarily established advisory committees for matters such as the Director nomination and compensation.

This governance system was adopted to further increase the effectiveness of corporate governance by strengthening supervision over management and by enabling the Board of Directors to devote more time to discussions while speeding up decision-making by management.

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 term. 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 described in “2. Officers.” Meetings of the Board of Directors are, as a rule, held once per month and as needed. In FY2018, the Company held a total of 13 meetings of the Board of Directors with 92.3% attendance by Director Omiya and 100% by all the other Directors. In accordance with the Regulations of the Board of Directors, Chairman of the Board shall act as a chairman of the Board meetings. In case of vacancy or absence of Chairman of the Board, however, President and Representative Director shall instead act as a chairman of the Board meetings. Currently, President and Representative Director acts as the chairman of the Board meetings since the position of Chairman of the Board is vacant.

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 management decisions and increase business agility as a company with an Audit & Supervisory Committee, Epson has expanded the scope of affairs delegated to executive management from the Board of Directors, including capital investments below a certain threshold; and has limited board deliberations only to the most important issues, including governance, capital policy, compliance, risk management and megatrend and medium- to long-term strategies. Corporate Governance Policy states that at least one-third of the board members should be outside 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 verifies the effectiveness of the internal control system and conducts audits primarily in cooperation with internal audit departments and the financial auditor. The Audit & Supervisory Committee has established basic guidelines for selecting outside financial auditors and criteria for evaluating their independence and expertise. Resolutions concerning financial auditors selected by the Committee per the guidelines are submitted for approval at a general meeting of shareholders. The Audit & Supervisory Committee also discusses the selection, dismissal, resignation, and compensation of Directors who are not Audit & Supervisory Committee members and decides on the opinions to be presented at a general meeting of shareholders.

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.

**Director Nomination Committee and Director Compensation Committee**

Epson has established the Director Nomination Committee and the Director Compensation Committee as advisory bodies to the Board of Directors, with their secretariats operated by the human resources department. 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.

The overview of each of these Committees is as follows.

*Composition*

For the both Committees, President and Representative Director shall act as a chairman and Outside Directors and Director in charge of human resources as the other Committee members based on internal regulations defined by the Board of Directors. The two Committees currently consist of the members as shown below.

Chairman: Minoru Usui, President and Representative Director  
Committee members: Hideaki Omiya, Mari Matsunaga, Michihiro Nara, Chikami Tsubaki, Yoshio Shirai,  
Outside Directors  
Masayuki Kawana, 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.

*Activities of the Director Nomination Committee*

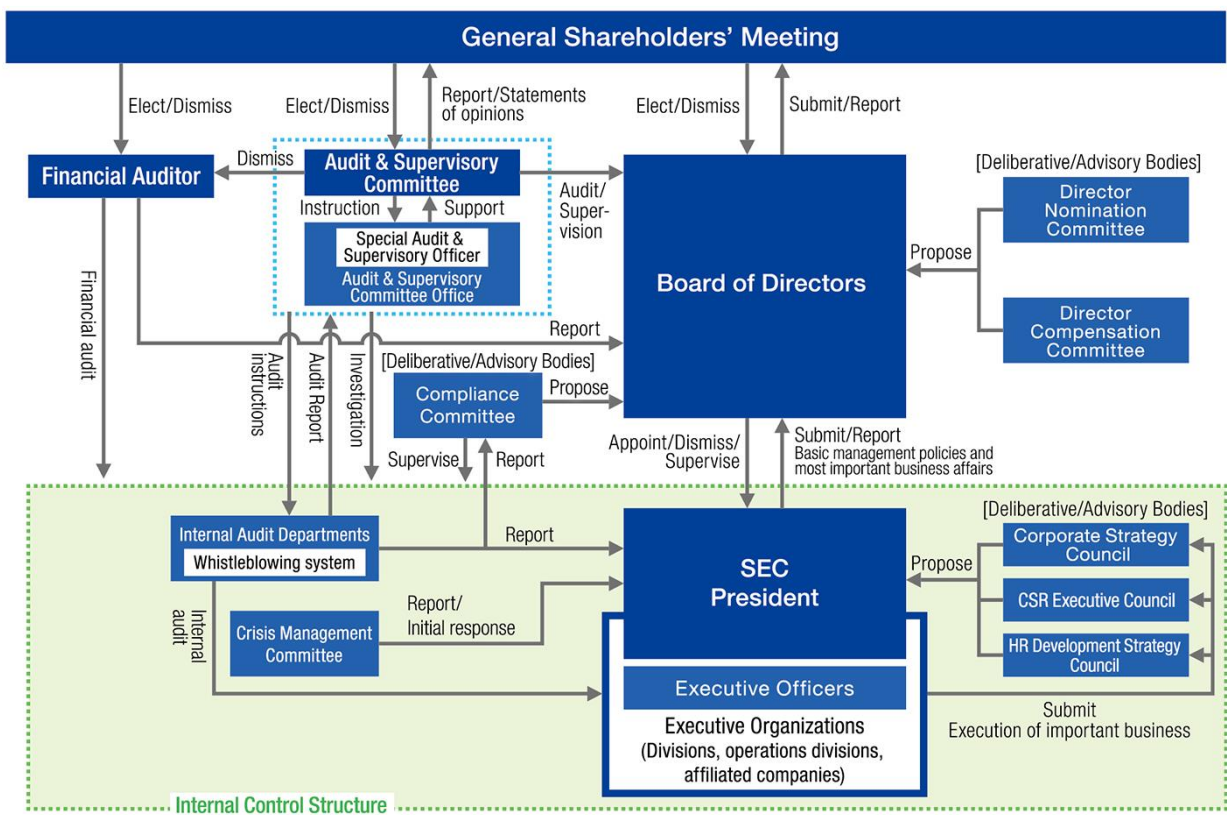
The Committee met three times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee discussed policies and process for selecting Officers (Directors, Executive Officers and Special Audit & Supervisory Officers), proposed candidates, and deliberated on

selection/dismissal policies of Officers, successor development plan and the status of development, in accordance with the amended Corporate Governance Policy. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

*Activities of the Director Compensation Committee*

The Committee met four times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee deliberated on matters including the necessity for revising the monthly compensation for Directors who are not Audit & Supervisory Committee members, and the amount of base compensation and bonuses and the number of base points under the stock compensation plan for Executive Officers including those who are concurrently serving as Directors. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

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



### **(3) 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 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. Financial 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 takes 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.

### **System for ensuring proper financial reporting**

- (1) The creation of proper financial reports is recognized as a critical issue. The Company shall build, on the orders of the president, a system that enables internal control over financial reporting to be properly arranged, implemented, and evaluated. The financial reports will not be limited in scope to evaluations and reporting required by the Financial Instruments and Exchange Act but will also include reporting over the scope deemed necessary by management.

- (2) A basic regulation and other regulations and standards pertaining to internal control over financial reporting shall be created, and their observance shall be obligatory across the entire Epson Group.
- (3) Continuously evaluate whether the internal controls that have been put in place for financial reporting are effectively and properly functioning, and take corrective action where needed.

## **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.
  - a. Current business performance and performance outlook
  - b. Risk management responses
  - c. 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 agilely 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 regulations 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. A system shall be put in place to protect reporters from reprisal for having made a report, and the identity of the reporter shall be protected even if the representative director or Board of Directors, for example, is asked to make corrections and so forth based on the report.
- (8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with financial auditors.
- (9) The Audit & Supervisory Committee and the 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.

#### **(4) 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.

#### **(5) Election and dismissal 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 dismissal of directors do not vary from the provisions of the Companies Act.

#### **(6) Matters requiring resolutions of general meetings of shareholders that can be implemented by resolutions of the Board of Directors**

##### **Treasury share acquisition**

The Company's Articles of Incorporation allow the Company to acquire treasury shares 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.

##### **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.

##### **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 under 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 so that the Directors (excluding Executive Directors) to fully apply themselves to their expected roles.

#### **(7) Overview of limited liability agreements**

The Company has executed agreements with non-executive directors Hideaki Omiya, Mari Matsunaga, Taro Shigemoto, Michihiro Nara, Chikami Tsubaki, and Yoshio Shirai that limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the 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.

#### **(8) Special resolution requirements of the general meeting of shareholders**

The Company's Articles of Incorporation set forth the requirements for a special resolution of the general meeting of shareholders 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 meeting of shareholders by relaxing the quorum requirements for special resolutions at the general meeting of shareholders.



2. Officers

(1) List of Officers

Directors, audit & supervisory committee members 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 and current function  |
|------------------|--|
| Minoru Usui      | President and Representative Director  |
| Koichi Kubota    | Representative Director,<br>Senior Managing Executive Officer<br>Chief Operating Officer, Printing Solutions<br>Operations Division  |
| Tatsuaki Seki    | Director,<br>Managing Executive Officer<br>General Administrative Manager, Management<br>Control Division  |
| Yasunori Ogawa   | Director,<br>Managing Executive Officer<br>Chief Operating Officer, Wearable Products &<br>Industrial Solutions Operations Segment<br>General Administrative Manager, Technology<br>Development Division |
| Masayuki Kawana  | Director,<br>Executive Officer<br>General Administrative Manager, Human<br>Resources Division and CSR Management Office<br>Chairman, Epson Sales Japan Corporation                                       |
| Toshiya Takahata | Director,<br>Executive Officer<br>General Administrative Manager, Corporate<br>Planning Division<br>General Administrative Manager, DX Division  |
| Hideaki Omiya    | Outside Director   |
| Mari Matsunaga   | Outside Director   |
| Taro Shigemoto   | Director,<br>Full-Time Audit & Supervisory Committee<br>Member   |
| Michihiro Nara   | Outside Director,<br>Audit & Supervisory Committee Member  |
| Chikami Tsubaki  | Outside Director,<br>Audit & Supervisory Committee Member  |
| Yoshio Shirai    | Outside Director,<br>Audit & Supervisory Committee Member  |
| Motonori Okumura | Managing Executive Officer<br>General Administrative Manager, Production<br>Planning Division<br>Deputy Chief Operating Officer, Wearable<br>Products & Industrial Solutions Operations<br>Segmentt      |

| Name               | Position and current function  |
|--------------------|--|
| Junichi Watanabe   | Managing Executive Officer<br>Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment<br>Chief Operating Officer, Wearable Products Operations Division<br>Deputy General Administrative Manager, Production Planning Division |
| Hideki Shimada     | Managing Executive Officer<br>Deputy Chief Operating Officer, Printing Solutions Operations Division   |
| Akihiro Fukaiishi  | Executive Officer<br>President, Epson (China) Co., Ltd.  |
| Yoshiyuki Moriyama | Executive Officer<br>Chairman and President, Epson Engineering (Shenzhen) Ltd.   |
| Naoyuki Saeki      | Executive Officer<br>General Administrative Manager, Sales & Marketing Division  |
| Nobuyuki Shimotome | Executive Officer<br>Chief Operating Officer, Microdevices Operations Division   |
| Kazuyoshi Yamamoto | Executive Officer<br>President, Epson Europe B.V.  |
| Munenori Ando      | Executive Officer<br>Managing Director, Epson Singapore Pte. Ltd.  |
| Hitoshi Igarashi   | Executive Officer<br>Deputy Chief Operating Officer, Printing Solutions Operations Division  |
| Keith Kratzberg    | Executive Officer<br>President and Chief Executive Officer, Epson America, Inc.  |
| Isamu Otsuka       | Executive Officer<br>President, Epson Atmix Corporation  |
| Eiichi Abe         | Executive Officer<br>President, PT. Indonesia Epson Industry   |
| Kazuhiro Ichikawa  | Executive Officer<br>Deputy General Administrative Manager, Technology Development Division  |
| Keiji Naito        | Executive Officer<br>Chief Operating Officer, Visual Products Operations Division  |

| Name              | Position and current function   |
|-------------------|---|
| Kazunori Kumakura | Executive Officer<br>In Charge of IT Infrastructure Enhancement,<br>DX Division                                   |
| Yoshifumi Yoshida | Executive Officer<br>Chief Operating Officer, Robotics Solutions<br>Operations Division                           |
| Andrea Zoeckler   | Executive Officer<br>Senior Vice President, Epson America, Inc.   |
| Yoshiro Nagafusa  | Executive Officer<br>Senior Vice President, Epson Europe B.V.   |
| Satoru Hosono     | Executive Officer<br>Deputy General Administrative Manager,<br>Technology Development Division                    |
| Fuminori Suzumura | Executive Officer<br>President, Epson Sales Japan Corp.   |
| Akifumi Takei     | Executive Officer<br>President, Epson Precision (Philippines), Inc.   |
| Sunao Murata      | Technology Officer<br>Deputy General Administrative Manager, DX<br>Division                                       |
| Tsuyoshi Kitahara | Technology Officer<br>In Charge of Exploration for New Technology<br>Development, Technology Development Division |
| Akihiko Toeda     | Special Audit & Supervisory Officer<br>General Administrative Manager, Audit &<br>Supervisory Committee Office    |

## (2) Outside Officers

### 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, Independent Outside Directors should comprise at least one-third of the members of the Board of Directors.

- a. 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
- b. Advisory function for improving business efficiency
- c. 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 "Criteria for Independence of Outside Directors" 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 criteria. The content of the amended standard is described below.

## Criteria for Independence of Outside Directors

The Company has established the criteria below to objectively determine whether potential Outside Directors are independent.

1. A person is not independent if:

- (1) The person considers the Company to be a major business partner<sup>1</sup>, or has served as an executive<sup>2</sup> within the past five years in an entity for which the Company is a major business partner;
- (2) The person is a major business partner<sup>3</sup> of the Company or has served as an executive within the past five years in an entity that is a major business partner of the Company.
- (3) The person is a business consultant, certified public accountant, or lawyer who has received a large sum of money or other forms of compensation<sup>4</sup> (other than compensation as an officer) from the Company or has, within the past three years, performed duties equivalent to those of an executive as an employee of a corporation or group, such as a union, that has received a large sum of money or other forms of compensation from the Company;
- (4) The person is a major shareholder<sup>5</sup> of the Company or has, within the past five years, been an executive or Audit & Supervisory Board Member of an entity that is a major shareholder of the Company;
- (5) The person is an executive or Audit & Supervisory Board Member of an entity in which the Company is currently a major shareholder;
- (6) The person is a major lender<sup>6</sup> to the Company or has been an executive of a major lender to the Company within the past five years;
- (7) The person has been employed by an auditing firm that has conducted a legal accounting audit of the Company within the past five years;
- (8) The person has been employed by a leading managing underwriter of the Company within the past five years;
- (9) The person has received a large donation<sup>7</sup> from the Company or, within the past three years, has performed duties equivalent to those of an executive as an employee of a corporation or a group, such as a union, that has received a large donation from the Company;
- (10) The person came from an entity with a relationship of reciprocal employment of Outside Director<sup>8</sup>; or
- (11) The spouse or other immediate family member of a person to whom any of items (1) through (9) apply.

2. Even if any of the foregoing criteria apply to a potential Outside Director, the Company can elect that person as an Outside Director if that person satisfies the requirements for Outside Directors set forth in the Companies Act, and the Company deems the person suitable as an Outside Director of the Company in light of his or her personality, knowledge, experience, or other qualifications upon explaining and announcing the reasons thereof.

### Notes

- <sup>1</sup> A person (usually a supplier) considers the Company to be a major business partner if 2% or more of its consolidated net sales (consolidated revenue) has come from the Company in any fiscal year within the past three years.
- <sup>2</sup> “Executive” means an executive officer, executive director, operating officer, or an employee occupying a senior management position of department manager or higher.
- <sup>3</sup> A person (usually a buyer) is a major business partner if 2% or more of the Company’s consolidated revenue has come from that partner in any fiscal year within the past three years.
- <sup>4</sup> “A large sum of money or other forms of compensation” means an average annual amount for the past three years that is:
  - i) no less than 10 million yen for an individual; or
  - ii) no less than 2% of the annual revenues in any fiscal year for a group.
- <sup>5</sup> “Major shareholder” means a shareholder who directly or indirectly holds 10% or more of the voting rights.
- <sup>6</sup> “A major lender” means a financial institution or other major creditor that is indispensable for the Company’s financing and on which the Company depends to the extent that it is irreplaceable in any fiscal year within the past three years.
- <sup>7</sup> “Large donation” means a donation whose annual average amount for the past three years exceeds either:
  - i) 10 million yen or
  - ii) 30% of the annual expense of the group, whichever is higher.
- <sup>8</sup> “Reciprocal employment of Outside Director” means accepting an Outside Director from an entity that currently employs someone from the Company as an Outside Director.

**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.

a. Hideaki Omiya

Mr. Omiya has served as a President and CEO and a Chairman of the Board of Mitsubishi Heavy Industries, Ltd. and has a wealth of experience and insight as a corporate manager and engineer.

As an Outside Director of the Company, he has monitored corporate management appropriately by expressing opinions actively including findings and proposals regarding overall managerial issues from a perspective of a corporate manager well-versed in the global corporate management in the heavy industry, a different business field.

Epson believes that he will appropriately monitor management to achieve sustained growth and increase medium-to long-term corporate value.

Mr. Omiya was an executive of Mitsubishi Heavy Industries, Ltd. The Company has had no transactions with Mitsubishi Heavy Industries, Ltd. in the past three years. 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.

b. 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 an Outside Officer. As an Outside Director of the Company, she has appropriately monitored management, actively pointing out business issues and offering recommendations particularly from the viewpoints of open innovation promotion, etc. Epson believes that she will monitor management appropriately to achieve sustained growth and increase medium-to long-term corporate value.

The Company has had no transactions with Ms. Matsunaga in the past three years. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

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

c. 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 outside officer and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. Epson believes that he will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management. He has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that he can appropriately perform his duties as an Outside Director who is an Audit & Supervisory Committee member.

As an Outside Director of the Company, Mr. Nara has actively pointed out business issues and offered recommendations from the perspective of a legal professional.

The Company has not entered into a consulting agreement nor has it consigned any business under any individual agreement with Mr. Nara as an attorney-at-law or with 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.

d. 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 an independent outside officer, and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. Epson believes that she will contribute to monitoring management appropriately to achieve sustained growth and increase medium to long-term corporate value, as well to ensure soundness of the management. She has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that she can appropriately perform her duties as an Outside Director who is an Audit & Supervisory Committee member.

As an Outside Director of the Company, Ms. Tsubaki has actively pointed out business issues and offered

recommendations from the perspective of a finance and accounting professional.

Epson does not have a business relationship with Ms. Tsubaki, a certified public accountant, and has never engaged her based on an advisory agreement or other separate agreement. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

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

e. 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, and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company.

Epson believes that he will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management.

As an Outside Director of the Company, Mr. Shirai has drawn on his global perspective as well as his management experience in a different business field including automotive industry and trading company to actively point out overall business issues and offer recommendations.

Mr. Shirai has served as an executive at Toyota Tsusho Corporation within the past five years. The Company has had no transactions with Toyota Tsusho Corporation in the past three years. 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.

**(3) Interconnections between supervision or audits by Outside Directors or Outside Audit & Supervisory Committee Members and internal audits, audits by Audit & Supervisory Committee Members, and accounting audits; as well as relationship of these supervision/audits to the internal control department  
Interconnections among Audit & Supervisory Committee audits, internal audits, and accounting audits, and the relationship of these audits to the internal control department**

In order to make Audit & Supervisory Committee audits systematic and efficient, Epson ensures close collaboration between internal audit departments and the Audit & Supervisory Committee. In relation to the structure of the Audit & Supervisory Committee Office and the coordination system with internal audit departments, if circumstances hindering the effectiveness of the audit by the Audit & Supervisory Committee are found, the Audit & Supervisory Committee requests the representative directors or the Board of Directors to rectify them.

Epson's internal audit departments regularly report 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. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

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 requests or 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 financial auditors work together to enhance the effectiveness of audit by sharing the results of their risk assessment at the beginning of each fiscal year and then confirm the audit plan of financial auditors, and also periodically discuss issues during the period. Financial 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.

## **Cooperation between Outside Directors and internal control functions**

Outside Directors who are Audit & Supervisory Committee members and those who are not work cooperatively by attending meetings of the Compliance Committee, regular meetings with representative directors, and meetings solely of Outside Directors; and also work to enhance collaboration between the supervision or audits by Outside Directors and the internal control functions through on-site audits and on-site visits at subsidiaries both home and abroad.

### **(3) Internal audits**

#### **Audit & Supervisory Committee audits**

Epson's Audit & Supervisory Committee is composed of four Directors, three of whom are Outside Directors. Taro Shigemoto was selected to serve as a Full-Time Audit & Supervisory Committee member to help ensure that the Audit & Supervisory Committee works effectively, as it was concluded that it would be necessary for someone to prepare an environment to facilitate audits, attend important internal meetings to smoothly collect internal information, work closely with groups such as the internal audit department, and monitor the daily internal control system.

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 audit 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. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

Audit & Supervisory Committee member Chikami Tsubaki is a certified public accountant and has 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**

In order to make Audit & Supervisory Committee audits systematic and efficient, Epson ensures close collaboration between internal audit departments and the Audit & Supervisory Committee. In relation to the structure of the Audit & Supervisory Committee Office and the coordination system with internal audit departments, if circumstances hindering the effectiveness of the audit by the Audit & Supervisory Committee are found, the Audit & Supervisory Committee requests the representative directors or the Board of Directors to rectify them.

Epson's internal audit departments regularly report 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. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

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 requests or 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 division in charge of whistleblowing regularly keeps the Audit & Supervisory Committee updated on compliance violation matters. The division provides the Committee with detailed reports especially on matters of material importance immediately after it is notified of such matters, and the Committee examines whether it should deal with the matter based on the detailed report. Also, controls are in place to protect whistleblowers from reprisal for having made a report. Allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified; and the identity of the reporter shall be protected even if the president or a Board of Directors, for example, is asked to correct the matter based on the report.

The Audit & Supervisory Committee and financial auditors enhance the effectiveness of audits by sharing the results of their risk assessment at the beginning of each fiscal year and then confirming the audit plan of financial auditors, and also periodically discuss issues during the period. Financial 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) Accounting audits

##### 1) 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 | Seiji Yamamoto     | Ernst & Young ShinNihon LLC | 6   |
| Designated and Engagement Partner, Certified Public Accountant | Yoshiyuki Sakuma   | Ernst & Young ShinNihon LLC | 3   |
| Designated and Engagement Partner, Certified Public Accountant | Yoshitomo Matsuura | Ernst & Young ShinNihon LLC | 6   |

##### 2) Composition of auditing team

The auditing team comprises 42 staff including 21 certified public accountants, 2 accountant examination passers, and 19 other accounting staff.

##### 3) Policy and reasons for selection of financial auditors

The Audit & Supervisory Committee has established the “Policies on Selection / Non-reappointment of Financial Auditors” and “Implementation Standards in Relation to Selection of Financial Auditors” prescribing details of the procedures whereby Epson can maintain and further strengthen its optimal financial audit system.

The Audit & Supervisory Committee appointed Ernst & Young ShinNihon LLC as financial auditor based on the decision that the auditing firm has a competitive advantage in terms of audit quality management system, governance system that supports the management of audit quality, and global audit system; the Committee reached the decision through evaluation of the auditing firm based on the Implementation Standards stated above.

In the event that any of the items set forth in the clauses of Article 340, Paragraph 1 of the Companies Act is met, and the Audit & Supervisory Committee deems it appropriate to dismiss the financial auditor, the Audit & Supervisory Committee shall dismiss the financial auditor subject to the unanimous consent of Audit & Supervisory Committee members. In addition, if the Audit & Supervisory Committee deems that (i) the quality of audit, quality control, independence and other aspects of the financial auditor are likely to hinder the execution of proper audits, (ii) an audit system more appropriate to the Company would be achieved by replacing the audit firm, or (iii) otherwise it would be necessary, the Audit & Supervisory Committee shall, based on its resolution, determine the details of the proposal to dismiss or not reappoint the financial auditor for submission to the General Meeting of Shareholders.



## 4) Evaluation of financial auditor by the Audit &amp; Supervisory Committee

Based on the Implementation Standards stated above, the Audit & Supervisory Committee shall annually evaluate more than one auditing firm with a network overseas, including the current financial auditor; the evaluation items range widely from their quality of audit, governance system to global supervision system. The Committee has judged, through comprehensive analysis and deliberation of these items, that Ernst & Young ShinNihon LLC has a relative competitive advantage.

**(5) Details of audit remuneration**

Epson has adopted items (i) through (iii) of the “Points of Attention Concerning Preparation of Form 2 (56) d-(f) from the revised “Cabinet Ordinance on the Disclosure of Corporate Affairs, etc.” following the promulgation of the “Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.” (Cabinet Office Ordinance No. 3, January 31, 2019) to comply with certain transition provisions.

**a. 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            | 167                                       | 2                               | 171                                       | 0                               |
| Consolidated subsidiaries | 46  | –                               | 52  | –                               |
| Total                     | 214                                       | 2                               | 223                                       | 0                               |

Non-audit services performed for Epson include various consultancy services.

**b. Other important remuneration****Previous fiscal year**

Total payments for audits carried out on behalf of 62 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2018, amounted to ¥599 million.

**Fiscal year under review**

Total payments for audits carried out on behalf of 60 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2019, amounted to ¥572 million.

**c. Reason for the Audit & Supervisory Committee consenting to the fees, etc. of the Accounting Auditor**

Taking into consideration the “Practical Guidelines for Cooperation with Financial Auditor” announced by the Japan Audit & Supervisory Board Members Association, Audit & Supervisory Committee has given consent to the compensation, etc., to be paid to the financial auditor as stipulated in Article 399, Paragraph 1 of the Companies Act, as a result of confirming the policies and the content of the auditing plan that form the basis of compensation to the financial auditor, auditing time and auditing compensation, as well as the auditing plan and its results for the previous fiscal year, and examining the validity of quotation for the auditing.

### **3. Officer compensation, etc.**

#### **(1) Amount of officer compensation, etc. and policies for determining the method of calculating the amount**

With an aim to ensure transparency and objectivity, compensation of officers is determined through resolution at the General Meeting of Shareholders and the Board of Directors' meeting for the Directors who are not Audit & Supervisory Committee members, or through resolution at the General Meeting of Shareholders and discussion by Audit & Supervisory Committee members for the Directors who are Audit & Supervisory Committee members, after going through a fair, transparent and rigorous reporting by the Director Compensation Committee (an advisory body to the Board of Directors) composed primarily of Outside Directors.

With regard to compensation of the Directors who are not Audit & Supervisory Committee members, the Audit & Supervisory Committee shares and discusses what have been examined by the Director Compensation Committee to confirm whether there are special items to be stated at the General Meeting of Shareholders. Although the matters related to the compensation, including its amount, of the Directors who are not Audit & Supervisory Committee members are left to the discretion of President and Representative Director, these matters are determined based on what have been deliberated and approved at the Director Compensation Committee.

The overview of the Director Compensation Committee is as follows.

#### *Composition*

President and Representative Director shall act as chairman and Outside Directors and Director in charge of human resources as other members based on internal regulations defined by the Board of Directors. The Committee currently consists of the members as shown below.

Chairman: Minoru Usui, President and Representative Director

Committee members: Hideaki Omiya, Mari Matsunaga, Michihiro Nara, Chikami Tsubaki, Yoshio Shirai,  
Outside Directors  
Masayuki Kawana, Director in charge of human resources

Directors who are full-time members of the Audit & Supervisory Committee can attend meetings of the Committee as observers.

#### *Activities of the Director Compensation Committee*

The Committee met four times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee deliberated on matters including the necessity for revising the monthly compensation for Directors who are not Audit & Supervisory Committee members, and the amount of base compensation and bonuses and the number of base points under the stock compensation plan for Executive Officers including those who are concurrently serving as Directors. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

#### **Policies**

The Company stipulates the Basic Policy regarding Officer Compensation in the internal regulations defined by the Board of Directors.

##### Compensation for executive officers

- (a) Compensation shall provide incentive to improve business performance in order to increase corporate value in 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 for non-executive officers

- (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

Director and executive officer compensation of the Company consists of base compensation, bonuses, and stock compensation. In FY2018, the base compensation accounted for about 69% (fixed compensation about 65% and variable compensation about 4%), bonuses for about 20% and stock compensation for about 11% of the overall compensation for executive officers. Epson's compensation system for directors and executive officers is designed to provide incentives given that bonuses vary depending on the level of business profit achieved and may not be paid in case the business profit does not reach a certain threshold.

Non-executive officers receive base compensation only, a fixed amount, from the standpoint independent from business execution, because their role is to supervise general management. They do not receive bonuses and stock compensation, which are forms of compensation that are linked to performance and share price.

### Base compensation

Base compensation is a monetary amount that is determined by taking into account all factors such as an individual's position and responsibilities. It is paid as a monthly compensation that reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

Through the resolution at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (eight as of the filing date of the Annual Securities Report) (including 10 million yen per month for two Outside Directors) and at 20 million yen per month for Directors who are Audit & Supervisory Committee members (four as of the filing date of the Annual Securities Report).

### Bonus

An annual bonus is monetary compensation in an amount that is determined by taking into account factors such as the financial performance for the year. The bonus reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

The amount of bonuses is calculated based on the calculation criteria predefined by the Board of Directors.

However, given its nature as a short-term incentive, the final payment amount is determined at the General Meeting of Shareholders based on the level of annual business profit in consideration of non-recurring losses incurred, to ensure its transparency. The amount of bonuses varies depending on business performance and may not be paid in cases where business profit failed to reach a certain threshold. More recently, it was resolved at the Ordinary General Meeting of Shareholders held on June 26, 2019 that the amount of bonuses to Directors would be 71 million yen (the amount to be paid to five Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee members).

### Stock compensation

Under Epson's stock-based compensation plan, 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.

Epson has introduced a highly transparent and fair performance-linked stock compensation plan for the purpose of making clear the linkage between the compensation of officers and its stock value, showing its commitment to promoting sustainable growth and increasing its medium- to long-term corporate value, in addition to strengthening the sense of sharing common interest with its shareholders.

The stock compensation basically accounts for 10% to 22% of the base compensation commensurate with responsibility and position of each officer. The number of shares awarded varies depending on the achievement level with respect to the operating performance targets during the subject period (three years). Such operating performance targets include a business profit, ROS and ROE specified in the mid-range business plan.

At the Ordinary General Meeting of Shareholders held on June 28, 2016, it was resolved that the stock compensation plan stated above would be implemented during the three years from the fiscal year ended March 31, 2017 through the fiscal year ended March 31, 2019. The formula for calculating the performance coefficient and the levels of achievements are as shown below.

$$\text{Performance coefficient} = \{(\text{Business profit factor}) + (\text{ROS factor}) + (\text{ROE factor}) + (\text{Operating cash flow factor}) + (\text{Qualitative evaluation factor} \times 2)\} \div 6$$

| Quantitative evaluation    |              |  |   | Qualitative evaluation (*) | Performance coefficient (times) |
|----------------------------|--------------|--|---|----------------------------|---------------------------------|
| As at the end of FY2018    |              | Average for three years from FY2016 through FY2018 | Cumulative for three years from FY2016 through FY2018 | As at the end of FY2018    |                                 |
| Business profit            | ROS          | ROE  | Operating CF  |                            |                                 |
| 116.0 billion yen or more  | 10% or more  | 12% or more  | 350.0 billion yen or more                             | Far above expectation      | 1.10                            |
| 106.0 billion yen or more  | 9% or more   | 11% or more  | 340.0 billion yen or more                             | Above expectation          | 1.05                            |
| 96.0 billion yen or more   | 8% or more   | 10% or more  | 330.0 billion yen or more                             | Meets expectation          | 1.00                            |
| 86.0 billion yen or more   | 7% or more   | 9% or more   | 320.0 billion yen or more                             | Below expectation          | 0.95                            |
| Less than 86.0 billion yen | Less than 7% | Less than 9%                                       | Less than 320.0 billion yen                           | Far below expectation      | 0.90                            |

\* Items and method of qualitative evaluation

The Director Compensation Committee makes a qualitative evaluation based on the progress of strategies towards achieving the operating performance targets for the “Epson 25” Phase 2 Mid-Range Business Plan, the amount of effect of exchange rate changes, and other evaluation items.

Although Epson had aimed to achieve a performance coefficient of 1.00 or over, the performance coefficient stood at about 0.908 given a business profit of less than 86.0 billion yen, ROS of less than 7%, and ROE of more than 9%, operating cash flows of less than 320.0 billion yen, and qualitative evaluation of “Far below expectation.”

$$\begin{aligned} \text{Performance coefficient} &= \{(\text{Business profit factor}) + (\text{ROS factor}) + (\text{ROE factor}) + (\text{Operating cash flow factor}) + (\text{Qualitative evaluation factor} \times 2)\} \div 6 \\ &= \{0.90 + 0.90 + 0.95 + 0.90 + ((0.90) \times 2)\} \div 6 \doteq 0.908 \end{aligned}$$

As a result of deliberations at the meeting of the Director Compensation Committee, it was revealed that all the quantitative evaluation items fell below expectations and the performance coefficient stood at 0.90, the lower end of the evaluation range, due also to the absence of qualitative evaluation factors to add points.

At the meeting held on May 16, 2019, the Board of Directors has resolved to expand the variance range of the performance coefficient from 0.80 to 1.20 to increase elasticity of the targets and continue with the stock compensation plan for three years from the fiscal year ending March 31, 2020 through the fiscal year ending March 31, 2022.

**(2) Total amount of compensation, total compensation by type, and number of officers to be paid by each category**

| Category  | Total compensation (millions of yen) | Total compensation by type (millions of yen) |                       |                    |           | Number of individuals |
|---|--------------------------------------|--|-----------------------|--------------------|-----------|-----------------------|
|   |                                      | Fixed compensation                           | Variable compensation |                    |           |                       |
|   |                                      | Base compensation                            | Bonus                 | Stock compensation |           |                       |
| Directors who are not Audit & Supervisory Committee members (amount accounted for by Outside Directors) | 356<br>(28)                          | 232<br>(28)                                  | 13<br>(-)             | 71<br>(-)          | 38<br>(-) | 8<br>(2)              |
| Directors who are Audit & Supervisory Committee members (amount accounted for by Outside Directors)     | 81<br>(48)                           | 81<br>(48)                                   | -<br>(-)              | -<br>(-)           | -<br>(-)  | 5<br>(3)              |
| Total   | 437                                  | 314  | 13                    | 71                 | 38        | 13                    |

Notes:

1. The base compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors) consists of fixed compensation and variable compensation. Variable compensation refers to monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
2. The Company has introduced an officer stock ownership plan to link compensation more closely to shareholders' value. A portion of the base compensation is discretionally allotted for the acquisition of the Company's shares. Epson has established the criteria for shareholding by its officers based on internal regulations defined by the Board of Directors to demonstrate its commitment to and responsibilities for business operations to all shareholders.
3. Upon the resolution at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (Outside Directors account for 10 million yen of this amount) and at 20 million yen per month for Directors who are Audit & Supervisory Committee members.
4. The amount above includes 71 million yen in bonuses to be paid to five Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee members), as resolved at the Ordinary General Meeting of Shareholders held on June 26, 2019.
5. The Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the officer compensation BIP trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium- to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).
6. The number of individuals above includes one Director who is an Audit & Supervisory Committee member who retired at the conclusion of the Ordinary General Meeting of Shareholders held on June 27, 2018 and one Director who is not an Audit & Supervisory Committee member who retired on September 30, 2018.
7. Stock options are not granted.

**(3) Total compensation paid to persons whose total consolidated compensation is 100 million yen or more**

| Name        | Total consolidated compensation (millions of yen) | Category | Total consolidated compensation by type (millions of yen) |                       |                    |    |
|-------------|---|----------|---|-----------------------|--------------------|----|
|             |   |          | Fixed compensation  | Variable compensation |                    |    |
|             |   |          | Base compensation   | Bonus                 | Stock compensation |    |
| Minoru Usui | 109   | Director | 60  | 8                     | 23                 | 18 |

Note: The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).

**4. Securities held by the Company**

**(1) Criteria for and approach to classification of investment securities**

Epson has classified its investment equity securities held only for earning capital or income gains into stocks held purely for investment purposes and those held for other purposes as stocks held for cross-shareholding purposes.

The Company currently holds no securities classified as stocks held purely for investment purposes.

**(2) Stocks held for reasons other than pure investment**

- a. Method of examining the rationale of shareholding policy and shareholding, and deliberations on whether or not Epson should hold specific shares at the Board of Directors' or other meetings  
The Company may acquire and hold shares in companies, including the suppliers of key components and parts, major buyers of its products, major providers of funds and major providers of financial services, when it judges that such acquisition/holding of shares will help maintain and strengthen steady business relationships with these companies and ultimately enhance its corporate value over the medium- to long-term. Such acquisition/holding of shares, however, is preceded by a screening process to confirm the creditworthiness and safety of investing in these companies (equity securities held based on this policy is referred to as "stocks held for cross-shareholding purposes"). Every year, the Board of Directors evaluates on an individual basis, both quantitatively and comprehensively, the risks of the stocks it invests in for cross-shareholding purposes, as well as the profits obtainable by maintaining and strengthening trading relationships with the companies in comparison through comparing them against the internal hurdle rate specified based on the cost of capital, and it examines the rationality of holding such stocks for cross-shareholding purposes from a medium- to long-term perspective. When it deems that holding of the stocks for cross-shareholding purposes as unreasonable, the Company reduces the shareholding. During the current fiscal year, Epson actually sold part of its stocks held for cross-shareholding purposes.

- b. Balance sheet total of stocks held for reasons other than pure investment

|                                   | Number of issues | Balance sheet total (millions of yen) |
|-----------------------------------|------------------|---------------------------------------|
| Unlisted stocks                   | 8                | 953                                   |
| Stocks other than unlisted stocks | 11               | 7,050                                 |

**Issues for which the number of shares held by Epson increased during the current fiscal year**

|                                   | Number of issues | Total acquisition price to increase shares (millions of yen) | Reasons for the increase of the number of shares                      |
|-----------------------------------|------------------|--|---|
| Unlisted stocks                   | 1                | 236  | Initial capital contribution to develop and strengthen new businesses |
| Stocks other than unlisted stocks | —                | —  | —   |

**Issues for which the number of shares held by Epson decreased during the current fiscal year**

|                                   | Number of issues | Total sale proceeds from decreasing shares (millions of yen) |
|-----------------------------------|------------------|--|
| Unlisted stocks                   | 1                | —  |
| Stocks other than unlisted stocks | 1                | 2,127  |

- c. Number of special investment securities / equity securities deemed to be held for each issue and information including amounts recorded on the balance sheet

Special investment securities

| Company                      | FY2018                                | FY2017                                | Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares   | Shares held by Epson |
|------------------------------|---------------------------------------|---------------------------------------|---|----------------------|
|                              | Stocks (shares)                       | Stocks (shares)                       |   |                      |
|                              | Balance sheet total (millions of yen) | Balance sheet total (millions of yen) |   |                      |
| Mizuho Financial Group, Inc. | 15,008,880                            | 15,008,880                            | To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services.<br>The effect of holding the shares was examined at the Board of Directors' meeting (held in September 2018) based on the method in (2) a. above but its quantitative results are not disclosed here as the results fall under insider information on business operation (the same applies hereunder). | Yes                  |
|                              | 2,571                                 | 2,872                                 |   |                      |
| NGK Insulators, Ltd.         | 1,257,000                             | 2,507,000                             | To maintain and strengthen the business relationship with a supplier of key parts used in Epson products.<br>Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.<br>Epson sold part of its shareholdings in the company based on the results of examination by the Board of Directors.   | Yes                  |
|                              | 2,021                                 | 4,597                                 |   |                      |
| Seiko Holdings Corporation   | 328,816                               | 328,816                               | To maintain and strengthen the business relationship with a major buyer of Epson products.<br>Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.  | Yes                  |
|                              | 866                                   | 846                                   |   |                      |
| Otsuka Corporation           | 120,000                               | 60,000                                | To maintain and strengthen the business relationship with a major buyer of Epson products.<br>Epson has a transactional relationship primarily with the Printing Solutions business segment.<br>The number of shares held has increased due to the 2-for-1 share split (on April 1, 2018).  | None                 |
|                              | 496                                   | 643                                   |   |                      |
| The Hachijuni Bank, Ltd.     | 489,500                               | 489,500                               | To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services.  | Yes                  |
|                              | 224                                   | 279                                   |   |                      |



# SEIKO EPSON CORPORATION

| Company                            | FY2018                                | FY2017                                | Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares      | Shares held by Epson |
|------------------------------------|---------------------------------------|---------------------------------------|--|----------------------|
|                                    | Stocks (shares)                       | Stocks (shares)                       |  |                      |
|                                    | Balance sheet total (millions of yen) | Balance sheet total (millions of yen) |  |                      |
| Hakuto Co., Ltd.                   | 190,000                               | 190,000                               | To maintain and strengthen the business relationship with a major buyer of Epson products.                                   | Yes                  |
|                                    | 222                                   | 296                                   | Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.                   |                      |
| Marubun Corporation                | 332,640                               | 332,640                               | To maintain and strengthen the business relationship with a major buyer of Epson products.                                   | Yes                  |
|                                    | 211                                   | 327                                   | Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.                   |                      |
| King Jim Co., Ltd.                 | 221,980                               | 221,980                               | To maintain and strengthen the business relationship with a major buyer of Epson products.                                   | None                 |
|                                    | 192                                   | 227                                   | Epson has a transactional relationship primarily with the Printing Solutions business segment.                               |                      |
| Joshin Denki Co., Ltd.             | 65,000                                | 65,000                                | To maintain and strengthen the business relationship with a major buyer of Epson products.                                   | None                 |
|                                    | 165                                   | 252                                   | Epson has a transactional relationship primarily with the Printing Solutions business segment.                               |                      |
| Pixelworks, Inc.                   | 100,000                               | 100,000                               | To maintain and strengthen the business relationship with a supplier of key parts used in Epson products.                    | None                 |
|                                    | 43                                    | 41                                    | Epson has a transactional relationship primarily with the Visual Communications business segment.                            |                      |
| Nippon BS Broadcasting Corporation | 33,200                                | 33,200                                | To maintain and strengthen the business relationship with a company whose parent company is a major buyer of Epson products. | None                 |
|                                    | 34                                    | 41                                    | Epson has a transactional relationship primarily with the Printing Solutions business segment.                               |                      |

### (3) Stocks held purely for investment purposes

None

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Seiko Epson Corporation and Subsidiaries**

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**Consolidated Statement of Financial Position****Years ended March 31, 2018 and 2019:**

|   | Notes | Millions of yen   |                   | Thousands of<br>U.S. dollars |
|---|-------|-------------------|-------------------|------------------------------|
|   |       | March 31,<br>2018 | March 31,<br>2019 | March 31,<br>2019            |
| <u>Assets</u>                                     |       |                   |                   |                              |
| Current assets                                    |       |                   |                   |                              |
| Cash and cash equivalents                         | 8,35  | 229,678           | 175,238           | 1,580,571                    |
| Trade and other receivables                       | 9,35  | 165,282           | 173,173           | 1,561,946                    |
| Inventories                                       | 5,10  | 223,227           | 250,763           | 2,261,775                    |
| Income tax receivables                            |       | 2,942             | 3,994             | 36,024                       |
| Other financial assets                            | 11,35 | 1,513             | 1,466             | 13,222                       |
| Other current assets                              | 12    | 16,485            | 17,938            | 161,793                      |
| Subtotal  |       | 639,129           | 622,575           | 5,615,360                    |
| Non-current assets held for sale                  |       | 43                | -                 | -                            |
| Total current assets                              |       | 639,172           | 622,575           | 5,615,360                    |
| Non-current assets                                |       |                   |                   |                              |
| Property, plant and equipment                     | 13,15 | 297,927           | 321,956           | 2,903,905                    |
| Intangible assets                                 | 14    | 22,037            | 25,191            | 227,212                      |
| Investment property                               | 17    | 1,219             | 1,461             | 13,177                       |
| Investments accounted for using the equity method |       | 1,546             | 1,571             | 14,169                       |
| Net defined benefit assets                        | 23    | 11                | -                 | -                            |
| Other financial assets                            | 11,35 | 20,433            | 17,907            | 161,513                      |
| Other non-current assets                          | 12    | 5,299             | 6,028             | 54,369                       |
| Deferred tax assets                               | 18    | 45,701            | 41,696            | 376,080                      |
| Total non-current assets                          |       | 394,178           | 415,814           | 3,750,464                    |
| Total assets                                      |       | 1,033,350         | 1,038,389         | 9,365,824                    |

# SEIKO EPSON CORPORATION

|   | Notes | Millions of yen   |                   | Thousands of                      |
|---|-------|-------------------|-------------------|-----------------------------------|
|   |       | March 31,<br>2018 | March 31,<br>2019 | U.S. dollars<br>March 31,<br>2019 |
| <u>Liabilities and equity</u>                       |       |                   |                   |                                   |
| Liabilities   |       |                   |                   |                                   |
| Current liabilities                                 |       |                   |                   |                                   |
| Trade and other payables                            | 19,35 | 154,759           | 144,399           | 1,302,417                         |
| Income tax payables                                 |       | 7,296             | 3,814             | 34,400                            |
| Bonds issued, borrowings and lease liabilities      | 20,35 | 36,082            | 21,363            | 192,685                           |
| Other financial liabilities                         | 35    | 201               | 331               | 2,985                             |
| Provisions  | 21    | 26,403            | 12,677            | 114,341                           |
| Other current liabilities                           | 22    | 97,643            | 114,887           | 1,036,231                         |
| Total current liabilities                           |       | 322,387           | 297,473           | 2,683,079                         |
| Non-current liabilities                             |       |                   |                   |                                   |
| Bonds issued, borrowings and lease liabilities      | 20,35 | 130,483           | 120,987           | 1,091,251                         |
| Other financial liabilities                         | 35    | 1,613             | 1,955             | 17,633                            |
| Net defined benefit liabilities                     | 23    | 42,321            | 53,498            | 482,529                           |
| Provisions  | 21    | 8,954             | 9,134             | 82,384                            |
| Other non-current liabilities                       | 22    | 11,434            | 11,697            | 105,501                           |
| Deferred tax liabilities                            | 18    | 1,049             | 894               | 8,063                             |
| Total non-current liabilities                       |       | 195,856           | 198,169           | 1,787,399                         |
| Total liabilities                                   |       | 518,244           | 495,642           | 4,470,478                         |
| Equity  |       |                   |                   |                                   |
| Share capital                                       | 24    | 53,204            | 53,204            | 479,877                           |
| Capital surplus                                     | 24    | 84,364            | 84,427            | 761,495                           |
| Treasury shares                                     | 24    | (30,803)          | (30,788)          | (277,694)                         |
| Other components of equity                          | 24    | 47,960            | 50,440            | 454,947                           |
| Retained earnings                                   |       | 358,001           | 382,897           | 3,453,567                         |
| Equity attributable to owners of the parent company |       | 512,727           | 540,181           | 4,872,201                         |
| Non-controlling interests                           |       | 2,378             | 2,565             | 23,135                            |
| Total equity  |       | 515,106           | 542,747           | 4,895,345                         |
| Total liabilities and equity                        |       | 1,033,350         | 1,038,389         | 9,365,824                         |

**Consolidated Statement of Comprehensive Income****Years ended March 31, 2018 and 2019:**

|  | Notes      | Millions of yen |           | Thousands of                    |
|--|------------|-----------------|-----------|---------------------------------|
|  |            | Year ended      |           | U.S. dollars                    |
|  |            | 2018            | 2019      | Year ended<br>March 31,<br>2019 |
| Revenue  | 7,26       | 1,102,116       | 1,089,676 | 9,828,411                       |
| Cost of sales  | 5,10,13,14 | (701,268)       | (677,064) | (6,106,827)                     |
| Gross profit   |            | 400,848         | 412,612   | 3,721,583                       |
| Selling, general and administrative expenses                         | 13,14,27   | (326,062)       | (342,113) | (3,085,712)                     |
| Other operating income   | 29         | 4,860           | 6,393     | 57,662                          |
| Other operating expense  | 13,30      | (14,643)        | (5,536)   | (49,932)                        |
| Profit from operating activities                                     |            | 65,003          | 71,355    | 643,591                         |
| Finance income   | 31         | 1,277           | 2,450     | 22,097                          |
| Finance costs  | 31         | (3,691)         | (1,865)   | (16,821)                        |
| Share of profit of investments accounted for using the equity method |            | 74              | 99        | 892                             |
| Profit before tax  |            | 62,663          | 72,040    | 649,770                         |
| Income taxes   | 18         | (20,899)        | (17,995)  | (162,307)                       |
| Profit for the period  |            | 41,764          | 54,044    | 487,453                         |
| Profit for the period attributable to:                               |            |                 |           |                                 |
| Owners of the parent company   |            | 41,836          | 53,710    | 484,441                         |
| Non-controlling interests  |            | (72)            | 334       | 3,012                           |
| Profit for the period  |            | 41,764          | 54,044    | 487,453                         |

# SEIKO EPSON CORPORATION

|  | Notes | Millions of yen         |                | Thousands of<br>U.S. dollars |
|--|-------|-------------------------|----------------|------------------------------|
|  |       | Year ended<br>March 31, |                | Year ended                   |
|  |       | 2018                    | 2019           | March 31,<br>2019            |
| <b>Other comprehensive income</b>  |       |                         |                |                              |
| Items that will not be reclassified subsequently to profit or loss, net of tax           |       |                         |                |                              |
| Remeasurement of net defined benefit liabilities (assets)                                | 32    | 4,998                   | (8,052)        | (72,625)                     |
| Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)             | 32    | (371)                   | (1,325)        | (11,950)                     |
| <b>Subtotal</b>  |       | <b>4,626</b>            | <b>(9,378)</b> | <b>(84,585)</b>              |
| Items that may be reclassified subsequently to profit or loss, net of tax                |       |                         |                |                              |
| Exchange differences on translation of foreign operations                                | 32    | (5,266)                 | 5,082          | 45,837                       |
| Net changes in fair value of cash flow hedges  | 32    | 444                     | (195)          | (1,758)                      |
| Share of other comprehensive income of investments accounted for using the equity method | 32    | 13                      | (10)           | (90)                         |
| <b>Subtotal</b>  |       | <b>(4,809)</b>          | <b>4,876</b>   | <b>43,979</b>                |
| <b>Total other comprehensive income, net of tax</b>                                      |       | <b>(182)</b>            | <b>(4,501)</b> | <b>(40,597)</b>              |
| <b>Total comprehensive income for the period</b>   |       | <b>41,581</b>           | <b>49,542</b>  | <b>446,847</b>               |
| Total comprehensive income for the period attributable to:                               |       |                         |                |                              |
| Owners of the parent company   |       | 41,612                  | 49,235         | 444,078                      |
| Non-controlling interests  |       | (30)                    | 307            | 2,769                        |
| <b>Total comprehensive income for the period</b>   |       | <b>41,581</b>           | <b>49,542</b>  | <b>446,847</b>               |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

|   | Notes | Yen                     |        | U.S. dollars      |
|---|-------|-------------------------|--------|-------------------|
|   |       | Year ended<br>March 31, |        | Year ended        |
|   |       | 2018                    | 2019   | March 31,<br>2019 |
| <b>Earnings per share for the period:</b> |       |                         |        |                   |
| Basic earnings per share for the period   | 33    | 118.78                  | 152.49 | 1.38              |
| Diluted earnings per share for the period | 33    | 118.75                  | 152.44 | 1.37              |

**Consolidated Statement of Changes in Equity****Years ended March 31, 2018 and 2019:**

| Millions of yen   |               |                 |                 |   |  |   |   |                                  |                   |   |                           |              |
|---|---------------|-----------------|-----------------|---|--|---|---|----------------------------------|-------------------|---|---------------------------|--------------|
| Equity attributable to owners of the parent company           |               |                 |                 |   |  |   |   |                                  |                   |   |                           |              |
| Notes   | Share capital | Capital surplus | Treasury shares | Other components of equity                                |  |   |   |                                  | Retained earnings | Total equity attributable to owners of the parent company | Non-controlling interests | Total equity |
|   |               |                 |                 | Remeasurement of net defined benefit liabilities (assets) | Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note) | Exchange differences on translation of foreign operations | Net changes in fair value of cash flow hedges | Total other components of equity |                   |   |                           |              |
| As of April 1, 2017   | 53,204        | 84,321          | (30,812)        | -   | 5,024  | 48,265  | (112)   | 53,176                           | 332,306           | 492,196   | 2,526                     | 494,722      |
| Profit for the period   | -             | -               | -               | -   | -  | -   | -   | -                                | 41,836            | 41,836  | (72)                      | 41,764       |
| Other comprehensive income                                    | -             | -               | -               | 4,998   | (371)  | (5,294)   | 444   | (223)                            | -                 | (223)   | 41                        | (182)        |
| Total comprehensive income for the period                     | -             | -               | -               | 4,998   | (371)  | (5,294)   | 444   | (223)                            | 41,836            | 41,612  | (30)                      | 41,581       |
| Acquisition of treasury shares                                | 24            | -               | (2)             | -   | -  | -   | -   | -                                | -                 | (2)   | -                         | (2)          |
| Dividends   | 25            | -               | -               | -   | -  | -   | -   | -                                | (21,133)          | (21,133)  | (116)                     | (21,250)     |
| Share-based payment transactions                              | 34            | -               | 43              | 11  | -  | -   | -   | -                                | -                 | 54  | -                         | 54           |
| Transfer from other components of equity to retained earnings | -             | -               | -               | (4,998)   | 5  | -   | -   | (4,992)                          | 4,992             | -   | -                         | -            |
| Total transactions with the owners                            | -             | 43              | 8               | (4,998)   | 5  | -   | -   | (4,992)                          | (16,141)          | (21,081)  | (116)                     | (21,197)     |
| As of March 31, 2018  | 53,204        | 84,364          | (30,803)        | -   | 4,658  | 42,970  | 331   | 47,960                           | 358,001           | 512,727   | 2,378                     | 515,106      |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

# SEIKO EPSON CORPORATION

| 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, 2018   | 53,204                     | 84,364          | (30,803)        | -   | 4,658  | 42,970  | 331   | 47,960                           | 358,001  | 512,727           | 2,378   | 515,106                   |              |
| Cumulative effects of change in accounting policy             | 2                          | -               | -               | -   | -  | -   | -   | -                                | 330      | 330               | -   | 330                       |              |
| As of April 1, 2018 (restated)                                | 53,204                     | 84,364          | (30,803)        | -   | 4,658  | 42,970  | 331   | 47,960                           | 358,332  | 513,058           | 2,378   | 515,437                   |              |
| Profit for the period   | -                          | -               | -               | -   | -  | -   | -   | -                                | 53,710   | 53,710            | 334   | 54,044                    |              |
| Other comprehensive income                                    | -                          | -               | -               | (8,052)   | (1,325)  | 5,099   | (195)   | (4,474)                          | -        | (4,474)           | (27)  | (4,501)                   |              |
| Total comprehensive income for the period                     | -                          | -               | -               | (8,052)   | (1,325)  | 5,099   | (195)   | (4,474)                          | 53,710   | 49,235            | 307   | 49,542                    |              |
| Acquisition of treasury shares                                | 24                         | -               | (0)             | -   | -  | -   | -   | -                                | -        | (0)               | -   | (0)                       |              |
| Dividends   | 25                         | -               | -               | -   | -  | -   | -   | -                                | (22,190) | (22,190)          | (120)   | (22,310)                  |              |
| Share-based payment transactions                              | 34                         | -               | 62              | 15  | -  | -   | -   | -                                | -        | 78                | -   | 78                        |              |
| Transfer from other components of equity to retained earnings | -                          | -               | -               | 8,052   | (1,098)  | -   | -   | 6,954                            | (6,954)  | -                 | -   | -                         |              |
| Total transactions with the owners                            | -                          | 62              | 14              | 8,052   | (1,098)  | -   | -   | 6,954                            | (29,145) | (22,112)          | (120)   | (22,233)                  |              |
| As of March 31, 2019  | 53,204                     | 84,427          | (30,788)        | -   | 2,234  | 48,069  | 136   | 50,440                           | 382,897  | 540,181           | 2,565   | 542,747                   |              |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

| Thousands of U.S. dollars                                     |                            |                 |                 |   |  |   |   |                                  |           |                   |   |                           |              |
|---|----------------------------|-----------------|-----------------|---|--|---|---|----------------------------------|-----------|-------------------|---|---------------------------|--------------|
| 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, 2018   | 479,877                    | 760,927         | (277,829)       | -   | 42,013   | 387,571   | 2,985   | 432,578                          | 3,229,015 | 4,624,578         | 21,448  | 4,646,035                 |              |
| Cumulative effects of change in accounting policy             | 2                          | -               | -               | -   | -  | -   | -   | -                                | 2,976     | 2,976             | -   | 2,976                     |              |
| As of April 1, 2018 (restated)                                | 479,877                    | 760,927         | (277,829)       | -   | 42,013   | 387,571   | 2,985   | 432,578                          | 3,232,001 | 4,627,563         | 21,448  | 4,649,021                 |              |
| Profit for the period   | -                          | -               | -               | -   | -  | -   | -   | -                                | 484,441   | 484,441           | 3,012   | 487,453                   |              |
| Other comprehensive income                                    | -                          | -               | -               | (72,625)  | (11,950)   | 45,990  | (1,758)                                       | (40,353)                         | -         | (40,353)          | (243)   | (40,597)                  |              |
| Total comprehensive income for the period                     | -                          | -               | -               | (72,625)  | (11,950)   | 45,990  | (1,758)                                       | (40,353)                         | 484,441   | 444,078           | 2,769   | 446,847                   |              |
| Acquisition of treasury shares                                | 24                         | -               | (0)             | -   | -  | -   | -   | -                                | -         | (0)               | -   | (0)                       |              |
| Dividends   | 25                         | -               | -               | -   | -  | -   | -   | -                                | (200,144) | (200,144)         | (1,082)   | (201,226)                 |              |
| Share-based payment transactions                              | 34                         | -               | 559             | 135   | -  | -   | -   | -                                | -         | 703               | -   | 703                       |              |
| Transfer from other components of equity to retained earnings | -                          | -               | -               | 72,625  | (9,903)  | -   | -   | 62,722                           | (62,722)  | -                 | -   | -                         |              |
| Total transactions with the owners                            | -                          | 559             | 126             | 72,625  | (9,903)  | -   | -   | 62,722                           | (262,875) | (199,440)         | (1,082)   | (200,532)                 |              |
| As of March 31, 2019  | 479,877                    | 761,495         | (277,694)       | -   | 20,149   | 433,561   | 1,226   | 454,947                          | 3,453,567 | 4,872,201         | 23,135  | 4,895,345                 |              |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income



**Consolidated Statement of Cash Flows**

**Years ended March 31, 2018 and 2019:**

|  | Notes | Millions of yen |                 | Thousands of                    |
|--|-------|-----------------|-----------------|---------------------------------|
|  |       | Year ended      |                 | U.S. dollars                    |
|  |       | 2018            | 2019            | Year ended<br>March 31,<br>2019 |
| <b>Cash flows from operating activities</b>  |       |                 |                 |                                 |
| Profit for the period  |       | 41,764          | 54,044          | 487,453                         |
| Depreciation and amortisation  |       | 49,993          | 56,137          | 506,331                         |
| Impairment loss (reversal of impairment loss)  |       | 2,091           | 743             | 6,701                           |
| Finance (income) costs   |       | 2,414           | (585)           | (5,276)                         |
| Share of (profit) loss of investments accounted for using the equity method                                  |       | (74)            | (99)            | (892)                           |
| Loss (gain) on sale and disposal of property, plant and equipment, intangible assets and investment property |       | 797             | (3,221)         | (29,052)                        |
| Income taxes   |       | 20,899          | 17,995          | 162,307                         |
| Decrease (increase) in trade receivables   |       | (9,528)         | (4,750)         | (42,842)                        |
| Decrease (increase) in inventories   |       | (17,199)        | (24,915)        | (224,722)                       |
| Increase (decrease) in trade payables  |       | 3,087           | (6,826)         | (61,567)                        |
| Increase (decrease) in net defined benefit liabilities   |       | 1,612           | 1,663           | 14,999                          |
| Other  |       | 9,887           | 3,473           | 31,324                          |
| <b>Subtotal</b>  |       | <b>105,745</b>  | <b>93,659</b>   | <b>844,764</b>                  |
| Interest and dividends income received   |       | 1,279           | 2,055           | 18,535                          |
| Interest expenses paid   |       | (1,038)         | (1,164)         | (10,498)                        |
| Payment for loss on litigation   |       | (564)           | -               | -                               |
| Income taxes paid  |       | (21,142)        | (17,588)        | (158,636)                       |
| <b>Net cash from (used in) operating activities</b>  |       | <b>84,279</b>   | <b>76,961</b>   | <b>694,155</b>                  |
| <b>Cash flows from investing activities</b>  |       |                 |                 |                                 |
| Purchase of investment securities  |       | -               | (900)           | (8,117)                         |
| Proceeds from sales of investment securities   |       | 16              | 2,144           | 19,337                          |
| Purchase of property, plant and equipment  |       | (69,237)        | (79,858)        | (720,285)                       |
| Proceeds from sale of property, plant and equipment  |       | 858             | 9,313           | 83,999                          |
| Purchase of intangible assets  |       | (4,368)         | (10,445)        | (94,209)                        |
| Proceeds from sale of intangible assets  |       | 1               | 13              | 117                             |
| Proceeds from sale of investment property  |       | 9               | 22              | 198                             |
| Purchase of investments in subsidiaries  |       | -               | (887)           | (8,000)                         |
| Other  |       | (1,942)         | (2,142)         | (19,319)                        |
| <b>Net cash from (used in) investing activities</b>  |       | <b>(74,661)</b> | <b>(82,738)</b> | <b>(746,261)</b>                |
| <b>Cash flows from financing activities</b>  |       |                 |                 |                                 |
| Net increase (decrease) in current borrowings  | 20    | 11,590          | (16,832)        | (151,817)                       |
| Proceeds from non-current borrowings   | 20    | 49,908          | -               | -                               |
| Repayment of non-current borrowings  | 20    | (50,000)        | (135)           | (1,217)                         |
| Proceeds from issuance of bonds issued   | 20    | 19,896          | -               | -                               |
| Redemption of bonds issued   | 20    | (10,000)        | (10,000)        | (90,195)                        |
| Payment of lease obligations   | 20    | (106)           | (150)           | (1,352)                         |
| Dividends paid   | 25    | (21,133)        | (22,190)        | (200,144)                       |
| Dividends paid to non-controlling interests  |       | (116)           | (120)           | (1,082)                         |
| Purchase of treasury shares  |       | (2)             | (0)             | (0)                             |
| <b>Net cash from (used in) financing activities</b>  |       | <b>37</b>       | <b>(49,430)</b> | <b>(445,837)</b>                |
| Effect of exchange rate changes on cash and cash equivalents   |       | (1,759)         | 767             | 6,918                           |
| <b>Net increase (decrease) in cash and cash equivalents</b>  |       | <b>7,895</b>    | <b>(54,439)</b> | <b>(491,016)</b>                |
| Cash and cash equivalents at beginning of period   | 8     | 221,782         | 229,678         | 2,071,597                       |
| Cash and cash equivalents at end of period   | 8     | 229,678         | 175,238         | 1,580,571                       |

## 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 (global.epson.com). 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 (“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 (“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 ¥110.87 to U.S. \$1 at the end of the reporting period.

#### (4) Reporting Period of Subsidiaries

The fiscal year end date of certain overseas subsidiaries is December 31, and the subsidiaries prepare, for consolidation purposes, additional financial information as of the date of the consolidated financial statements.

#### (5) Changes in Accounting Policies

Epson adopted the following standards and interpretations for the reporting period.

| IFRS    |                                       | Description of new and revised standards  |
|---------|---------------------------------------|---|
| IFRS 9  | Financial Instruments                 | Amendments to hedge accounting<br>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 | Amendments to accounting treatment for recognising revenue  |

##### (A) Adoption of IFRS9 Financial Instruments

Epson adopted IFRS9 Financial Instruments (revised July 2014) (“IFRS9”) for the reporting period in conformity with certain transition provisions.

The impact on the consolidated result of operations from the adoption of IFRS9 was not material.

##### (B) Adoption of IFRS15 Revenue from Contracts with Customers

Epson adopted IFRS15 Revenue from Contracts with Customers (issued May 2014) and Clarifications to IFRS15 (issued April 2016) (“IFRS15”) for the reporting period.

Epson applied IFRS15 retrospectively to recognise the cumulative effect of initially applying IFRS15 as an adjustment to the opening balance of retained earnings of the reporting period.

Epson recognises revenue by applying the following five steps approach.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when Epson satisfies a performance obligation

Epson is mainly engaged in the manufacture and sale of products of Printing Solutions, Visual Communications, and Wearable & Industrial Products. Usually Epson transfers control of a promised good and satisfies a performance obligation at the time of delivery of the good. Therefore, Epson recognises revenue at the time of its delivery. Revenue is measured at the amount of consideration promised in a contract with a customer taking into consideration the effects of price discount, sales rebate, etc.

The impact on the consolidated result of operations from the adoption of IFRS15 was insignificant.

### *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. Goodwill is recognised in the consolidated statement of financial position, as the excess of the transferred consideration over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the difference is a negative monetary value, the resulting gain is immediately recognised as profit. 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.

A foreign currency transaction is translated into the functional currency at a spot exchange rate at the date of the 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**

##### **(A) Financial Assets**

###### **(i) Initial Recognition and Measurement**

Financial assets are measured at the sum of their fair values and transaction costs that are directly attributable to the acquisition of the financial assets at initial recognition. However, in the measurement after initial recognition (subsequent measurement), the transaction costs of financial assets classified as subsequently measured at fair value through profit or loss are recognised through profit or loss.

Financial assets are initially recognised on the trade date when Epson becomes party to the contractual provisions of the financial instrument.

###### **(ii) Classification and Subsequent Measurement**

At initial recognition, Epson classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

(a) Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met:

- 1) the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- 2) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- 1) the financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- 2) the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Financial assets except for those provided above are classified as financial assets measured at fair value through profit or loss.

However, Epson may designate financial assets as measured at fair value through other comprehensive income for particular investments in equity instruments that are not held for trading and so forth, and recognises subsequent changes in fair value in other comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income is reclassified to retained earnings when the financial assets are derecognised or the decline in their fair values 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 substantially all the risks and rewards of ownership of them are transferred.

###### **(iv) Impairment**

For impairment of financial assets, loss allowance for expected credit losses are recognised.

At each reporting date, Epson assesses whether the credit risk on a financial instrument has increased significantly since initial recognition.

If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for that financial instrument is measured at an amount equal to 12-month expected credit losses.

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Meanwhile, if the credit risk on a financial instrument has increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to the lifetime expected credit losses. However, the loss allowance for trade receivables, contract assets and lease receivables are measured at an amount equal to lifetime expected credit losses.

Expected credit losses of a financial instrument is measured in a way that reflects:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

## (B) Financial Liabilities

### (i) Initial Recognition and Measurement

Financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured subsequently at amortised cost are measured at their fair value less transaction costs that are directly attributable to the issuance of the financial liabilities.

Financial liabilities are initially recognised on the trade date when Epson becomes party to the contractual provisions of the financial instrument.

### (ii) Classification and Subsequent Measurement

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

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

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

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

#### (b) Financial Liabilities Measured at Amortised Cost

The 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.

## (C) 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.

## (D) Derivatives Accounting

Epson utilises 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.

A gain or loss on a derivative is recognised in profit or loss. However, the portion of the gain or loss on the hedging instruments that is determined to be an effective hedge of cash flow hedges and hedges of net investments in foreign operations are recognised in other comprehensive income.

## (E) 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

A gain or loss on a derivative is recognised in profit or loss. 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.

(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, while the ineffective portion is recognised immediately in profit or loss. 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 a Foreign Operation

Hedges of a net investment in a 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, while the ineffective portion is recognised in profit or loss. 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.

(F) 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 realisable value, and the cost of inventories is assigned by using the weighted-average cost formula. Net realisable 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 asset that is not subject to depreciation such as land, asset is depreciated using the straight-line method over its estimated useful life. The estimated useful life of major asset is as follows:

- Buildings and structures: 10 to 35 years
- Machinery and vehicles: 2 to 17 years

The estimated useful life, 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 business. 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 and not reversed in a subsequent period.

### **(B) Intangible Assets**

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 10 years

The estimated useful life and amortisation method of an asset 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 is 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 a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset and a lease as an 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 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. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Contingent rents are recognised as expenses in the periods in which they are incurred.

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.

Except for asset that is not subject to depreciation such as land, investment property is depreciated using the straight-line method over its estimated useful life. The estimated useful life of major investment properties that is subject to depreciation is 35 years.

The estimated useful life, 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.

## **(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 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 the 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) Share-based Payment**

The Company has employed a framework referred to as BIP (Board Incentive Plan) trust as performance-linked equity-settled share-based payment plan for eligible officers. The shares of the Company held by the trust are recognised as treasury shares. The Company measures the service received at the fair value of its shares granted at the grant date and recognises the consideration as expenses over the vesting period while the corresponding amount is recognised as an increase in equity.

### **(15) Provisions**

Epson recognises a 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 will be 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.

### **(16) Revenue**

Epson recognises revenue by applying the following five steps approach.



- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when Epson satisfies a performance obligation

Epson is mainly engaged in the manufacture and sale of products of Printing Solutions, Visual Communications, and Wearable & Industrial Products. Usually Epson transfers control of a promised good and satisfies a performance obligation at the time of delivery of the good. Therefore, Epson recognises revenue at the time of its delivery. Revenue is measured at the amount of consideration promised in a contract with a customer taking into consideration the effects of price discount, sales rebate, etc.

## **(17) 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.

## **(18) 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 capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period when they are incurred.

## **(19) 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 utilised. 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 utilised.

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.

## **(20) 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.

**(21) 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. For the purpose of the calculation, the shares of the Company held by BIP trust are excluded because the shares are accounted as treasury shares. For the purpose of calculating diluted earnings per share, the rights for the treasury shares held by the trust to be received by eligible officers are adjusted.

**(22) Dividends**

Year-end dividend distributions to the shareholders of the Company are recognised as liabilities in the period in which the distribution is approved at 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 or when it is required annually.

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.

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. 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 Estimates****Change of Method to Estimate Net Realisable Value of Inventories**

Epson has inventories of printheads that are used in several product lines. Epson formerly allocated these printhead inventories to the product lines where Epson intended to finally use them, and the net realisable values of the inventories were calculated by product line after allocation. However, effective from the year ended March 31, 2019, Epson changed the method and began calculating the net realisable value of the printhead itself.

This change was made to better mirror the current business reality. Epson has shifted in recent years toward an emphasis on high-capacity ink tank printers rather than ink cartridge printers and has adopted a strategy of expanding external printhead sales. Meanwhile, a broad range of printhead applications has emerged, making it more difficult to identify product lines at the printhead manufacturing stage.

Under the new method, the cost of sales decreased by ¥5,418 million (\$48,868 thousand), and profit from operating activities and profit before tax increased by the same amount for the year ended March 31, 2019.

## 6. New Standards and Interpretations Not Yet Applied

The new standards, amended standards and new interpretations that were issued as of the date of approval of the consolidated financial statements but have not yet been applied by Epson are as follows.

| IFRS    |        | Date of mandatory application<br>(from the fiscal year beginning on or after) | Reporting periods of application by Epson<br>(The reporting period ending) | Description of new and revised standards   |
|---------|--------|---|--|--|
| IFRS 16 | Leases | January 1, 2019   | March 31, 2020   | Amendments to the principles for the recognition, measurement, presentation and disclosure of leases<br>Recognition of assets and liabilities for most leases by lessees<br>Substantially unchanged in lessor accounting |

Applying IFRS16 Leases which provides a single lease accounting model, Epson will in principle recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments on the consolidated statement of financial position for all leases.

This is expected to result in an increase of approximately ¥27 billion (\$244 million) in the assets and ¥28 billion (\$253 million) in the liabilities and a decrease of approximately ¥1 billion (\$9 million) in the equity (retained earnings).

## 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 for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing performance.

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

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

# SEIKO EPSON CORPORATION

## (2) Revenues and Performances of Reportable Segments

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

FY2017: Year ended March 31, 2018

|   | Millions of yen       |                               |                                      |                  |  |                         | Consolidated     |
|---|-----------------------|-------------------------------|--------------------------------------|------------------|--|-------------------------|------------------|
|   | Reportable segments   |                               |                                      | Subtotal         | Other<br>(Note 2)  | Adjustments<br>(Note 3) |                  |
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |                  |  |                         |                  |
| <b>Revenue</b>  |                       |                               |                                      |                  |  |                         |                  |
| External revenues   | 736,239               | 198,889                       | 158,535                              | 1,093,663        | 187  | 8,265                   | 1,102,116        |
| Intersegment revenues   | 449                   | 2                             | 8,801                                | 9,253            | 749  | (10,002)                | -                |
| <b>Total revenue</b>  | <b>736,688</b>        | <b>198,891</b>                | <b>167,336</b>                       | <b>1,102,916</b> | <b>936</b>   | <b>(1,737)</b>          | <b>1,102,116</b> |
| <b>Segment profit (loss)</b>                                  |                       |                               |                                      |                  |  |                         |                  |
| (Business profit)<br>(Note 1)                                 | 94,896                | 24,423                        | 7,154                                | 126,474          | (532)  | (51,156)                | 74,785           |
|   |                       |                               |                                      |                  | Other operating income<br>(expense)  |                         | (9,782)          |
|   |                       |                               |                                      |                  | Profit from operating activities   |                         | 65,003           |
|   |                       |                               |                                      |                  | Finance income (costs)   |                         | (2,414)          |
|   |                       |                               |                                      |                  | Share of profit of<br>investments accounted for<br>using the equity method |                         | 74               |
|   |                       |                               |                                      |                  | Profit before tax  |                         | 62,663           |
| <b>Other items</b>  |                       |                               |                                      |                  |  |                         |                  |
|   | Reportable segments   |                               |                                      | Subtotal         | Other<br>(Note 2)  | Adjustments<br>(Note 4) | Consolidated     |
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |                  |  |                         |                  |
| Depreciation and<br>amortisation                              | (26,688)              | (8,783)                       | (8,815)                              | (44,287)         | (17)   | (5,145)                 | (49,449)         |
| Impairment losses of<br>assets other than<br>financial assets | (900)                 | (23)                          | (107)                                | (1,031)          | -  | (1,060)                 | (2,091)          |
| Segment assets  | 410,490               | 127,325                       | 142,324                              | 680,140          | 275  | 352,934                 | 1,033,350        |
| Capital expenditures  | 46,351                | 14,338                        | 11,099                               | 71,789           | 17   | 7,622                   | 79,430           |

(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 (¥51,156) million comprised "Eliminations" of ¥480 million and "Corporate expenses" of (¥51,637) million. "Corporate expenses" included expenses relating to research and development for basic technology and expenses relating to new businesses and general corporate functions which are not attributed to reportable segments.

(Note 4) "Adjustments" to Segment assets of ¥352,934 million comprised "Eliminations" of (¥5,639) million and "Corporate assets" of ¥358,573 million.

# SEIKO EPSON CORPORATION

FY2018: Year ended March 31, 2019

Millions of yen

|   | Reportable segments   |                               |                                      | Subtotal  | Other<br>(Note 2)  | Adjustments<br>(Note 3) | Consolidated |
|---|-----------------------|-------------------------------|--------------------------------------|-----------|--|-------------------------|--------------|
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |           |  |                         |              |
| <b>Revenue</b>  |                       |                               |                                      |           |  |                         |              |
| External revenues   | 722,958               | 203,305                       | 154,074                              | 1,080,337 | 187  | 9,151                   | 1,089,676    |
| Intersegment revenues   | 721                   | 3                             | 9,336                                | 10,061    | 762  | (10,824)                | -            |
| Total revenue   | 723,679               | 203,309                       | 163,410                              | 1,090,399 | 950  | (1,672)                 | 1,089,676    |
| <b>Segment profit (loss)</b>                                  |                       |                               |                                      |           |  |                         |              |
| (Business profit)<br>(Note 1)                                 | 94,554                | 21,232                        | 5,508                                | 121,296   | (541)  | (50,256)                | 70,498       |
|   |                       |                               |                                      |           | Other operating income<br>(expense)  |                         | 856          |
|   |                       |                               |                                      |           | Profit from operating activities   |                         | 71,355       |
|   |                       |                               |                                      |           | Finance income (costs)   |                         | 585          |
|   |                       |                               |                                      |           | Share of profit of<br>investments accounted for<br>using the equity method |                         | 99           |
|   |                       |                               |                                      |           | Profit before tax  |                         | 72,040       |
| <b>Other items</b>  |                       |                               |                                      |           |  |                         |              |
|   | Reportable segments   |                               |                                      | Subtotal  | Other<br>(Note 2)  | Adjustments<br>(Note 4) | Consolidated |
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |           |  |                         |              |
| Depreciation and<br>amortisation                              | (30,653)              | (9,871)                       | (9,198)                              | (49,724)  | (18)   | (5,897)                 | (55,639)     |
| Impairment losses of<br>assets other than<br>financial assets | (85)                  | (347)                         | (106)                                | (539)     | -  | (204)                   | (743)        |
| Segment assets  | 463,833               | 129,254                       | 151,921                              | 745,010   | 284  | 293,094                 | 1,038,389    |
| Capital expenditures  | 46,813                | 11,408                        | 13,980                               | 72,202    | 10   | 9,862                   | 82,075       |

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

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

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

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

# SEIKO EPSON CORPORATION

FY2018: Year ended March 31, 2019

Thousands of U.S. dollars

|   | Reportable segments   |                               |                                      | Subtotal         | Other<br>(Note 2)  | Adjustments<br>(Note 3) | Consolidated     |
|---|-----------------------|-------------------------------|--------------------------------------|------------------|--|-------------------------|------------------|
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |                  |  |                         |                  |
| <b>Revenue</b>  |                       |                               |                                      |                  |  |                         |                  |
| External revenues   | 6,520,772             | 1,833,724                     | 1,389,681                            | 9,744,177        | 1,686  | 82,538                  | 9,828,411        |
| Intersegment revenues   | 6,503                 | 27                            | 84,206                               | 90,745           | 6,872  | (97,627)                | -                |
| <b>Total revenue</b>  | <b>6,527,275</b>      | <b>1,833,760</b>              | <b>1,473,888</b>                     | <b>9,834,932</b> | <b>8,568</b>   | <b>(15,080)</b>         | <b>9,828,411</b> |
| <b>Segment profit (loss)</b>                                  |                       |                               |                                      |                  |  |                         |                  |
| (Business profit)<br>(Note 1)                                 | 852,836               | 191,503                       | 49,679                               | 1,094,038        | (4,879)  | (453,287)               | 635,861          |
|   |                       |                               |                                      |                  | Other operating income<br>(expense)  |                         | 7,720            |
|   |                       |                               |                                      |                  | Profit from operating activities   |                         | 643,591          |
|   |                       |                               |                                      |                  | Finance income (costs)   |                         | 5,276            |
|   |                       |                               |                                      |                  | Share of profit of<br>investments accounted for<br>using the equity method |                         | 892              |
|   |                       |                               |                                      |                  | Profit before tax  |                         | 649,770          |
| <b>Other items</b>  |                       |                               |                                      |                  |  |                         |                  |
|   | Reportable segments   |                               |                                      | Subtotal         | Other<br>(Note 2)  | Adjustments<br>(Note 4) | Consolidated     |
|   | Printing<br>Solutions | Visual<br>Communi-<br>cations | Wearable &<br>Industrial<br>Products |                  |  |                         |                  |
| Depreciation and<br>amortisation                              | (276,476)             | (89,032)                      | (82,962)                             | (448,489)        | (162)  | (53,188)                | (501,839)        |
| Impairment losses of<br>assets other than<br>financial assets | (766)                 | (3,129)                       | (956)                                | (4,861)          | -  | (1,839)                 | (6,701)          |
| <b>Segment assets</b>   | <b>4,183,575</b>      | <b>1,165,515</b>              | <b>1,370,262</b>                     | <b>6,719,671</b> | <b>2,561</b>   | <b>2,643,582</b>        | <b>9,365,824</b> |
| <b>Capital expenditures</b>                                   | <b>422,233</b>        | <b>102,895</b>                | <b>126,093</b>                       | <b>651,231</b>   | <b>90</b>  | <b>88,951</b>           | <b>740,281</b>   |

(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 (\$453,287) thousand comprised "Eliminations" of \$3,887 thousand and "Corporate expenses" of (\$457,175) thousand. "Corporate expenses" included expenses relating to research and development for basic technology and expenses relating to new businesses and general corporate functions which are not attributed to reportable segments.

(Note 4) "Adjustments" to Segment assets of \$2,643,582 thousand comprised "Eliminations" of (\$53,152) thousand and "Corporate assets" of \$2,696,743 thousand.

**(3) Geographic Information**

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

Non-current Assets

|                 | Millions of yen |         | Thousands of U.S. dollars |
|-----------------|-----------------|---------|---------------------------|
|                 | March 31,       |         | March 31,                 |
|                 | 2018            | 2019    | 2019                      |
| Japan           | 199,251         | 217,072 | 1,957,896                 |
| The Philippines | 41,197          | 48,803  | 440,182                   |
| Indonesia       | 30,238          | 29,082  | 262,307                   |
| China           | 23,377          | 23,885  | 215,432                   |
| Other           | 33,964          | 37,365  | 337,016                   |
| Total           | 328,030         | 356,209 | 3,212,852                 |

(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,      |
|                   | 2018                 | 2019      | 2019                      |
| Japan             | 250,119              | 251,454   | 2,268,007                 |
| The United States | 216,116              | 212,720   | 1,918,643                 |
| China             | 144,014              | 146,957   | 1,325,489                 |
| Other             | 491,866              | 478,544   | 4,316,262                 |
| Total             | 1,102,116            | 1,089,676 | 9,828,411                 |

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

**(4) Information about Major Customers**

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

**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,                 |
|                        | 2018            | 2019    | 2019                      |
| Cash and deposits      | 109,589         | 113,646 | 1,025,038                 |
| Short-term investments | 120,088         | 61,592  | 555,533                   |
| Total                  | 229,678         | 175,238 | 1,580,571                 |



### 9. Trade and Other Receivables

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

|                                     | Millions of yen |                | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|----------------|------------------------------|
|                                     | March 31,       |                | March 31,                    |
|                                     | 2018            | 2019           | 2019                         |
| Notes and trade receivables         | 151,032         | 156,784        | 1,414,124                    |
| Other receivables                   | 15,682          | 17,490         | 157,752                      |
| Allowance account for credit losses | (1,433)         | (1,101)        | (9,930)                      |
| <b>Total</b>                        | <b>165,282</b>  | <b>173,173</b> | <b>1,561,946</b>             |

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<br>U.S. dollars |
|--------------------------------|-----------------|----------------|------------------------------|
|                                | March 31,       |                | March 31,                    |
|                                | 2018            | 2019           | 2019                         |
| Merchandise and finished goods | 131,612         | 145,064        | 1,308,415                    |
| Work in process                | 55,651          | 61,585         | 555,470                      |
| Raw materials                  | 25,159          | 32,430         | 292,504                      |
| Supplies                       | 10,805          | 11,683         | 105,375                      |
| <b>Total</b>                   | <b>223,227</b>  | <b>250,763</b> | <b>2,261,775</b>             |

The amount of inventories included in cost of sales recognised as an expense totaled (¥667,638) million and (¥657,953) million ((\$5,934,454) thousand) for the years ended March 31, 2018 and 2019, respectively. Losses recognised as cost of sales as a result of valuations for the years ended March 31, 2018 and 2019 were (¥29,708) million and (¥21,825) million ((\$196,852) 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<br>U.S. dollars |
|-------------------------------------|-----------------|---------------|------------------------------|
|                                     | March 31,       |               | March 31,                    |
|                                     | 2018            | 2019          | 2019                         |
| Derivative assets                   | 1,080           | 826           | 7,450                        |
| Equity securities                   | 15,242          | 11,557        | 104,239                      |
| Bonds receivable                    | 58              | 736           | 6,638                        |
| Time deposits                       | 101             | 51            | 459                          |
| Other                               | 5,519           | 6,252         | 56,390                       |
| Allowance account for credit losses | (53)            | (50)          | (450)                        |
| <b>Total</b>                        | <b>21,947</b>   | <b>19,374</b> | <b>174,745</b>               |
| Current assets                      | 1,513           | 1,466         | 13,222                       |
| Non-current assets                  | 20,433          | 17,907        | 161,513                      |
| <b>Total</b>                        | <b>21,947</b>   | <b>19,374</b> | <b>174,745</b>               |

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 bonds receivables are classified mainly as financial assets measured at fair value through profit or loss, and time deposits 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, 2018  |                              | March 31, 2019 |                              | March 31, 2019            |                              |
|                              | Fair value      | Dividends<br>received (Note) | Fair value     | Dividends<br>received (Note) | Fair value                | Dividends<br>received (Note) |
| NGK Insulators, Ltd.         | 4,597           | 102                          | 2,021          | 60                           | 18,228                    | 541                          |
| Mizuho Financial Group, Inc. | 2,872           | 112                          | 2,571          | 112                          | 23,189                    | 1,010                        |

(Note) Dividends received from the derecognised financial assets during the reporting periods are not included.

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.

In order to pursue the efficiency of assets held, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition). The major description is as follows.

FY2017: Year ended March 31, 2018

|                      | Millions of yen                   |                      |                       |   |
|----------------------|-----------------------------------|----------------------|-----------------------|---|
|                      | Fair value at the<br>date of sale | Accumulated<br>gains | Dividends<br>received | Accumulated gains<br>transferred into<br>retained earnings<br>(net of tax) (Note) |
| NGK Insulators, Ltd. | -                                 | -                    | -                     | -   |

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

# SEIKO EPSON CORPORATION

FY2018: Year ended March 31, 2019

Millions of yen

|                      | Fair value at the date of sale | Accumulated gains | Dividends received | Accumulated gains transferred into retained earnings (net of tax) (Note) |
|----------------------|--------------------------------|-------------------|--------------------|--|
| NGK Insulators, Ltd. | 2,127                          | 1,426             | 60                 | 1,117  |

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

FY2018: Year ended March 31, 2019

Thousands of U.S. dollars

|                      | Fair value at the date of sale | Accumulated gains | Dividends received | Accumulated gains transferred into retained earnings (net of tax) (Note) |
|----------------------|--------------------------------|-------------------|--------------------|--|
| NGK Insulators, Ltd. | 19,184                         | 12,861            | 541                | 10,074   |

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

## 12. Other Assets

The breakdown of "Other assets" was as follows:

|                       | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------|-----------------|--------|---------------------------|
|                       | March 31,       |        | March 31,                 |
|                       | 2018            | 2019   | 2019                      |
| Prepaid expense       | 13,829          | 15,194 | 137,043                   |
| Advances to suppliers | 3,939           | 5,486  | 49,481                    |
| Other                 | 4,016           | 3,286  | 29,638                    |
| Total                 | 21,784          | 23,967 | 216,172                   |
| Current assets        | 16,485          | 17,938 | 161,793                   |
| Non-current assets    | 5,299           | 6,028  | 54,369                    |
| Total                 | 21,784          | 23,967 | 216,172                   |

**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<br>and structures | Machinery,<br>equipment and<br>vehicles | Tools, furniture<br>and fixtures | Construction<br>in progress | Other   | Total     |
| As of April 1, 2017                                       | 464,504                           | 468,327                                 | 187,891                          | 26,744                      | 2,935   | 1,150,402 |
| Individual acquisition                                    | 1,976                             | 5,825                                   | 5,736                            | 61,419                      | 309     | 75,268    |
| Sale or disposal  | (6,070)                           | (9,489)                                 | (11,990)                         | (12)                        | (346)   | (27,909)  |
| Exchange differences on translation of foreign operations | (1,516)                           | (510)                                   | (4,949)                          | (427)                       | 16      | (7,389)   |
| Transfer from construction in progress                    | 24,352                            | 23,607                                  | 10,915                           | (58,875)                    | -       | -         |
| Other   | 565                               | (1,586)                                 | 112                              | (303)                       | (2,547) | (3,759)   |
| As of March 31, 2018                                      | 483,810                           | 486,174                                 | 187,716                          | 28,544                      | 367     | 1,186,613 |
| Individual acquisition                                    | 2,981                             | 3,901                                   | 5,038                            | 65,406                      | 34      | 77,363    |
| Acquisition of subsidiary                                 | 369                               | 46                                      | 1                                | -                           | -       | 417       |
| Transfer from (to) investment property                    | (316)                             | -                                       | -                                | -                           | -       | (316)     |
| Sale or disposal  | (9,914)                           | (12,974)                                | (9,891)                          | (13)                        | (118)   | (32,913)  |
| Exchange differences on translation of foreign operations | 1,892                             | 2,375                                   | 4,090                            | 374                         | (9)     | 8,723     |
| Transfer from construction in progress                    | 34,251                            | 23,268                                  | 14,500                           | (72,020)                    | -       | -         |
| Other   | 448                               | (2,415)                                 | (908)                            | (446)                       | (88)    | (3,410)   |
| As of March 31, 2019                                      | 513,523                           | 500,375                                 | 200,546                          | 21,845                      | 186     | 1,236,477 |

| Thousands of U.S. dollars                                 |                                   |   |                                  |                             |         |            |
|---|-----------------------------------|---|----------------------------------|-----------------------------|---------|------------|
| Cost  | Land, buildings<br>and structures | Machinery,<br>equipment and<br>vehicles | Tools, furniture<br>and fixtures | Construction<br>in progress | Other   | Total      |
| As of March 31, 2018                                      | 4,363,759                         | 4,385,081                               | 1,693,118                        | 257,454                     | 3,310   | 10,702,741 |
| Individual acquisition                                    | 26,887                            | 35,185                                  | 45,440                           | 589,934                     | 306     | 697,781    |
| Acquisition of subsidiary                                 | 3,328                             | 414                                     | 9                                | -                           | -       | 3,761      |
| Transfer from (to) investment property                    | (2,850)                           | -                                       | -                                | -                           | -       | (2,850)    |
| Sale or disposal  | (89,420)                          | (117,019)                               | (89,212)                         | (117)                       | (1,064) | (296,861)  |
| Exchange differences on translation of foreign operations | 17,065                            | 21,421                                  | 36,890                           | 3,373                       | (81)    | 78,677     |
| Transfer from construction in progress                    | 308,929                           | 209,867                                 | 130,783                          | (649,589)                   | -       | -          |
| Other   | 4,040                             | (21,782)                                | (8,189)                          | (4,022)                     | (793)   | (30,756)   |
| As of March 31, 2019                                      | 4,631,757                         | 4,513,168                               | 1,808,839                        | 197,032                     | 1,677   | 11,152,493 |

# SEIKO EPSON CORPORATION

Millions of yen

| Accumulated Depreciation and<br>Accumulated Impairment Losses | Land, buildings<br>and structures | Machinery,<br>equipment and<br>vehicles | Tools, furniture<br>and fixtures | Construction<br>in progress | Other | Total     |
|---|-----------------------------------|---|----------------------------------|-----------------------------|-------|-----------|
| As of April 1, 2017   | (330,744)                         | (386,751)                               | (157,520)                        | (20)                        | (170) | (875,207) |
| Depreciation expense (Note)                                   | (9,177)                           | (19,289)                                | (15,655)                         | -                           | (25)  | (44,148)  |
| Impairment losses   | (893)                             | (167)                                   | (126)                            | -                           | -     | (1,187)   |
| Sale or disposal  | 5,408                             | 9,200                                   | 11,701                           | -                           | 3     | 26,314    |
| Exchange differences on<br>translation of foreign operations  | 312                               | (153)                                   | 4,119                            | -                           | (12)  | 4,265     |
| Other   | (195)                             | 1,452                                   | (13)                             | 20                          | 15    | 1,278     |
| As of March 31, 2018  | (335,290)                         | (395,709)                               | (157,495)                        | -                           | (190) | (888,685) |
| Depreciation expense (Note)                                   | (10,564)                          | (22,198)                                | (16,985)                         | -                           | (19)  | (49,768)  |
| Impairment losses   | (249)                             | (155)                                   | (8)                              | -                           | -     | (412)     |
| Acquisition of subsidiary                                     | (19)                              | (39)                                    | (1)                              | -                           | -     | (60)      |
| Transfer to (from)<br>investment property                     | 58                                | -                                       | -                                | -                           | -     | 58        |
| Sale or disposal  | 4,497                             | 12,357                                  | 9,595                            | -                           | 29    | 26,479    |
| Exchange differences on<br>translation of foreign operations  | (510)                             | (1,414)                                 | (3,368)                          | -                           | 8     | (5,285)   |
| Other   | (199)                             | 2,609                                   | 740                              | -                           | 1     | 3,152     |
| As of March 31, 2019  | (342,276)                         | (404,550)                               | (167,523)                        | -                           | (171) | (914,521) |

Thousands of U.S. dollars

| Accumulated Depreciation and<br>Accumulated Impairment Losses | Land, buildings<br>and structures | Machinery,<br>equipment and<br>vehicles | Tools, furniture<br>and fixtures | Construction<br>in progress | Other   | Total       |
|---|-----------------------------------|---|----------------------------------|-----------------------------|---------|-------------|
| As of March 31, 2018  | (3,024,172)                       | (3,569,126)                             | (1,420,537)                      | -                           | (1,713) | (8,015,558) |
| Depreciation expense (Note)                                   | (95,282)                          | (200,216)                               | (153,197)                        | -                           | (171)   | (448,886)   |
| Impairment losses   | (2,245)                           | (1,398)                                 | (72)                             | -                           | -       | (3,716)     |
| Acquisition of subsidiary                                     | (171)                             | (351)                                   | (9)                              | -                           | -       | (541)       |
| Transfer to (from)<br>investment property                     | 523                               | -                                       | -                                | -                           | -       | 523         |
| Sale or disposal  | 40,561                            | 111,454                                 | 86,542                           | -                           | 261     | 238,829     |
| Exchange differences on<br>translation of foreign operations  | (4,599)                           | (12,753)                                | (30,377)                         | -                           | 72      | (47,668)    |
| Other   | (1,794)                           | 23,532                                  | 6,674                            | -                           | 9       | 28,429      |
| As of March 31, 2019  | (3,087,183)                       | (3,648,868)                             | (1,510,985)                      | -                           | (1,542) | (8,248,588) |

(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.

# SEIKO EPSON CORPORATION

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, 2017  | 133,759                        | 81,575                            | 30,371                        | 26,723                   | 2,764 | 275,195 |
| As of March 31, 2018 | 148,520                        | 90,464                            | 30,220                        | 28,544                   | 177   | 297,927 |
| As of March 31, 2019 | 171,247                        | 95,825                            | 33,023                        | 21,845                   | 15    | 321,956 |

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, 2018 | 1,339,586                      | 815,946                           | 272,571                       | 257,454                  | 1,596 | 2,687,174 |
| As of March 31, 2019 | 1,544,574                      | 864,300                           | 297,853                       | 197,032                  | 135   | 2,903,905 |

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, 2017  | 57                             | 178                               | 30                            | 267   |
| As of March 31, 2018 | 282                            | 199                               | 44                            | 526   |
| As of March 31, 2019 | 717                            | 186                               | 29                            | 932   |

Thousands of U.S. dollars

| Leased Assets        | Land, buildings and structures | Machinery, equipment and vehicles | Tools, furniture and fixtures | Total |
|----------------------|--------------------------------|-----------------------------------|-------------------------------|-------|
| As of March 31, 2018 | 2,543                          | 1,794                             | 396                           | 4,744 |
| As of March 31, 2019 | 6,467                          | 1,677                             | 261                           | 8,406 |

## (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, 2018 and 2019, represent the losses related to idle assets that Epson has no plan to use in the future, and the carrying amounts were 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:

| Cost  | Millions of yen |               |                            |          |       | Total   |
|---|-----------------|---------------|----------------------------|----------|-------|---------|
|   | Software        | Patent rights | Product development assets | Goodwill | Other |         |
| As of April 1, 2017                                       | 47,651          | 17,050        | 9,323                      | 4,761    | 2,936 | 81,723  |
| Individual acquisition                                    | 4,933           | 0             | 696                        | -        | 705   | 6,336   |
| Sale or disposal  | (3,132)         | (3,240)       | (593)                      | -        | (17)  | (6,983) |
| Exchange differences on translation of foreign operations | (180)           | -             | (9)                        | 203      | (10)  | 3       |
| Other   | (489)           | -             | 593                        | -        | 523   | 626     |
| As of March 31, 2018                                      | 48,782          | 13,809        | 10,010                     | 4,965    | 4,138 | 81,706  |
| Individual acquisition                                    | 4,827           | 2,263         | 1,246                      | -        | 525   | 8,863   |
| Acquisition of subsidiary                                 | 5               | 3             | -                          | -        | 741   | 749     |
| Sale or disposal  | (4,898)         | (2,415)       | (12)                       | -        | (73)  | (7,400) |
| Exchange differences on translation of foreign operations | 173             | -             | 7                          | (112)    | 21    | 89      |
| Other   | 166             | 8             | (28)                       | -        | (30)  | 116     |
| As of March 31, 2019                                      | 49,055          | 13,669        | 11,223                     | 4,853    | 5,323 | 84,125  |

| Cost  | Thousands of U.S. dollars |               |                            |          |        | Total    |
|---|---------------------------|---------------|----------------------------|----------|--------|----------|
|   | Software                  | Patent rights | Product development assets | Goodwill | Other  |          |
| As of March 31, 2018                                      | 439,992                   | 124,551       | 90,285                     | 44,782   | 37,322 | 736,953  |
| Individual acquisition                                    | 43,537                    | 20,411        | 11,238                     | -        | 4,735  | 79,940   |
| Acquisition of subsidiary                                 | 45                        | 27            | -                          | -        | 6,683  | 6,755    |
| Sale or disposal  | (44,177)                  | (21,782)      | (108)                      | -        | (658)  | (66,744) |
| Exchange differences on translation of foreign operations | 1,560                     | -             | 63                         | (1,010)  | 189    | 802      |
| Other   | 1,497                     | 72            | (252)                      | -        | (270)  | 1,046    |
| As of March 31, 2019                                      | 442,455                   | 123,288       | 101,226                    | 43,771   | 48,011 | 758,771  |

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Millions of yen

| Accumulated Amortisation and<br>Accumulated Impairment Losses | Software | Patent rights | Product<br>development<br>assets | Goodwill | Other   | Total    |
|---|----------|---------------|----------------------------------|----------|---------|----------|
| As of April 1, 2017   | (34,916) | (15,493)      | (7,870)                          | -        | (1,888) | (60,169) |
| Amortisation expense (Note)                                   | (4,116)  | (579)         | (936)                            | -        | (202)   | (5,834)  |
| Impairment losses   | (292)    | -             | (603)                            | -        | (0)     | (896)    |
| Sale or disposal  | 3,127    | 3,240         | 593                              | -        | 16      | 6,978    |
| Exchange differences on<br>translation of foreign operations  | 122      | -             | 8                                | -        | 62      | 193      |
| Other   | 60       | -             | -                                | -        | -       | 60       |
| As of March 31, 2018  | (36,014) | (12,832)      | (8,808)                          | -        | (2,012) | (59,668) |
| Amortisation expense (Note)                                   | (4,205)  | (682)         | (987)                            | -        | (477)   | (6,352)  |
| Impairment losses   | (0)      | -             | -                                | -        | (0)     | (0)      |
| Acquisition of subsidiary                                     | (2)      | (3)           | -                                | -        | -       | (5)      |
| Sale or disposal  | 4,886    | 2,413         | 12                               | -        | 57      | 7,369    |
| Exchange differences on<br>translation of foreign operations  | (114)    | -             | (6)                              | -        | (45)    | (166)    |
| Other   | (120)    | (8)           | -                                | -        | 19      | (109)    |
| As of March 31, 2019  | (35,570) | (11,113)      | (9,790)                          | -        | (2,459) | (58,934) |

Thousands of U.S. dollars

| Accumulated Amortisation and<br>Accumulated Impairment Losses | Software  | Patent rights | Product<br>development<br>assets | Goodwill | Other    | Total     |
|---|-----------|---------------|----------------------------------|----------|----------|-----------|
| As of March 31, 2018  | (324,830) | (115,739)     | (79,444)                         | -        | (18,147) | (538,179) |
| Amortisation expense (Note)                                   | (37,927)  | (6,151)       | (8,902)                          | -        | (4,302)  | (57,292)  |
| Impairment losses   | (0)       | -             | -                                | -        | (0)      | (0)       |
| Acquisition of subsidiary                                     | (18)      | (27)          | -                                | -        | -        | (45)      |
| Sale or disposal  | 44,069    | 21,764        | 108                              | -        | 514      | 66,465    |
| Exchange differences on<br>translation of foreign operations  | (1,028)   | -             | (54)                             | -        | (405)    | (1,497)   |
| Other   | (1,082)   | (72)          | -                                | -        | 171      | (983)     |
| As of March 31, 2019  | (320,826) | (100,234)     | (88,301)                         | -        | (22,179) | (531,559) |

(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.



# SEIKO EPSON CORPORATION

Millions of yen

| Carrying Amount      | Software | Patent rights | Product development assets | Goodwill | Other | Total  |
|----------------------|----------|---------------|----------------------------|----------|-------|--------|
| As of April 1, 2017  | 12,734   | 1,556         | 1,453                      | 4,761    | 1,047 | 21,553 |
| As of March 31, 2018 | 12,767   | 977           | 1,202                      | 4,965    | 2,125 | 22,037 |
| As of March 31, 2019 | 13,484   | 2,556         | 1,432                      | 4,853    | 2,863 | 25,191 |

Thousands of U.S. dollars

| Carrying Amount      | Software | Patent rights | Product development assets | Goodwill | Other  | Total   |
|----------------------|----------|---------------|----------------------------|----------|--------|---------|
| As of March 31, 2018 | 115,152  | 8,812         | 10,841                     | 44,782   | 19,166 | 198,764 |
| As of March 31, 2019 | 121,619  | 23,054        | 12,916                     | 43,771   | 25,823 | 227,212 |

## 15. Finance Lease Transactions

Epson leases instantaneous voltage drop compensators, host gas supply facilities for factory and other 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,                 |
|   | 2018            | 2019 | 2019                      |
| <b>Not later than 1 year</b>                        |                 |      |                           |
| Total of future minimum lease payments              | 140             | 168  | 1,515                     |
| Future finance costs                                | (3)             | (7)  | (63)                      |
| Present value                                       | 137             | 161  | 1,452                     |
| <b>Later than 1 year and not later than 5 years</b> |                 |      |                           |
| Total of future minimum lease payments              | 293             | 412  | 3,716                     |
| Future finance costs                                | (4)             | (19) | (171)                     |
| Present value                                       | 289             | 393  | 3,544                     |
| <b>Later than 5 years</b>                           |                 |      |                           |
| Total of future minimum lease payments              | 71              | 408  | 3,679                     |
| Future finance costs                                | (0)             | (18) | (162)                     |
| Present value                                       | 70              | 389  | 3,508                     |
| <b>Total</b>  |                 |      |                           |
| Total of future minimum lease payments              | 506             | 989  | 8,920                     |
| Future finance costs                                | (8)             | (45) | (405)                     |
| Present value                                       | 497             | 944  | 8,514                     |

*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<br>U.S. dollars |
|--|-----------------|--------|------------------------------|
|  | March 31,       |        | March 31,                    |
|  | 2018            | 2019   | 2019                         |
| Not later than 1 year                        | 6,497           | 6,632  | 59,817                       |
| Later than 1 year and not later than 5 years | 12,576          | 15,434 | 139,208                      |
| Later than 5 years                           | 2,854           | 6,966  | 62,830                       |
| Total  | 21,928          | 29,033 | 261,865                      |

**(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<br>U.S. dollars |
|---------------------------------|-------------------------|-------|------------------------------|
|                                 | Year ended<br>March 31, |       | Year ended<br>March 31,      |
|                                 | 2018                    | 2019  | 2019                         |
| Total of minimum lease payments | 9,203                   | 9,222 | 83,178                       |
| Contingent rents                | 118                     | 117   | 1,055                        |

*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<br>U.S. dollars |
|--|-------------------------|---------|------------------------------|
|  | Year ended<br>March 31, |         | Year ended<br>March 31,      |
|  | 2018                    | 2019    | 2019                         |
| Balance at the beginning of the year                       | 1,288                   | 1,219   | 10,994                       |
| Transfer from (to) property, plant and equipment           | -                       | 257     | 2,318                        |
| Depreciation expense                                       | (10)                    | (16)    | (144)                        |
| Impairment losses  | (7)                     | -       | -                            |
| Sale or disposal   | (34)                    | (9)     | (81)                         |
| Exchange differences on translation of foreign operations  | (17)                    | 9       | 81                           |
| Balance at the end of the year                             | 1,219                   | 1,461   | 13,177                       |
| Breakdown of “Balance at the beginning of the year”        |                         |         |                              |
| Cost   | 2,694                   | 2,568   | 23,162                       |
| Accumulated depreciation and accumulated impairment losses | (1,405)                 | (1,348) | (12,158)                     |
| Total  | 1,288                   | 1,219   | 10,994                       |
| Breakdown of “Balance at the end of the year”              |                         |         |                              |
| Cost   | 2,568                   | 2,879   | 25,967                       |
| Accumulated depreciation and accumulated impairment losses | (1,348)                 | (1,418) | (12,789)                     |
| Total  | 1,219                   | 1,461   | 13,177                       |

**(2) Fair Value**

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

|                     | Millions of yen |            |                 |            | Thousands of U.S. dollars |            |
|---------------------|-----------------|------------|-----------------|------------|---------------------------|------------|
|                     | March 31, 2018  |            | March 31, 2019  |            | March 31, 2019            |            |
|                     | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount           | Fair Value |
| Investment property | 1,219           | 907        | 1,461           | 1,988      | 13,177                    | 17,930     |

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 U.S. dollars |
|--|-----------------|-----------------|---------------------------|
|  | March 31,       |                 | March 31,                 |
|  | 2018            | 2019            | 2019                      |
| Inter-company profits and write downs on inventories | 19,487          | 15,964          | 143,988                   |
| Carryforward of unused tax losses                    | 10,784          | 7,586           | 68,422                    |
| Net defined benefit liabilities                      | 6,113           | 6,699           | 60,422                    |
| Fixed assets (Note 1)                                | 6,413           | 5,440           | 49,066                    |
| Other  | 20,428          | 23,640          | 213,222                   |
| <b>Total deferred tax assets</b>                     | <b>63,226</b>   | <b>59,331</b>   | <b>535,140</b>            |
| Undistributed profit                                 | (12,826)        | (13,601)        | (122,675)                 |
| Fixed assets (Note 1)                                | (3,058)         | (2,596)         | (23,414)                  |
| Other  | (2,689)         | (2,330)         | (21,015)                  |
| <b>Total deferred tax liabilities</b>                | <b>(18,574)</b> | <b>(18,528)</b> | <b>(167,114)</b>          |
| <b>Net deferred tax assets (Note 2)</b>              | <b>44,651</b>   | <b>40,802</b>   | <b>368,016</b>            |

(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, 2018 and 2019, 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 utilise 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 utilise 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 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, 2018 and 2019, were ¥41,434 million and ¥47,931 million (\$432,317 thousand), respectively. The amounts of deductible temporary differences, for which deferred tax assets have not been recognised, as of March 31, 2018 and 2019, were ¥95,935 million and ¥104,679 million (\$944,159 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<br>U.S. dollars |
|-------------------------|-----------------|---------------|------------------------------|
|                         | March 31,       |               | March 31,                    |
|                         | 2018            | 2019          | 2019                         |
| 1st year                | -               | -             | -                            |
| 2nd year                | -               | 38,357        | 345,963                      |
| 3rd year                | 32,907          | -             | -                            |
| 4th year                | 7,323           | 11            | 99                           |
| 5th year and thereafter | 1,203           | 9,562         | 86,245                       |
| <b>Total</b>            | <b>41,434</b>   | <b>47,931</b> | <b>432,317</b>               |

Epson has no taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised as of March 31, 2018 and 2019.

## (2) Tax Expense

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

|                      | Millions of yen         |                 | Thousands of<br>U.S. dollars |
|----------------------|-------------------------|-----------------|------------------------------|
|                      | Year ended<br>March 31, |                 | Year ended<br>March 31,      |
|                      | 2018                    | 2019            | 2019                         |
| Current tax expense  | (20,984)                | (13,548)        | (122,197)                    |
| Deferred tax expense | 84                      | (4,447)         | (40,110)                     |
| <b>Total</b>         | <b>(20,899)</b>         | <b>(17,995)</b> | <b>(162,307)</b>             |

Deferred tax expense increased by ¥4,867 million mainly due to the effect of changes in the U.S. applicable tax rate for the year ended March 31, 2018. Deferred tax expense increased by ¥86 million (\$775 thousand) mainly due to the effect of changes in Japanese applicable tax rate for the year ended March 31, 2019.

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. Due to these effects, the deferred tax expense decreased by ¥4,854 million and increased by ¥1,510 million (\$13,619 thousand) for the years ended March 31, 2018 and 2019, 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 30.7% and 30.5% for the years ended March 31, 2018 and 2019 respectively. Foreign subsidiaries are subject to income tax at their locations.

|   | %                            |                              |
|---|------------------------------|------------------------------|
|   | Year ended<br>March 31, 2018 | Year ended<br>March 31, 2019 |
| Effective statutory tax rate                          | 30.7                         | 30.5                         |
| Different tax rates applied to foreign subsidiaries   | (5.5)                        | (6.7)                        |
| Expenses not deductible for tax purposes              | 2.8                          | (2.9)                        |
| Reassessment of recoverability of deferred tax assets | (5.9)                        | 2.4                          |
| Changes in applicable tax rates                       | 7.8                          | 0.1                          |
| Other   | 3.5                          | 1.6                          |
| Actual tax rate                                       | 33.4                         | 25.0                         |

*19. Trade and Other Payables*

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

|                          | Millions of yen |         | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|---------|------------------------------|
|                          | March 31,       |         | March 31,                    |
|                          | 2018            | 2019    | 2019                         |
| Notes and trade payables | 81,459          | 76,439  | 689,447                      |
| Other payables           | 73,299          | 67,960  | 612,970                      |
| Total                    | 154,759         | 144,399 | 1,302,417                    |

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

## 20. Bonds issued, Borrowings and Lease liabilities

### (1) Breakdown of Bonds issued, Borrowings and Lease liabilities

The breakdown of “Bonds issued, borrowings and lease liabilities” was as follows:

|   | Millions of yen |                | Thousands of      | %                | Due          |
|---|-----------------|----------------|-------------------|------------------|--------------|
|   | March 31,       |                | U.S. dollars      | Average interest |              |
|   | 2018            | 2019           | March 31,<br>2019 |                  |              |
| Current borrowings                          | 25,949          | 11,204         | 101,055           | 2.76             | -            |
| Current portion of bonds issued<br>(Note 2) | 9,995           | 9,997          | 90,168            | -                | -            |
| Non-current borrowings                      | 50,415          | 50,435         | 454,902           | 0.44             | 2027         |
| Bonds issued (Note 2)                       | 79,707          | 69,769         | 629,286           | -                | -            |
| Lease liabilities                           | 497             | 944            | 8,514             | 0.83             | 2019 to 2034 |
| <b>Total</b>                                | <b>166,565</b>  | <b>142,351</b> | <b>1,283,945</b>  |                  |              |
| Current liabilities                         | 36,082          | 21,363         | 192,685           |                  |              |
| Non-current liabilities                     | 130,483         | 120,987        | 1,091,251         |                  |              |
| <b>Total</b>                                | <b>166,565</b>  | <b>142,351</b> | <b>1,283,945</b>  |                  |              |

(Note 1) Average interest rates are the weighted average interest rates for the balances at the end of the reporting period.

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

| Company     | Name of bonds issued  | Issue date   | %                | Collateral | Maturity date | Millions of yen    |                    | Thousands of        |
|-------------|---|--------------|------------------|------------|---------------|--------------------|--------------------|---------------------|
|             |   |              | interest<br>rate |            |               | March 31,          |                    | U.S. dollars        |
|             |   |              |                  |            |               | 2018               | 2019               | March 31,<br>2019   |
| 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<br>(10,000) | -                  | -                   |
| 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<br>(10,000) | 10,000<br>(10,000) | 90,195<br>(90,195)  |
| The Company | The 13th Series unsecured straight bonds issued (with inter-bond pari passu clause) | Sep 21, 2016 | 0.10             | Non        | Sep 21, 2021  | 20,000             | 20,000             | 180,391             |
| The Company | The 14th Series unsecured straight bonds issued (with inter-bond pari passu clause) | Sep 21, 2016 | 0.27             | Non        | Sep 21, 2023  | 20,000             | 20,000             | 180,391             |
| The Company | The 15th Series unsecured straight bonds issued (with inter-bond pari passu clause) | Sep 21, 2016 | 0.34             | Non        | Sep 18, 2026  | 10,000             | 10,000             | 90,195              |
| The Company | The 16th Series unsecured straight bonds issued (with inter-bond pari passu clause) | Sep 6, 2017  | 0.26             | Non        | Sep 6, 2024   | 10,000             | 10,000             | 90,195              |
| The Company | The 17th Series unsecured straight bonds issued (with inter-bond pari passu clause) | Sep 6, 2017  | 0.36             | Non        | Sep 6, 2027   | 10,000             | 10,000             | 90,195              |
|             |   |              |                  |            |               | 90,000<br>(10,000) | 80,000<br>(10,000) | 721,565<br>(90,195) |

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

Bonds issued, borrowings and lease liabilities are classified as financial liabilities measured at amortised cost. There are no financial covenants on bonds issued and borrowings that have a significant impact on Epson’s financing activities.

**(2) Reconciliation of Liabilities arising from Financing Activities**

The schedule of “Liabilities arising from Financing Activities” was as follows:

FY2017: Year ended March 31, 2018

Millions of yen

|                        | As of April 1,<br>2017 | Changes from<br>cash flows | Non-cash changes                  |                              |            | As of March 31,<br>2018 |
|------------------------|------------------------|----------------------------|-----------------------------------|------------------------------|------------|-------------------------|
|                        |                        |                            | Acquisition or<br>loss of control | Foreign exchange<br>movement | Other      |                         |
| Current borrowings     | 16,118                 | 11,590                     | -                                 | (1,760)                      | -          | 25,949                  |
| Non-current borrowings | 50,499                 | (91)                       | -                                 | -                            | 6          | 50,415                  |
| Bonds issued           | 79,738                 | 9,896                      | -                                 | -                            | 68         | 89,703                  |
| Lease liabilities      | 216                    | (106)                      | -                                 | 4                            | 384        | 497                     |
| <b>Total</b>           | <b>146,572</b>         | <b>21,289</b>              | <b>-</b>                          | <b>(1,756)</b>               | <b>459</b> | <b>166,565</b>          |

FY2018: Year ended March 31, 2019

Millions of yen

|                        | As of April 1,<br>2018 | Changes from<br>cash flows | Non-cash changes                  |                              |            | As of March 31,<br>2019 |
|------------------------|------------------------|----------------------------|-----------------------------------|------------------------------|------------|-------------------------|
|                        |                        |                            | Acquisition or<br>loss of control | Foreign exchange<br>movement | Other      |                         |
| Current borrowings     | 25,949                 | (16,832)                   | -                                 | 2,087                        | -          | 11,204                  |
| Non-current borrowings | 50,415                 | (135)                      | 135                               | -                            | 19         | 50,435                  |
| Bonds issued           | 89,703                 | (10,000)                   | -                                 | -                            | 64         | 79,767                  |
| Lease liabilities      | 497                    | (150)                      | -                                 | (0)                          | 597        | 944                     |
| <b>Total</b>           | <b>166,565</b>         | <b>(27,118)</b>            | <b>135</b>                        | <b>2,087</b>                 | <b>681</b> | <b>142,351</b>          |

FY2018: Year ended March 31, 2019

Thousands of U.S. dollars

|                        | As of April 1,<br>2018 | Changes from<br>cash flows | Non-cash changes                  |                              |              | As of March 31,<br>2019 |
|------------------------|------------------------|----------------------------|-----------------------------------|------------------------------|--------------|-------------------------|
|                        |                        |                            | Acquisition or<br>loss of control | Foreign exchange<br>movement | Other        |                         |
| Current borrowings     | 234,048                | (151,817)                  | -                                 | 18,823                       | -            | 101,055                 |
| Non-current borrowings | 454,721                | (1,217)                    | 1,217                             | -                            | 171          | 454,902                 |
| Bonds issued           | 809,082                | (90,195)                   | -                                 | -                            | 577          | 719,464                 |
| Lease liabilities      | 4,482                  | (1,352)                    | -                                 | (0)                          | 5,384        | 8,514                   |
| <b>Total</b>           | <b>1,502,345</b>       | <b>(244,592)</b>           | <b>1,217</b>                      | <b>18,823</b>                | <b>6,142</b> | <b>1,283,945</b>        |

“Non-current borrowings” and “Bonds issued” in the tables above include their current portion.

21. Provisions

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

FY2017: Year ended March 31, 2018

|   | 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, 2017                                       | 10,899                           | 8,960                 | 2,524                        | 146                              | 5,658            | 28,190   |
| Arising during the year                                   | 12,975                           | 9,952                 | 1,236                        | 118                              | 7,352            | 31,635   |
| Utilised  | (10,392)                         | (8,960)               | (43)                         | (26)                             | (4,542)          | (23,967) |
| Unused amounts reversed                                   | (507)                            | -                     | -                            | -                                | (308)            | (816)    |
| Exchange differences on translation of foreign operations | (34)                             | 185                   | 2                            | 23                               | 138              | 315      |
| As of March 31, 2018                                      | 12,940                           | 10,138                | 3,719                        | 262                              | 8,297            | 35,358   |
| Current liabilities                                       | 10,830                           | 10,138                | 230                          | 81                               | 5,122            | 26,403   |
| Non-current liabilities                                   | 2,110                            | -                     | 3,488                        | 180                              | 3,175            | 8,954    |
| Total   | 12,940                           | 10,138                | 3,719                        | 262                              | 8,297            | 35,358   |

FY2018: Year ended March 31, 2019

|   | Millions of yen                  |                              |                              |                                  |                  |          |
|---|----------------------------------|------------------------------|------------------------------|----------------------------------|------------------|----------|
|   | Provision for product warranties | Provision for rebates (Note) | Asset retirement obligations | Provision for loss on litigation | Other provisions | Total    |
| As of April 1, 2018                                       | 12,940                           | -                            | 3,719                        | 262                              | 8,297            | 25,219   |
| Arising during the year                                   | 12,948                           | -                            | 333                          | 178                              | 1,582            | 15,043   |
| Utilised  | (12,326)                         | -                            | (239)                        | (121)                            | (4,881)          | (17,569) |
| Unused amounts reversed                                   | (613)                            | -                            | -                            | -                                | (286)            | (900)    |
| Exchange differences on translation of foreign operations | (9)                              | -                            | (3)                          | (6)                              | 39               | 18       |
| As of March 31, 2019                                      | 12,938                           | -                            | 3,808                        | 313                              | 4,751            | 21,812   |
| Current liabilities                                       | 10,587                           | -                            | 228                          | 138                              | 1,723            | 12,677   |
| Non-current liabilities                                   | 2,351                            | -                            | 3,580                        | 174                              | 3,027            | 9,134    |
| Total   | 12,938                           | -                            | 3,808                        | 313                              | 4,751            | 21,812   |

FY2018: Year ended March 31, 2019

|   | Thousands of U.S. dollars        |                              |                              |                                  |                  |           |
|---|----------------------------------|------------------------------|------------------------------|----------------------------------|------------------|-----------|
|   | Provision for product warranties | Provision for rebates (Note) | Asset retirement obligations | Provision for loss on litigation | Other provisions | Total     |
| As of April 1, 2018                                       | 116,713                          | -                            | 33,543                       | 2,363                            | 74,835           | 227,464   |
| Arising during the year                                   | 116,785                          | -                            | 3,003                        | 1,605                            | 14,268           | 135,681   |
| Utilised  | (111,175)                        | -                            | (2,155)                      | (1,091)                          | (44,024)         | (158,464) |
| Unused amounts reversed                                   | (5,528)                          | -                            | -                            | -                                | (2,579)          | (8,117)   |
| Exchange differences on translation of foreign operations | (81)                             | -                            | (27)                         | (54)                             | 351              | 162       |
| As of March 31, 2019                                      | 116,695                          | -                            | 34,346                       | 2,823                            | 42,851           | 196,734   |
| Current liabilities                                       | 95,490                           | -                            | 2,056                        | 1,244                            | 15,540           | 114,341   |
| Non-current liabilities                                   | 21,205                           | -                            | 32,290                       | 1,569                            | 27,302           | 82,384    |
| Total   | 116,695                          | -                            | 34,346                       | 2,823                            | 42,851           | 196,734   |

(Note) With the application of IFRS15, provision for rebates, which were previously included in “Provisions,” are presented in “Other current liabilities” on the consolidated statement of financial position from the fiscal year ended March 31, 2019.



**(1) Provision for product warranties**

For warranty expenditures, Epson recognises the provisions for estimated amounts based on the rate of historical service contract expenses to sales as well as estimated amounts for those products where future warranty expenses can be reliably estimated. Most of these expenditures are expected to be paid in the next fiscal year.

**(2) Asset retirement obligations**

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

**(3) Provision for loss on litigation**

Epson recognises provisions for loss on litigation based on the reasonably estimated compensation for damages and litigation expenses at an amount deemed necessary at the end of the period. These expenditures are expected to be paid mainly after three years or more.

*22. Other Liabilities*

The breakdown of “Other liabilities” was as follows:

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | March 31,       |         | March 31,                    |
|  | 2018            | 2019    | 2019                         |
| Accrued expense                          | 25,792          | 23,105  | 208,397                      |
| Accrued bonus to employees               | 28,238          | 27,015  | 243,663                      |
| Accrued employee’s unused paid vacations | 25,156          | 25,167  | 226,995                      |
| Contract liabilities                     | -               | 17,773  | 160,304                      |
| Refund liabilities                       | -               | 19,566  | 176,476                      |
| Other                                    | 29,890          | 13,955  | 125,868                      |
| Total                                    | 109,078         | 126,585 | 1,141,742                    |
| Current liabilities                      | 97,643          | 114,887 | 1,036,231                    |
| Non-current liabilities                  | 11,434          | 11,697  | 105,501                      |
| Total                                    | 109,078         | 126,585 | 1,141,742                    |

### 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 administrated 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<br>U.S. dollars |
|---|-------------------------|----------|------------------------------|
|   | Year ended<br>March 31, |          | Year ended<br>March 31,      |
|   | 2018                    | 2019     | 2019                         |
| Balance at the beginning of the year  | 308,935                 | 316,917  | 2,858,455                    |
| Service cost  | 10,267                  | 10,137   | 91,431                       |
| Interest cost   | 2,832                   | 3,123    | 28,168                       |
| Remeasurement   |                         |          |                              |
| Actuarial gains and losses arising from<br>changes in demographic assumptions | 20,932                  | 2,277    | 20,537                       |
| Actuarial gains and losses arising from<br>changes in financial assumptions   | (17,455)                | 7,892    | 71,182                       |
| Past service cost and losses (gains) arising<br>from settlements              | -                       | 84       | 757                          |
| Exchange differences on translation of foreign<br>operations                  | 748                     | (676)    | (6,097)                      |
| Benefits paid   | (9,343)                 | (10,427) | (94,047)                     |
| Effects of business combinations and disposals                                | -                       | 1        | 9                            |
| Balance at the end of the year  | 316,917                 | 329,331  | 2,970,424                    |

**(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 ¥7,815 million (\$70,487 thousand) for the year ending March 31, 2020.

|   | Millions of yen         |          | Thousands of<br>U.S. dollars |
|---|-------------------------|----------|------------------------------|
|   | Year ended<br>March 31, |          | Year ended<br>March 31,      |
|   | 2018                    | 2019     | 2019                         |
| Balance at the beginning of the year                      | 263,654                 | 274,607  | 2,476,837                    |
| Interest income   | 2,064                   | 2,348    | 21,177                       |
| Remeasurement   |                         |          |                              |
| Return on plan assets                                     | 8,725                   | 1,500    | 13,529                       |
| Exchange differences on translation of foreign operations | 1,123                   | (553)    | (4,987)                      |
| Contributions by the employer                             | 6,992                   | 6,926    | 62,469                       |
| Contributions by plan participants                        | 1,167                   | 1,148    | 10,354                       |
| Benefits paid   | (9,119)                 | (10,145) | (91,503)                     |
| Balance at the end of the year                            | 274,607                 | 275,832  | 2,487,886                    |

**(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<br>U.S. dollars |
|---|-----------------|-----------|------------------------------|
|   | March 31,       |           | March 31,                    |
|   | 2018            | 2019      | 2019                         |
| Funded defined benefit obligations  | 311,041         | 323,311   | 2,916,126                    |
| Plan assets   | (274,607)       | (275,832) | (2,487,886)                  |
| Subtotal  | 36,433          | 47,478    | 428,231                      |
| Unfunded defined benefit obligations  | 5,876           | 6,020     | 54,297                       |
| Net defined benefit liabilities or assets recognised in the consolidated statement of financial position  | 42,309          | 53,498    | 482,529                      |
| Net defined benefit liabilities   | 42,321          | 53,498    | 482,529                      |
| Net defined benefit assets  | (11)            | -         | -                            |
| Net defined benefit liabilities and assets recognised in the consolidated statement of financial position | 42,309          | 53,498    | 482,529                      |

**(6) Breakdown of Plan Assets**

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

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

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | March 31,       |         | March 31,                    |
|  | 2018            | 2019    | 2019                         |
| <b>Investments quoted in active markets</b>              |                 |         |                              |
| Equity securities  | 17,338          | 14,528  | 131,036                      |
| Bonds receivable   | 4,543           | 2,978   | 26,860                       |
| Alternative investments (Note 1)                         | 3,306           | 3,573   | 32,226                       |
| Cash and deposits  | 3,924           | 3,588   | 32,362                       |
| Other  | 3,592           | 3,628   | 32,723                       |
| Total  | 32,705          | 28,297  | 255,226                      |
| <b>Investments unquoted in active markets</b>            |                 |         |                              |
| Pooled funds (Equity securities)                         | 30,827          | 25,662  | 231,460                      |
| Pooled funds (Bonds receivable)                          | 57,927          | 57,714  | 520,555                      |
| General accounts of life insurance companies<br>(Note 2) | 111,373         | 120,224 | 1,084,369                    |
| Alternative investments (Note 1)                         | 41,297          | 43,440  | 391,810                      |
| Other  | 475             | 493     | 4,446                        |
| Total  | 241,902         | 247,535 | 2,232,659                    |

(Note 1) Alternative investments are the investments through hedge funds, multi-asset funds, securitisation funds and other funds.

(Note 2) A certain interest rate and principal for the general accounts of life insurance companies are guaranteed by life insurance companies.

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 medium 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, 2018 | March 31, 2019 |
| Discount rate | 1.0            | 0.9            |

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, 2019 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<br>U.S. dollars |
|-----------------------------|-------------------|------------------------------|
|                             | March 31,<br>2019 | March 31,<br>2019            |
| Discount rate (1% increase) | (49,003)          | (441,986)                    |
| Discount rate (1% decrease) | 57,236            | 516,244                      |

The weighted-average duration of the defined benefit obligations at March 31, 2019 was 15.6 years.

**(8) Defined Contribution Plans**

Expenses for the defined contribution plans were ¥20,346 million and ¥20,518 million (\$185,063 thousand) for the years ended March 31, 2018 and 2019, respectively.

24. Equity and Other Equity Items

**(1) Share Capital and Capital Surplus**

(A) Shares Authorised

The number of authorised shares as of March 31, 2018 and 2019 was 1,214,916,736 ordinary shares.

(B) Shares Issued and Fully Paid

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

|                      | a share                                 | Millions of yen |                 | Thousands of U.S. dollars |                 |
|----------------------|---|-----------------|-----------------|---------------------------|-----------------|
|                      | Number of ordinary shares issued (Note) | Share capital   | Capital surplus | Share capital             | Capital surplus |
| As of April 1, 2017  | 399,634,778                             | 53,204          | 84,321          |                           |                 |
| Increase (decrease)  | -                                       | -               | 43              |                           |                 |
| As of March 31, 2018 | 399,634,778                             | 53,204          | 84,364          | 479,877                   | 760,927         |
| Increase (decrease)  | -                                       | -               | 62              | -                         | 559             |
| As of March 31, 2019 | 399,634,778                             | 53,204          | 84,427          | 479,877                   | 761,495         |

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

**(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 treasury shares | Amount          | Amount                    |
| As of April 1, 2017          | 47,411,657                | 30,812          |                           |
| Increase (decrease) (Note1)  | (5,518)                   | (8)             |                           |
| As of March 31, 2018 (Note3) | 47,406,139                | 30,803          | 277,829                   |
| Increase (decrease) (Note2)  | (8,500)                   | (14)            | (126)                     |
| As of March 31, 2019 (Note4) | 47,397,639                | 30,788          | 277,694                   |

(Note 1) Net decrease in the number of treasury shares during the year ended March 31, 2018 resulted from:  
the delivery to beneficiaries of BIP trust (6,472) shares  
the purchase of odd shares 954 shares

(Note 2) Net decrease in the number of treasury shares during the year ended March 31, 2019 resulted from:  
the delivery to beneficiaries of BIP trust (8,930) shares  
the purchase of odd shares 430 shares

(Note 3) The number of treasury shares as of March 31, 2018 included 173,528 shares held by BIP trust.

(Note 4) The number of treasury shares as of March 31, 2019 included 164,598 shares held by BIP trust.

**(3) Other Components of Equity****(A) Remeasurement of net defined benefit liabilities (assets)**

This comprises actuarial gains and losses in the present value of the defined benefit obligation and the return on plan assets excluding amounts included in net interest on the net defined benefit liabilities (assets). The amount is recognised as other comprehensive income 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 Epson consolidates financial statements of foreign operations 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:

FY2017: Year ended March 31, 2018

| (Resolution)                                     | Class of shares | Millions of yen | Yen                 | Basis date            | Effective date       |
|--|-----------------|-----------------|---------------------|-----------------------|----------------------|
|  |                 | Total dividends | Dividends per share |                       |                      |
| Annual Shareholders Meeting<br>(June 28, 2017)   | Ordinary shares | (Note1) 10,572  | 30                  | March 31, 2017        | June 29, 2017        |
| Board of Directors Meeting<br>(October 26, 2017) | Ordinary shares | (Note2) 10,572  | 30                  | September 30,<br>2017 | November 30,<br>2017 |

(Note 1) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

(Note 2) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

FY2018: Year ended March 31, 2019

| (Resolution)                                     | Class of shares | Millions of yen | Yen                 | Basis date            | Effective date       |
|--|-----------------|-----------------|---------------------|-----------------------|----------------------|
|  |                 | Total dividends | Dividends per share |                       |                      |
| Annual Shareholders Meeting<br>(June 27, 2018)   | Ordinary shares | (Note1) 11,276  | 32                  | March 31, 2018        | June 28, 2018        |
| Board of Directors Meeting<br>(October 30, 2018) | Ordinary shares | (Note2) 10,924  | 31                  | September 30,<br>2018 | November 30,<br>2018 |

(Note 1) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

(Note 2) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

# SEIKO EPSON CORPORATION

FY2018: Year ended March 31, 2019

| (Resolution)                                     | Class of shares | Thousands of U.S.<br>dollars | U.S. dollars           | Basis date            | Effective date       |
|--|-----------------|------------------------------|------------------------|-----------------------|----------------------|
|  |                 | Total dividends              | Dividends<br>per share |                       |                      |
| Annual Shareholders Meeting<br>(June 27, 2018)   | Ordinary shares | (Note1) 101,704              | 0.28                   | March 31, 2018        | June 28, 2018        |
| Board of Directors Meeting<br>(October 30, 2018) | Ordinary shares | (Note2) 98,529               | 0.27                   | September 30,<br>2018 | November 30,<br>2018 |

(Note 1) The amount of dividends includes dividends of \$45 thousand corresponding to the Company's shares held by BIP trust.

(Note 2) The amount of dividends includes dividends of \$45 thousand corresponding to the Company's shares held by BIP trust.

Dividends, whose effective dates fall on in the next year, were as follows:

FY2017: Year ended March 31, 2018

| (Resolution)                                   | Class of shares | Millions of yen | Yen                    | Basis date     | Effective date |
|--|-----------------|-----------------|------------------------|----------------|----------------|
|  |                 | Total dividends | Dividends<br>per share |                |                |
| Annual Shareholders Meeting<br>(June 27, 2018) | Ordinary shares | (Note) 11,276   | 32                     | March 31, 2018 | June 28, 2018  |

(Note) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

FY2018: Year ended March 31, 2019

| (Resolution)                                   | Class of shares | Millions of yen | Yen                    | Basis date     | Effective date |
|--|-----------------|-----------------|------------------------|----------------|----------------|
|  |                 | Total dividends | Dividends<br>per share |                |                |
| Annual Shareholders Meeting<br>(June 26, 2019) | Ordinary shares | (Note) 10,924   | 31                     | March 31, 2019 | June 27, 2019  |

(Note) The amount of dividends includes dividends of ¥5 million corresponding to the Company's shares held by BIP trust.

FY2018: Year ended March 31, 2019

| (Resolution)                                   | Class of shares | Thousands of U.S.<br>dollars | U.S. dollars           | Basis date     | Effective date |
|--|-----------------|------------------------------|------------------------|----------------|----------------|
|  |                 | Total dividends              | Dividends<br>per share |                |                |
| Annual Shareholders Meeting<br>(June 26, 2019) | Ordinary shares | (Note) 98,529                | 0.27                   | March 31, 2019 | June 27, 2019  |

(Note) The amount of dividends includes dividends of \$45 thousand corresponding to the Company's shares held by BIP trust.



## 26. Revenue

**(1) Disaggregation of Revenue**

The revenue of the reportable segments stated in “7. Segment Information” are disaggregated by each business. The relationship between the disaggregated revenue and the reportable segments is as follows:

|  | Millions of yen         | Thousands of<br>U.S. dollars |
|--|-------------------------|------------------------------|
|  | Year ended<br>March 31, | Year ended<br>March 31,      |
|  | 2019                    | 2019                         |
| Printing Solutions Segment                         | 723,679                 | 6,527,275                    |
| Printers   | 505,958                 | 4,563,524                    |
| Professional printing                              | 198,057                 | 1,786,389                    |
| Other  | 19,772                  | 178,334                      |
| Inter-segment revenue                              | (109)                   | (983)                        |
| Visual Communications Segment                      | 203,309                 | 1,833,760                    |
| Wearable and Industrial Products Segment           | 163,410                 | 1,473,888                    |
| Wearable products                                  | 49,862                  | 449,733                      |
| Robotics solutions                                 | 22,678                  | 204,545                      |
| Micro-devices, Other                               | 96,686                  | 872,066                      |
| Inter-segment revenue                              | (5,816)                 | (52,457)                     |
| Others (Note)                                      | (722)                   | (6,512)                      |
| <b>Total revenue from contracts with customers</b> | <b>1,089,676</b>        | <b>9,828,411</b>             |

(Note) “Others” consisted of the intra-group services of ¥950 million (\$8,568 thousand) and eliminations of (¥1,672) million ((\$15,080) thousand).

Epson is mainly engaged in the manufacture and sale of products of Printing Solutions, Visual Communications, and Wearable & Industrial Products. Usually Epson transfers control of a promised good and satisfies a performance obligation at the time of delivery of the good. Therefore, Epson recognises revenue at the time of its delivery. Revenue is measured at the amount of consideration promised in a contract with a customer taking into consideration the effects of price discount, sales rebate, etc.

Epson provides the option related to maintenance services such as extended warranties at the time of sales. For maintenance contracts related to maintenance services, since performance obligations are satisfied over time, the amount of consideration promised in the contract with a customer is recognised as revenue evenly over the contract period.

Contract liability is recognised until performance obligations are satisfied, in cases where Epson receives the consideration for the transaction related to the sale of the product as an advanced payment before the good deliveries, or Epson receives that related to maintenance contracts as a single advanced payment at the time of the contract, etc.

**(2) Contract Balance**

The breakdown of the balance of contract liabilities from contracts with customers was as follows:

|                         | Millions of yen |                | Thousands of<br>U.S. dollars |                |
|-------------------------|-----------------|----------------|------------------------------|----------------|
|                         | April 1, 2018   | March 31, 2019 | April 1, 2018                | March 31, 2019 |
| Contract liabilities    | 17,031          | 17,773         | 153,612                      | 160,304        |
| Current liabilities     | 8,684           | 8,728          | 78,325                       | 78,722         |
| Non-current liabilities | 8,346           | 9,044          | 75,277                       | 81,573         |
| <b>Total</b>            | <b>17,031</b>   | <b>17,773</b>  | <b>153,612</b>               | <b>160,304</b> |

Contract liabilities are included in “Other current liabilities” and “Other non-current liabilities” on the consolidated statement of financial position. The balance of receivables from contracts with customers is stated in “9. Trade and Other Receivables.”

Amount of revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods was not material.

**(3) Transaction Price Allocated to the Remaining Performance Obligations**

Epson uses the practical expedient of omitting the disclosure of information on the remaining performance obligations because it has no significant transactions with expected contractual terms exceeding one year.

## 27. Selling, General and Administrative Expenses

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

|                                  | Millions of yen         |           | Thousands of<br>U.S. dollars |
|----------------------------------|-------------------------|-----------|------------------------------|
|                                  | Year ended<br>March 31, |           | Year ended<br>March 31,      |
|                                  | 2018                    | 2019      | 2019                         |
| Employee benefit expense         | (103,354)               | (107,148) | (966,429)                    |
| Research and development expense | (50,336)                | (58,260)  | (525,480)                    |
| Promotion expense                | (33,742)                | (37,050)  | (334,175)                    |
| Service contract expense         | (19,468)                | (20,826)  | (187,841)                    |
| Advertising expense              | (21,886)                | (20,467)  | (184,603)                    |
| Transportation expense           | (18,599)                | (17,912)  | (161,558)                    |
| Other                            | (78,674)                | (80,449)  | (725,615)                    |
| Total                            | (326,062)               | (342,113) | (3,085,712)                  |

## 28. Employee Benefit Expenses

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

|  | Millions of yen         |           | Thousands of<br>U.S. dollars |
|--|-------------------------|-----------|------------------------------|
|  | Year ended<br>March 31, |           | Year ended<br>March 31,      |
|  | 2018                    | 2019      | 2019                         |
| Salaries and wages                     | (216,443)               | (216,689) | (1,954,442)                  |
| Legal welfare expense                  | (20,617)                | (20,658)  | (186,326)                    |
| Welfare expense                        | (11,160)                | (11,674)  | (105,294)                    |
| Expenses of post-employment benefits   |                         |           |                              |
| Expense for defined contribution plans | (20,346)                | (20,518)  | (185,063)                    |
| Expense for defined benefit plans      | (5,726)                 | (18,496)  | (166,826)                    |
| Total                                  | (274,294)               | (288,037) | (2,597,970)                  |

## 29. Other Operating Income

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

|  | Millions of yen         |       | Thousands of<br>U.S. dollars |
|--|-------------------------|-------|------------------------------|
|  | Year ended<br>March 31, |       | Year ended<br>March 31,      |
|  | 2018                    | 2019  | 2019                         |
| Gain on sales of property, plant and equipment,<br>intangible assets and investment property | 122                     | 3,877 | 34,968                       |
| Other  | 4,738                   | 2,515 | 22,684                       |
| Total  | 4,860                   | 6,393 | 57,662                       |

### 30. Other Operating Expense

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

|  | Millions of yen         |         | Thousands of<br>U.S. dollars |
|--|-------------------------|---------|------------------------------|
|  | Year ended<br>March 31, |         | Year ended<br>March 31,      |
|  | 2018                    | 2019    | 2019                         |
| Disaster loss  | -                       | (1,289) | (11,626)                     |
| Foreign exchange loss  | (6,182)                 | (779)   | (7,026)                      |
| Impairment loss  | (2,091)                 | (743)   | (6,701)                      |
| Losses on the disposal of property, plant and<br>equipment and intangible assets | (902)                   | (604)   | (5,447)                      |
| Other  | (5,466)                 | (2,119) | (19,112)                     |
| Total  | (14,643)                | (5,536) | (49,932)                     |

### 31. Finance Income and Finance Costs

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

| Finance Income               | Millions of yen         |       | Thousands of<br>U.S. dollars |
|------------------------------|-------------------------|-------|------------------------------|
|                              | Year ended<br>March 31, |       | Year ended<br>March 31,      |
|                              | 2018                    | 2019  | 2019                         |
| Interest income              | 947                     | 1,391 | 12,546                       |
| Dividend income              | 327                     | 621   | 5,601                        |
| Foreign exchange gain (Note) | -                       | 436   | 3,932                        |
| Other                        | 2                       | -     | -                            |
| Total                        | 1,277                   | 2,450 | 22,097                       |

| Finance Costs                | Millions of yen         |         | Thousands of<br>U.S. dollars |
|------------------------------|-------------------------|---------|------------------------------|
|                              | Year ended<br>March 31, |         | Year ended<br>March 31,      |
|                              | 2018                    | 2019    | 2019                         |
| Interest expense             | (1,243)                 | (1,081) | (9,750)                      |
| Employee benefit expense     | (768)                   | (775)   | (6,990)                      |
| Foreign exchange loss (Note) | (1,662)                 | -       | -                            |
| Other                        | (17)                    | (8)     | (72)                         |
| Total                        | (3,691)                 | (1,865) | (16,821)                     |

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

### 32. 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:

FY2017: Year ended March 31, 2018

| Millions of yen  |                |                              |                    |             |                    |
|--|----------------|------------------------------|--------------------|-------------|--------------------|
|  | Amount arising | Reclassification adjustments | Before tax effects | Tax effects | Net of tax effects |
| Remeasurement of net defined benefit liabilities (assets)                                | 5,248          | -                            | 5,248              | (250)       | 4,998              |
| Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)             | (557)          | -                            | (557)              | 186         | (371)              |
| Exchange differences on translation of foreign operations                                | (5,266)        | -                            | (5,266)            | -           | (5,266)            |
| Net changes in fair value of cash flow hedges  | (3,836)        | 4,477                        | 640                | (196)       | 444                |
| Share of other comprehensive income of investments accounted for using the equity method | 13             | -                            | 13                 | -           | 13                 |
| Total  | (4,398)        | 4,477                        | 78                 | (260)       | (182)              |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2018: Year ended March 31, 2019

| Millions of yen  |                |                              |                    |             |                    |
|--|----------------|------------------------------|--------------------|-------------|--------------------|
|  | Amount arising | Reclassification adjustments | Before tax effects | Tax effects | Net of tax effects |
| Remeasurement of net defined benefit liabilities (assets)                                | (8,540)        | -                            | (8,540)            | 487         | (8,052)            |
| Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)             | (1,766)        | -                            | (1,766)            | 440         | (1,325)            |
| Exchange differences on translation of foreign operations                                | 5,082          | -                            | 5,082              | -           | 5,082              |
| Net changes in fair value of cash flow hedges  | 1,565          | (1,845)                      | (280)              | 85          | (195)              |
| Share of other comprehensive income of investments accounted for using the equity method | (10)           | -                            | (10)               | -           | (10)               |
| Total  | (3,669)        | (1,845)                      | (5,515)            | 1,013       | (4,501)            |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2018: Year ended March 31, 2019

| 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)                                | (77,027)       | -                            | (77,027)           | 4,392       | (72,625)           |
| Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)             | (15,928)       | -                            | (15,928)           | 3,968       | (11,950)           |
| Exchange differences on translation of foreign operations                                | 45,837         | -                            | 45,837             | -           | 45,837             |
| Net changes in fair value of cash flow hedges  | 14,115         | (16,641)                     | (2,525)            | 766         | (1,758)            |
| Share of other comprehensive income of investments accounted for using the equity method | (90)           | -                            | (90)               | -           | (90)               |
| Total  | (33,092)       | (16,641)                     | (49,742)           | 9,136       | (40,597)           |

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

“Reclassification adjustments” shows the amounts of hedging instruments that are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. It is mainly treated as “Revenue” in the consolidated statement of comprehensive income.

## 33. Earnings per Share

## (1) Basis of Calculating Basic Earnings per Share

|  | Millions of yen      |              | Thousands of U.S. dollars |      |
|--|----------------------|--------------|---------------------------|------|
|  | Year ended March 31, |              | Year ended March 31,      |      |
|  | 2018                 | 2019         | 2019                      |      |
| Profit for the period attributable to owners of the parent company           | 41,836               | 53,710       | 484,441                   |      |
| Profit for the period not attributable to owners of the parent company       | -                    | -            | -                         |      |
| Profit used for calculation of basic earnings per share                      | 41,836               | 53,710       | 484,441                   |      |
| Weighted-average number of ordinary shares outstanding (Thousands of Shares) | 352,228              | 352,232      | 352,232                   |      |
| Basic earnings per share   | (Yen) 118.78         | (Yen) 152.49 | (\$)                      | 1.38 |

## (2) Basis of Calculating Diluted Earnings per Share

|  | Millions of yen      |              | Thousands of U.S. dollars |      |
|--|----------------------|--------------|---------------------------|------|
|  | Year ended March 31, |              | Year ended March 31,      |      |
|  | 2018                 | 2019         | 2019                      |      |
| Profit used for calculation of basic earnings per share                      | 41,836               | 53,710       | 484,441                   |      |
| Adjustments  | -                    | -            | -                         |      |
| Profit used for calculation of diluted earnings per share                    | 41,836               | 53,710       | 484,441                   |      |
| Weighted-average number of ordinary shares outstanding (Thousands of Shares) | 352,228              | 352,232      | 352,232                   |      |
| Effect of dilutive potential ordinary shares                                 |                      |              |                           |      |
| BIP trust for eligible officers (Thousands of Shares)                        | 69                   | 108          | 108                       |      |
| Weighted-average number of ordinary shares diluted (Thousands of Shares)     | 352,297              | 352,340      | 352,340                   |      |
| Diluted earnings per share   | (Yen) 118.75         | (Yen) 152.44 | (\$)                      | 1.37 |

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

### 34. Share-based Payment

#### (1) Summary of Performance-Linked Stock Compensation Plan

The Company has employed a framework referred to as BIP (Board Incentive Plan) trust as performance-linked equity-settled share-based payment 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 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 medium and long-term.

The Eligible Officers are awarded a specific number of points each year based on their position and other factors (1 point = 1 share). Such points fluctuate depending on the levels of achievement of the medium and long-term operating performance targets of Epson. The vesting condition is basically for the Eligible Officers to render services for three years to a vesting date after a grant date of points.

#### (2) Number of Granted Points and Weighted Average Fair Value

The fair values of granted points at the grant date are measured based on observable market prices. Moreover, the expected dividends are incorporated into the measurement of fair values. The number of granted points and weighted average fair value at the grant date were as follows:

|   | Year ended<br>March 31, |        | Year ended<br>March 31, |
|---|-------------------------|--------|-------------------------|
|   | 2018                    | 2019   | 2019                    |
| Number of granted points                      | 42,808                  | 46,252 | -                       |
| Weighted average fair value at the grant date | ¥2,313                  | ¥1,696 | \$15                    |

#### (3) Stock Compensation Expenses

The total expenses recognised from the performance-linked stock compensation plan were ¥54 million and ¥78 million (\$703 thousand) for the years ended March 31, 2018 and 2019, respectively.

### 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<br>U.S. dollars |
|---|-----------------|-----------|------------------------------|
|   | March 31,       |           | March 31,                    |
|   | 2018            | 2019      | 2019                         |
| Interest-bearing debt   | 166,565         | 142,351   | 1,283,945                    |
| Cash and cash equivalents                                     | (229,678)       | (175,238) | (1,580,571)                  |
| Net interest-bearing debt                                     | (63,112)        | (32,887)  | (296,626)                    |
| Capital (equity attributable to owners of the parent company) | 512,727         | 540,181   | 4,872,201                    |

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 monitors 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 regularly reported by the finance 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 does 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 equity securities and bonds receivable of customers and suppliers, mainly for the purpose of investing surplus funds and strengthening relationships with them; those securities and bonds 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 finance 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.

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 finance department of the Company regularly monitors the performances of these transactions and reports the results to the Executive Committee of the Company.

The carrying amount of the financial asset presented in consolidated statement of financial position is the maximum exposure related to the credit risk. Epson does not have an important exposure for a specific counterparty and there is no over-concentrated credit risk with specific controls. There are no collateral or other credit enhancements related to credit risk exposures.

For impairment of financial assets, Epson recognises a loss allowance for expected credit losses. Epson assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. Epson



determines whether the credit risk of financial instruments has increased significantly based on fluctuations in the risk of default, taking into consideration internal credit ratings, the financial condition of counterparties, and the existence of contractual breaches such as overdues.

The loss allowance for items such as trade receivables, which account for the majority of Epson's financial assets, is calculated by comprehensively measuring the lifetime expected credit losses based on historical experience rates. However, when a counterparty is in serious financial difficulty, or when objective evidence such as bankruptcy or extreme delinquency exists, Epson deems the financial assets to be credit-impaired and measures the expected credit loss individually. Epson directly reduces the gross carrying amount of a financial asset when Epson has no reasonable expectations of recovering a financial asset in its entirety or portion thereof.

The loss allowance for these financial assets is included in trade and other receivables or other financial assets in the consolidated statement of financial position.

The schedule for the allowance account for credit losses of "Trade and other receivables" and "Other financial assets" was as follows. There was no significant change in the total carrying amount in the previous or current consolidated fiscal year that would affect changes in the loss allowance.

|                        | Millions of yen |       | Thousands of<br>U.S. dollars |
|------------------------|-----------------|-------|------------------------------|
|                        | March 31,       |       | March 31,                    |
|                        | 2018            | 2019  | 2019                         |
| Balance as of April 1  | 1,485           | 1,486 | 13,403                       |
| Addition (Note)        | 602             | 481   | 4,338                        |
| Decrease (utilised)    | (494)           | (810) | (7,305)                      |
| Decrease (reversal)    | (85)            | (28)  | (252)                        |
| Other                  | (21)            | 22    | 198                          |
| Balance as of March 31 | 1,486           | 1,151 | 10,381                       |

**(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 finance 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:

FY2017: As of March 31, 2018

|                                      | 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             | 154,759         | 154,759               | 154,759           | -                                | -                                 | -                                 | -                                 | -                 |
| Borrowings                           | 76,364          | 76,449                | 25,949            | -                                | 14,000                            | 500                               | 18,000                            | 18,000            |
| Bonds issued                         | 89,703          | 90,000                | 10,000            | 10,000                           | -                                 | 20,000                            | -                                 | 50,000            |
| Lease obligations                    | 497             | 506                   | 140               | 110                              | 88                                | 62                                | 33                                | 71                |
| Other                                | 1,642           | 1,642                 | 29                | 108                              | 9                                 | 15                                | 81                                | 1,397             |
| Total                                | 322,968         | 323,357               | 190,879           | 10,218                           | 14,097                            | 20,577                            | 18,114                            | 69,469            |
| Derivative financial liabilities     |                 |                       |                   |                                  |                                   |                                   |                                   |                   |
| Foreign exchange forward contract    | 171             | 171                   | 171               | -                                | -                                 | -                                 | -                                 | -                 |
| Total                                | 171             | 171                   | 171               | -                                | -                                 | -                                 | -                                 | -                 |

FY2018: As of March 31, 2019

|                                      | 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             | 144,399         | 144,399               | 144,399           | -                                | -                                 | -                                 | -                                 | -                 |
| Borrowings                           | 61,639          | 61,704                | 11,204            | 14,000                           | 500                               | 18,000                            | -                                 | 18,000            |
| Bonds issued                         | 79,767          | 80,000                | 10,000            | -                                | 20,000                            | -                                 | 20,000                            | 30,000            |
| Lease obligations                    | 944             | 989                   | 168               | 143                              | 118                               | 86                                | 63                                | 408               |
| Other                                | 1,957           | 1,957                 | 1                 | 10                               | 23                                | 76                                | 15                                | 1,829             |
| Total                                | 288,708         | 289,051               | 165,774           | 14,154                           | 20,642                            | 18,162                            | 20,078                            | 50,238            |
| Derivative financial liabilities     |                 |                       |                   |                                  |                                   |                                   |                                   |                   |
| Foreign exchange forward contract    | 329             | 329                   | 329               | -                                | -                                 | -                                 | -                                 | -                 |
| Total                                | 329             | 329                   | 329               | -                                | -                                 | -                                 | -                                 | -                 |

FY2018: As of March 31, 2019

|                                      | 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             | 1,302,417                 | 1,302,417             | 1,302,417         | -                                | -                                 | -                                 | -                                 | -                 |
| Borrowings                           | 555,957                   | 556,543               | 101,055           | 126,274                          | 4,509                             | 162,352                           | -                                 | 162,352           |
| Bonds issued                         | 719,464                   | 721,565               | 90,195            | -                                | 180,391                           | -                                 | 180,391                           | 270,587           |
| Lease obligations                    | 8,514                     | 8,920                 | 1,515             | 1,289                            | 1,064                             | 775                               | 568                               | 3,679             |
| Other                                | 17,651                    | 17,651                | 9                 | 90                               | 207                               | 685                               | 135                               | 16,496            |
| Total                                | 2,604,022                 | 2,607,116             | 1,495,210         | 127,663                          | 186,182                           | 163,813                           | 181,094                           | 453,125           |
| Derivative financial liabilities     |                           |                       |                   |                                  |                                   |                                   |                                   |                   |
| Foreign exchange forward contract    | 2,967                     | 2,967                 | 2,967             | -                                | -                                 | -                                 | -                                 | -                 |
| Total                                | 2,967                     | 2,967                 | 2,967             | -                                | -                                 | -                                 | -                                 | -                 |

**(5) Foreign Exchange Risk**

Epson operates businesses globally and, therefore, is mainly 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 risks (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 finance department of the Company regularly reports the performances to the Executive Committee of the Company.

The breakdown of currency derivatives was as follows:

Derivative transactions to which hedge accounting is not applied

FY2017: As of March 31, 2018

|   | Millions of yen |               |                 |             | Average rate     |
|---|-----------------|---------------|-----------------|-------------|------------------|
|   | Contract amount | Over one year | Carrying amount |             |                  |
|   |                 |               | Assets          | Liabilities |                  |
| Foreign exchange forward contract           |                 |               |                 |             |                  |
| Buying                                      |                 |               |                 |             |                  |
| US Dollar (Yen selling)                     | 305             | -             | 2               | -           | 105.30 JPY / USD |
| Selling                                     |                 |               |                 |             |                  |
| Euro (Yen buying)                           | 19,928          | -             | 163             | -           | 131.86 JPY / EUR |
| US Dollar (Yen buying)                      | 12,123          | -             | 177             | -           | 107.73 JPY / USD |
| Australian Dollar (Yen buying)              | 3,020           | -             | 140             | -           | 85.33 JPY / AUD  |
| Pound Sterling<br>(Singapore Dollar buying) | 5               | -             | 0               | -           | 1.83 SGD / GBP   |
| Non-Deliverable Forward                     |                 |               |                 |             |                  |
| Selling                                     |                 |               |                 |             |                  |
| Indian Rupee (US Dollar buying)             | 1,373           | -             | -               | 11          | 0.02 USD / INR   |
| New Taiwan Dollar<br>(US Dollar buying)     | 1,268           | -             | -               | 28          | 0.03 USD / TWD   |
| Won (US Dollar buying)                      | 703             | -             | -               | 31          | 0.00 USD / KPW   |
| Total                                       | 38,730          | -             | 483             | 71          |                  |

FY2018: As of March 31, 2019

|   | Millions of yen |               |                 |             | Average rate     | Thousands of U.S. dollars |                 |       |
|---|-----------------|---------------|-----------------|-------------|------------------|---------------------------|-----------------|-------|
|   | Contract amount | Over one year | Carrying amount |             |                  | Contract amount           | Carrying amount |       |
|   |                 |               | Assets          | Liabilities |                  | Assets                    | Liabilities     |       |
| Foreign exchange forward contract       |                 |               |                 |             |                  |                           |                 |       |
| Selling                                 |                 |               |                 |             |                  |                           |                 |       |
| Euro (Yen buying)                       | 12,631          | -             | 374             | -           | 128.36 JPY / EUR | 113,926                   | 3,373           | -     |
| Australian Dollar (Yen buying)          | 2,726           | -             | 26              | -           | 79.06 JPY / AUD  | 24,587                    | 234             | -     |
| Non-Deliverable Forward                 |                 |               |                 |             |                  |                           |                 |       |
| Selling                                 |                 |               |                 |             |                  |                           |                 |       |
| Indian Rupee (US Dollar buying)         | 2,878           | -             | -               | 156         | 0.01 USD / INR   | 25,958                    | -               | 1,407 |
| New Taiwan Dollar<br>(US Dollar buying) | 2,151           | -             | 28              | -           | 0.03 USD / TWD   | 19,401                    | 252             | -     |
| Won (US Dollar buying)                  | 677             | -             | 8               | -           | 0.00 USD / KPW   | 6,106                     | 72              | -     |
| Total                                   | 21,065          | -             | 438             | 156         |                  | 189,997                   | 3,950           | 1,407 |

## Derivative transactions to which hedge accounting is applied

FY2017: As of March 31, 2018

|                                      | Millions of yen |               |                 |             | Average rate     |
|--------------------------------------|-----------------|---------------|-----------------|-------------|------------------|
|                                      | Contract amount | Over one year | Carrying amount |             |                  |
|                                      |                 |               | Assets          | Liabilities |                  |
| Foreign exchange forward contract    |                 |               |                 |             |                  |
| Selling                              |                 |               |                 |             |                  |
| Euro (Yen buying)                    | 30,952          | -             | 429             | -           | 132.73 JPY / EUR |
| Australian Dollar (Yen buying)       | 3,419           | -             | 109             | -           | 83.41 JPY / AUD  |
| Non-Deliverable Forward              |                 |               |                 |             |                  |
| Selling                              |                 |               |                 |             |                  |
| Indian Rupee (US Dollar buying)      | 3,412           | -             | -               | 6           | 0.02 USD / INR   |
| New Taiwan Dollar (US Dollar buying) | 2,309           | -             | -               | 0           | 0.03 USD / TWD   |
| Won (US Dollar buying)               | 2,077           | -             | -               | 35          | 0.00 USD / KPW   |
| Total                                | 42,171          | -             | 538             | 42          |                  |

FY2018: As of March 31, 2019

|                                      | Millions of yen |               |                 |             | Average rate     | Thousands of U.S. dollars |                 |     |
|--------------------------------------|-----------------|---------------|-----------------|-------------|------------------|---------------------------|-----------------|-----|
|                                      | Contract amount | Over one year | Carrying amount |             |                  | Contract amount           | Carrying amount |     |
|                                      |                 |               | Assets          | Liabilities |                  | Assets                    | Liabilities     |     |
| Foreign exchange forward contract    |                 |               |                 |             |                  |                           |                 |     |
| Selling                              |                 |               |                 |             |                  |                           |                 |     |
| Euro (Yen buying)                    | 30,634          | -             | 278             | -           | 125.76 JPY / EUR | 276,305                   | 2,507           | -   |
| Australian Dollar (Yen buying)       | 3,112           | -             | 3               | -           | 77.82 JPY / AUD  | 28,068                    | 27              | -   |
| Yuan Renminbi (US Dollar buying)     | 13,502          | -             | 6               | -           | 0.15 USD / CNY   | 121,782                   | 54              | -   |
| Non-Deliverable Forward              |                 |               |                 |             |                  |                           |                 |     |
| Selling                              |                 |               |                 |             |                  |                           |                 |     |
| Indian Rupee (US Dollar buying)      | 4,770           | -             | -               | 106         | 0.01 USD / INR   | 43,023                    | -               | 956 |
| New Taiwan Dollar (US Dollar buying) | 2,294           | -             | 14              | -           | 0.03 USD / TWD   | 20,690                    | 126             | -   |
| Won (US Dollar buying)               | 2,279           | -             | 17              | -           | 0.00 USD / KPW   | 20,555                    | 153             | -   |
| Total                                | 56,596          | -             | 321             | 106         |                  | 510,471                   | 2,895           | 956 |

(Note) Cash flow hedge is applied, and derivative transactions are measured at fair value and recognised in “Other financial assets” or “Other financial liabilities” 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, 2019 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, 2019  | March 31, 2019            |
| Profit before tax | 7,984           | 72,012                    |

**(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, 2019 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<br>U.S. dollars |
|-------------------|-------------------|------------------------------|
|                   | March 31,<br>2019 | March 31,<br>2019            |
| Profit before tax | 507               | 4,572                        |

**(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. 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, 2019 was ¥577 million (\$5,204 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)**

Current borrowings are measured at their carrying amounts, because they are settled on a short-term basis and 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 by using the interest rates that would be applied if similar new borrowings were conducted.

#### **(Bonds issued)**

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

#### **(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.

### **(B) Fair value hierarchy**

The fair value hierarchy of financial instruments is categorised 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 unobservable inputs 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.

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## (i) Financial instruments measured at amortised cost

The carrying amounts and the fair value hierarchy of financial instruments measured at amortised cost were as follows. The fair values of financial instruments that are not listed on the tables below approximate the carrying amounts.

FY2017: As of March 31, 2018

|  | Millions of yen |            |         |         |         |
|--|-----------------|------------|---------|---------|---------|
|  | Carrying amount | Fair value |         |         | Total   |
|  |                 | Level 1    | Level 2 | Level 3 |         |
| Financial liabilities measured at amortised cost |                 |            |         |         |         |
| Borrowings                                       | 76,364          | -          | 76,936  | -       | 76,936  |
| Bonds issued                                     | 89,703          | -          | 89,944  | -       | 89,944  |
| Total  | 166,067         | -          | 166,880 | -       | 166,880 |

FY2018: As of March 31, 2019

|  | Millions of yen |            |         |         |         |
|--|-----------------|------------|---------|---------|---------|
|  | Carrying amount | Fair value |         |         | Total   |
|  |                 | Level 1    | Level 2 | Level 3 |         |
| Financial liabilities measured at amortised cost |                 |            |         |         |         |
| Borrowings                                       | 61,639          | -          | 62,350  | -       | 62,350  |
| Bonds issued                                     | 79,767          | -          | 80,292  | -       | 80,292  |
| Total  | 141,407         | -          | 142,642 | -       | 142,642 |

FY2018: As of March 31, 2019

|  | Thousands of U.S. dollars |            |           |         |           |
|--|---------------------------|------------|-----------|---------|-----------|
|  | Carrying amount           | Fair value |           |         | Total     |
|  |                           | Level 1    | Level 2   | Level 3 |           |
| Financial liabilities measured at amortised cost |                           |            |           |         |           |
| Borrowings                                       | 555,957                   | -          | 562,370   | -       | 562,370   |
| Bonds issued                                     | 719,464                   | -          | 724,199   | -       | 724,199   |
| Total  | 1,275,430                 | -          | 1,286,569 | -       | 1,286,569 |

“Borrowings” and “Bonds issued” in the tables above include their current portion.

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

(ii) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value was as follows:

|  | Millions of yen |         |         |        |
|--|-----------------|---------|---------|--------|
|  | Fair value      |         |         |        |
|  | Level 1         | Level 2 | Level 3 | Total  |
| FY2017: As of March 31, 2018                 |                 |         |         |        |
| Financial assets measured at fair value      |                 |         |         |        |
| Derivative financial assets                  | -               | 1,080   | -       | 1,080  |
| Equity securities                            | 12,713          | -       | 2,528   | 15,242 |
| Bonds receivable                             | -               | -       | -       | -      |
| Total  | 12,713          | 1,080   | 2,528   | 16,322 |
| Financial liabilities measured at fair value |                 |         |         |        |
| Derivative financial liabilities             | -               | 171     | -       | 171    |
| Total  | -               | 171     | -       | 171    |

|  | Millions of yen |         |         |        |
|--|-----------------|---------|---------|--------|
|  | Fair value      |         |         |        |
|  | Level 1         | Level 2 | Level 3 | Total  |
| FY2018: As of March 31, 2019                 |                 |         |         |        |
| Financial assets measured at fair value      |                 |         |         |        |
| Derivative financial assets                  | -               | 826     | -       | 826    |
| Equity securities                            | 9,146           | -       | 2,410   | 11,557 |
| Bonds receivable                             | -               | -       | 690     | 690    |
| Total  | 9,146           | 826     | 3,100   | 13,073 |
| Financial liabilities measured at fair value |                 |         |         |        |
| Derivative financial liabilities             | -               | 329     | -       | 329    |
| Total  | -               | 329     | -       | 329    |

|  | Thousands of U.S. dollars |         |         |         |
|--|---------------------------|---------|---------|---------|
|  | Fair value                |         |         |         |
|  | Level 1                   | Level 2 | Level 3 | Total   |
| FY2018: As of March 31, 2019                 |                           |         |         |         |
| Financial assets measured at fair value      |                           |         |         |         |
| Derivative financial assets                  | -                         | 7,450   | -       | 7,450   |
| Equity securities                            | 82,493                    | -       | 21,737  | 104,239 |
| Bonds receivable                             | -                         | -       | 6,223   | 6,223   |
| Total  | 82,493                    | 7,450   | 27,960  | 117,912 |
| Financial liabilities measured at fair value |                           |         |         |         |
| Derivative financial liabilities             | -                         | 2,967   | -       | 2,967   |
| Total  | -                         | 2,967   | -       | 2,967   |

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



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

|                            | Millions of yen |       | Thousands of |
|----------------------------|-----------------|-------|--------------|
|                            | Year ended      |       | U.S. dollars |
|                            | March 31,       |       | Year ended   |
|                            | 2018            | 2019  | March 31,    |
|                            |                 |       | 2019         |
| Balance as of April 1      | 2,498           | 2,528 | 22,801       |
| Gains and losses           |                 |       |              |
| Other comprehensive income | 29              | (327) | (2,949)      |
| Purchase                   | -               | 900   | 8,117        |
| Sales                      | (0)             | -     | -            |
| Balance as of March 31     | 2,528           | 3,100 | 27,960       |

## 36. Principal Subsidiaries

The content of principal subsidiaries is stated in “Additional Information 1. Principal subsidiaries and affiliates.”

## 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 for 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   |
|                         | 2018            | 2019 | March 31,    |
|                         |                 |      | 2019         |
| Short-term remuneration | 419             | 399  | 3,598        |
| Stock compensation      | 25              | 42   | 378          |
| Total                   | 445             | 441  | 3,977        |

(Note) The Company has introduced an officers’ shareholding association system to link compensation more closely to shareholders’ value. The acquisition of the Company’s shares accounts for a portion of the short-term remuneration.

## 38. Commitments

Commitments for the acquisition of assets after the fiscal year end were as follows:

|  | Millions of yen |        | Thousands of |
|--|-----------------|--------|--------------|
|  | March 31,       |        | U.S. dollars |
|  | March 31,       |        | March 31,    |
|  | 2018            | 2019   | 2019         |
| Acquisition of property, plant and equipment | 37,262          | 20,931 | 188,788      |
| Acquisition of intangible assets             | 2,203           | 2,249  | 20,285       |
| Total  | 39,465          | 23,181 | 209,082      |

### *39. Contingencies*

#### Material litigation

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

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

Epson had the following material actions.

#### **(1) The liquid crystal display price-fixing cartel**

The investigation of the Company by a certain anti-monopoly-related authority regarding allegations of involvement in a liquid crystal display price-fixing cartel has been completed.

#### **(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 Repobel (“Reprobel”), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. After that, Repobel also brought a civil suit against EEB. As a result, these two lawsuits were adjoined. EEB’s claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

### *40. Subsequent Events*

#### **(1) Share repurchase**

The Company resolved at the meeting of its Board of Directors held on April 26, 2019 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.

##### (A) Reason for the repurchase

To optimize capital efficiency and to further enhance shareholder returns

##### (B) Class of shares to be repurchased

Ordinary shares

##### (C) Total number of repurchasable shares

7.5 million (maximum) (2.12% of the total number of issued shares (excluding treasury shares))

##### (D) Total repurchase cost

10 billion yen (maximum)

##### (E) Repurchase period

May 7, 2019 – September 20, 2019

##### (F) Repurchase method

Purchase on the Tokyo Stock Exchange (By securities company using discretionary method)

#### **(2) Issuance of straight bonds by the Company**

At the board of directors meeting held on June 4, 2019, the Company resolved comprehensively to issue unsecured straight bonds up to ¥30 billion (\$270,587 thousand) in order to secure funds necessary for business development. The Company plans to issue the bonds through public offering in Japan and the purpose of funding is for redemption of bonds, capital expenditures and operating capital.

### *41. Approval of Consolidated Financial Statements*

The consolidated financial statements were approved by Minoru Usui (President and Representative Director) and Tatsuaki Seki (Director, Managing Executive Officer and General Administrative Manager, Management Control Division) on June 26, 2019.

Report of Independent Auditors



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, 2019, 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, 2019, 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 Shin Nihon LLC*

June 26, 2019

**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   |
| 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, Financial assistance   |
| Akita Epson Corporation         | Yuzawa-shi, Akita      | 80 (million JPY)                   | Printing solutions, Wearable & Industrial products   | 100.0                                     | Manufacture of printer components, watch movements and sensing equipment, Financial assistance   |
| Epson Atmix Corporation         | Hachinohe-shi, Aomori  | 450 (million JPY)                  | Wearable & Industrial products   | 100.0                                     | Manufacture and sales of metal powders, synthetic quartz crystal, etc., Financial assistance, Rental and borrowing 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, 3LCD projectors, factory automation products, and electronic devices, etc., Interlocking directors |
| Epson Portland Inc.             | Portland, U.S.A.       | 31,150 (thousand USD)              | Printing solutions   | 100.0 (100.0)                             | Manufacture of printer consumables, etc.   |

# SEIKO EPSON CORPORATION

| 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.<br>*        | Amsterdam,<br>the Netherlands   | 95,000<br>(thousand EUR)           | Regional headquarters,<br>Printing solutions,<br>Visual<br>communications                                    | 100.0                                     | Regional headquarters in Europe,<br>Sales of printers and 3LCD projectors, etc.,<br>Interlocking directors   |
| Epson (U.K.) Ltd.             | Hemel<br>Hempstead,<br>UK       | 1,600<br>(thousand GBP)            | Printing solutions,<br>Visual<br>communications  | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.,<br>Guaranty of liabilities  |
| Epson Deutschland GmbH        | Dusseldorf,<br>Germany          | 5,200<br>(thousand EUR)            | Printing solutions,<br>Visual<br>communications,<br>Wearable & Industrial products                           | 100.0<br>(100.0)                          | Sales of printers, 3LCD projectors and factory automation products, etc.   |
| Epson Europe Electronics GmbH | Munich,<br>Germany              | 2,000<br>(thousand EUR)            | Wearable & Industrial products   | 100.0<br>(100.0)                          | Sales of electronic devices  |
| Epson France S.A.S.           | Levallois-<br>Perret,<br>France | 4,000<br>(thousand EUR)            | Printing solutions,<br>Visual<br>communications  | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| Epson Italia S.p.A.           | Milan,<br>Italy                 | 3,000<br>(thousand EUR)            | Printing solutions,<br>Visual<br>communications  | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| For.Tex S.r.l.                | Como,<br>Italy                  | 80<br>(thousand EUR)               | Printing solutions   | 100.0<br>(100.0)                          | Sales, etc. of printer consumables   |
| Epson Iberica, S.A.U.         | Cerdanyola,<br>Spain            | 1,900<br>(thousand EUR)            | Printing solutions,<br>Visual<br>communications  | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| Epson Telford Ltd.            | Telford,<br>UK                  | 8,000<br>(thousand GBP)            | Printing solutions   | 100.0<br>(100.0)                          | Manufacture of printer consumables,<br>Interlocking directors  |
| Fratelli Robustelli S.r.l.    | Como,<br>Italy                  | 90<br>(thousand EUR)               | Printing solutions   | 100.0<br>(100.0)                          | Manufacture, etc. of printers,<br>Interlocking directors   |
| Epson (China) Co., Ltd.<br>*  | Beijing,<br>China               | 1,211<br>(million CNY)             | Regional headquarters,<br>Printing solutions,<br>Visual<br>communications,<br>Wearable & Industrial products | 100.0                                     | Regional headquarters in China,<br>Sales of printers, 3LCD projectors, factory automation products and electronic devices, etc.,<br>Interlocking directors |
| Epson Singapore Pte. Ltd.     | Singapore                       | 200<br>(thousand SGD)              | Regional headquarters,<br>Printing solutions,<br>Visual<br>communications,<br>Wearable & Industrial products | 100.0                                     | Regional headquarters in Southeast Asia,<br>Sales of printers, 3LCD projectors and electronic devices, etc.,<br>Interlocking directors                     |
| Epson Korea Co., Ltd.         | Seoul,<br>Korea                 | 1,466<br>(million KRW)             | Printing solutions,<br>Visual<br>communications  | 100.0                                     | Sales of printers, 3LCD projectors and factory automation products, etc.   |

# SEIKO EPSON CORPORATION

| Company name                           | Location              | Paid-in capital or amount invested | Main business   | Ownership percentage of voting rights (%) | Relationship between parent company and subsidiary   |
|--|-----------------------|------------------------------------|---|---|--|
| Epson Hong Kong Ltd.                   | Hong Kong, China      | 2,000<br>(thousand HKD)            | Printing solutions, Visual communications, Wearable & Industrial products | 100.0                                     | Sales of printers, 3LCD projectors, watch movements, factory automation products and electronic devices, etc.                              |
| Epson Taiwan Technology & Trading Ltd. | Taipei, Taiwan        | 25,000<br>(thousand TWD)           | Printing solutions, Visual communications, Wearable & Industrial products | 100.0                                     | Sales of printers, 3LCD projectors, factory automation products and electronic devices, etc., Interlocking directors, Financial assistance |
| PT. Epson Indonesia                    | Jakarta, Indonesia    | 918,000<br>(thousand IDR)          | Printing solutions, Visual communications                                 | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| Epson (Thailand) Co., Ltd.             | Bangkok, Thailand     | 103,000<br>(thousand THB)          | Printing solutions, Visual communications                                 | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| Epson Philippines Corporation          | Pasig, Philippines    | 50,000<br>(thousand PHP)           | Printing solutions, Visual communications                                 | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc.  |
| Epson Australia Pty. Ltd.              | North Ryde, Australia | 1,000<br>(thousand AUD)            | Printing solutions, Visual communications                                 | 100.0                                     | Sales of printers and 3LCD projectors, etc., Interlocking directors  |
| Epson India Pvt. Ltd.                  | Bangalore, India      | 108,628<br>(thousand INR)          | Printing solutions, Visual communications                                 | 100.0<br>(100.0)                          | Sales of printers and 3LCD projectors, etc., Interlocking directors  |
| Epson Precision (Hong Kong) Ltd.<br>*  | Hong Kong, China      | 81,602<br>(thousand USD)           | Printing solutions, Visual communications                                 | 100.0                                     | Management of components of printers and 3LCD projectors, etc. used for contract services  |
| Epson Engineering (Shenzhen) Ltd.<br>* | Shenzhen, China       | 56,641<br>(thousand USD)           | Printing solutions, Visual communications, Wearable & Industrial products | 100.0<br>(100.0)                          | Manufacture of printers, 3LCD projectors and factory automation products, etc.   |
| Epson Precision (Shenzhen) Ltd.        | Shenzhen, China       | 25,000<br>(thousand USD)           | Wearable & Industrial products  | 100.0<br>(100.0)                          | Manufacture of watches, etc.   |
| Orient Watch (Shenzhen) Ltd.           | Shenzhen, China       | 37,748<br>(thousand CNY)           | Wearable & Industrial products  | 100.0<br>(100.0)                          | Manufacture of watches, etc.   |
| Tianjin Epson Co., Ltd.                | Tianjin, China        | 172,083<br>(thousand CNY)          | Printing solutions  | 80.0<br>(80.0)                            | Manufacture of printer consumables, etc., Interlocking directors   |

# SEIKO EPSON CORPORATION

| Company name                                | Location               | Paid-in capital or amount invested | Main business                             | Ownership percentage of voting rights (%) | Relationship between parent company and subsidiary                   |
|---|------------------------|------------------------------------|---|---|--|
| Singapore Epson Industrial Pte. Ltd.        | Singapore              | 71,700<br>(thousand SGD)           | Wearable & Industrial products            | 100.0                                     | Manufacture of semiconductors, and surface finishing, etc.           |
| PT. Epson Batam                             | Batam, Indonesia       | 7,000<br>(thousand USD)            | Printing solutions                        | 100.0<br>(100.0)                          | Manufacture of printer consumables, etc.,<br>Guaranty of liabilities |
| PT. Indonesia Epson Industry *              | Bekasi, Indonesia      | 23,000<br>(thousand USD)           | Printing solutions                        | 100.0                                     | Manufacture of printers, Interlocking directors                      |
| Epson Precision (Thailand) Ltd. *           | Chachoengsao, Thailand | 3,250,000<br>(thousand THB)        | Wearable & Industrial products            | 100.0                                     | Manufacture of crystal devices,<br>Interlocking directors            |
| Epson Precision (Philippines), Inc. *       | Lipa, Philippines      | 157,533<br>(thousand USD)          | Printing solutions, Visual communications | 100.0                                     | Manufacture of printers and 3LCD projectors                          |
| Epson Precision Malaysia Sdn. Bhd.          | Kuala Lumpur, Malaysia | 16,000<br>(thousand MYR)           | Wearable & Industrial products            | 100.0                                     | Manufacture of crystal devices,<br>Interlocking directors            |
| Epson Precision (Johor) Sdn. Bhd.           | Johor, Malaysia        | 22,800<br>(thousand MYR)           | Wearable & Industrial products            | 100.0<br>(100.0)                          | Manufacture of watch components                                      |
| 41 other companies                          | —                      | —                                  | —   | —   | —  |
| (Equity method affiliates)<br>Two 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.

(Millions of yen)

| Company name                  | Revenue | Profit before tax | Profit for the period | Total equity | Total assets |
|-------------------------------|---------|-------------------|-----------------------|--------------|--------------|
| Epson Sales Japan Corporation | 183,472 | 2,824             | 2,225                 | 16,800       | 72,816       |
| Epson America, Inc.           | 308,658 | 1,451             | 1,370                 | 51,638       | 136,044      |

Figures for Epson America, Inc. are included in consolidated business results.

## 2. Distribution of ownership among shareholders

As of March 31, 2019

| 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) | –                                     | 84                              | 33                            | 417                         | 554                             | 25          | 46,820                          | 47,933                             | –       |
| Number of shares owned (Units)   | –                                     | 1,480,624                       | 212,258                       | 558,629                     | 603,655                         | 114         | 1,139,875                       | 3,995,155                          | 119,278 |
| Percentage of shares owned (%)   | –                                     | 37.07                           | 5.31                          | 13.98                       | 15.11                           | 0.00        | 28.53                           | 100.00                             | –       |

### Notes

- 47,233,041 shares of treasury shares are included as 472,330 units under “Japanese individuals and others” and 41 shares under “Shares less than one unit.” Treasury shares do not include the Company’s shares (164,598 shares) owned by the officer compensation BIP trust.
- Six units in the name of Japan Securities Depository Center, Inc. are included under “Other Japanese corporations.”



## 3. Major shareholders

As of March 31, 2019

| Name  | Address  | Number of shares held (Shares) | Shareholding ratio (%) |
|---|--|--------------------------------|------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust account)  | 11-3, Hamamatsu-cho 2-chome, Minato-ku, Tokyo  | 55,075,200                     | 15.62                  |
| Japan Trustee Services Bank, Ltd. (Trust account)   | 8-11, Harumi 1-chome, Chuo-ku, Tokyo   | 26,482,900                     | 7.51                   |
| Sanko Kigyo Kabushiki Kaisha  | 6-1, Ginza 5-chome, Chuo-ku, Tokyo   | 20,000,000                     | 5.67                   |
| Seiko Holdings Corporation  | 5-11, Ginza 4-chome, Chuo-ku, Tokyo  | 12,000,000                     | 3.40                   |
| Yasuo Hattori   | Minato-ku, Tokyo   | 11,932,612                     | 3.38                   |
| Trust & Custody Services Bank, Ltd. (Securities investment trust account)   | Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo   | 8,795,500                      | 2.49                   |
| The Dai-ichi Life Insurance Company, Limited<br>(Standing proxy: Trust & Custody Services Bank, Ltd.)   | 13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo<br>(Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo) | 8,736,000                      | 2.47                   |
| 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                      | 2.31                   |
| Seiko Epson Corporation Employees' Shareholding Association   | 3-5, Owa 3-chome, Suwa-shi, Nagano   | 7,274,643                      | 2.06                   |
| Japan Trustee Services Bank, Ltd. (Trust account 5)   | 8-11, Harumi 1-chome, Chuo-ku, Tokyo   | 4,876,400                      | 1.38                   |
| Total   | —  | 163,327,055                    | 46.34                  |

## Notes

1. Although the Company holds 47,233,041 shares of treasury shares, 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 outstanding is 11.81%.) Treasury shares do not include the Company's shares (164,598 shares) owned by the officer compensation BIP trust.
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.
3. Mr. Yasuo Hattori passed away on March 15, 2019. As the name change procedure has not been completed as of March 31, 2019, the name on the shareholder register is presented.

4. Sumitomo Mitsui Trust Bank, Limited and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of December 20, 2018, claiming that they hold the Company's shares as follows as of December 14, 2018. However, we have not been able to confirm the number of shares they held at the record date for voting. Therefore, they are not included in the above major shareholders.

| Name   | Address                                  | Number of shares held<br>(Shares) | Shareholding ratio<br>(%) |
|--|--|-----------------------------------|---------------------------|
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 1-1, Shibakoen 1-chome, Minato-ku, Tokyo | 8,011,700                         | 2.00                      |
| Nikko Asset Management Co., Ltd.                 | 7-1, Akasaka 9-chome, Minato-ku, Tokyo   | 13,744,500                        | 3.44                      |
| Total  | –  | 21,756,200                        | 5.44                      |

5. Mitsubishi UFJ Financial Group, Inc. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of January 21, 2019, claiming that they hold the Company's shares as follows as of January 14, 2019. However, we have not been able to confirm the number of shares they held at the record date for voting. Therefore, they are not included in the above major shareholders.

| Name   | Address                                    | Number of shares held<br>(Shares) | Shareholding ratio<br>(%) |
|--|--|-----------------------------------|---------------------------|
| Mitsubishi UFJ Trust and Banking Corporation       | 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 10,453,900                        | 2.62                      |
| Mitsubishi UFJ Kokusai Asset Management Co., Ltd.  | 12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo | 7,842,500                         | 1.96                      |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo | 1,723,721                         | 0.43                      |
| Total  | –  | 20,020,121                        | 5.01                      |

6. Nomura Securities Co., Ltd. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of March 20, 2019, claiming that they hold the Company's shares as follows as of March 15, 2019. However, we have not been able to confirm the number of shares they held at the record date for voting. Therefore, they are not included in the above major shareholders.

| Name                              | Address                                       | Number of shares held<br>(Shares) | Shareholding ratio<br>(%) |
|-----------------------------------|---|-----------------------------------|---------------------------|
| Nomura Securities Co., Ltd.       | 9-1, Nihonbashi 1-chome, Chuo-ku, Tokyo       | 1,071,858                         | 0.27                      |
| NOMURA INTERNATIONAL PLC          | 1 Angel Lane, London EC4R 3AB, United Kingdom | 1,084,234                         | 0.27                      |
| Nomura Asset Management Co., Ltd. | 12-1, Nihonbashi 1-chome, Chuo-ku, Tokyo      | 32,590,200                        | 8.15                      |
| Total                             | –   | 34,746,292                        | 8.69                      |

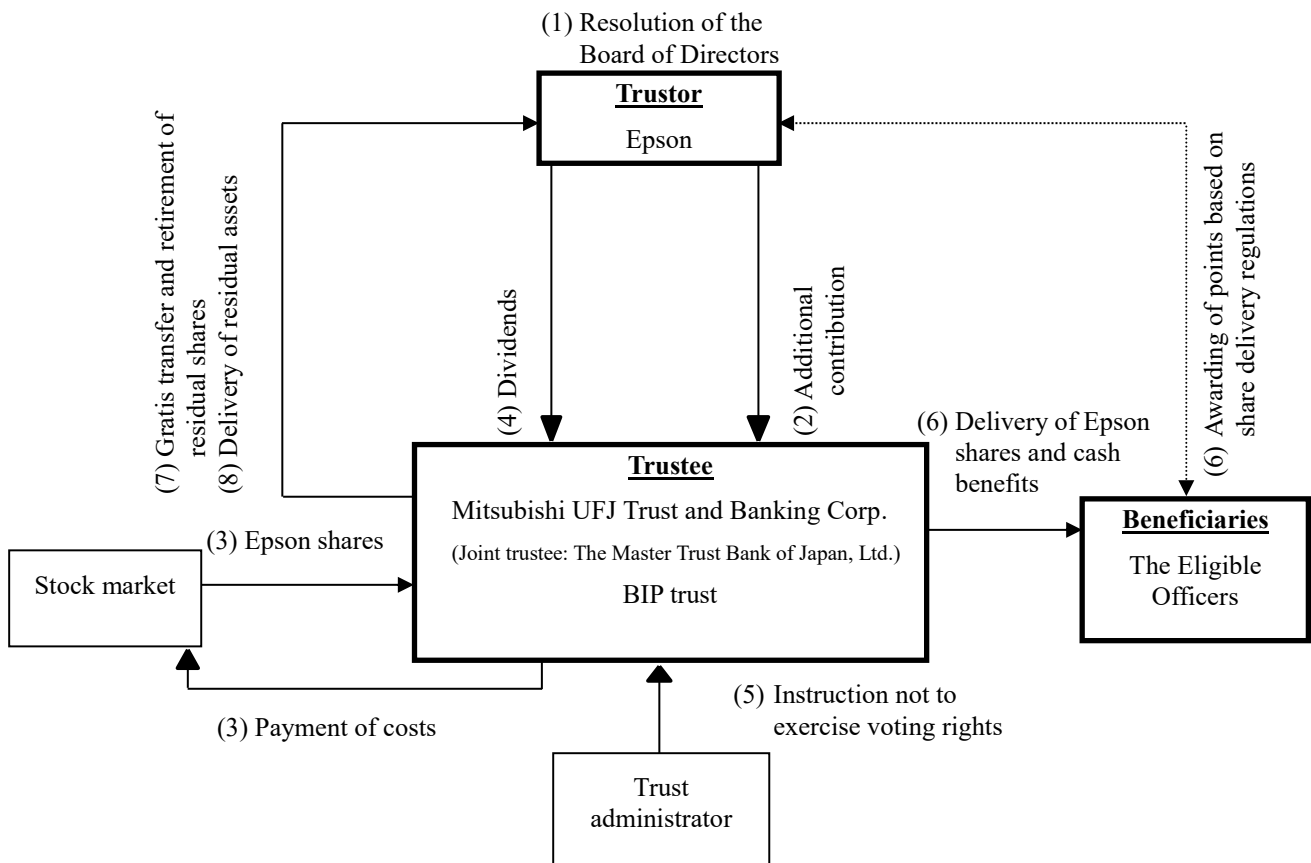
4. Officer and employee stock ownership plans

<Performance-Linked Stock Compensation Plan>

The Company has introduced a transparent & fair performance-linked stock compensation plan (hereinafter referred to as the “Plan”) for the Company’s directors and executive officers who have been engaged by the Company (hereinafter collectively referred to as the “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 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, covering three years from the fiscal year ended March 31, 2017 to the fiscal year ended March 31, 2019. Moreover, the Company resolved at the meeting of its Board of Directors held on May 16, 2019 to continue the Plan with three years from the fiscal year ending March 31, 2020 to the fiscal year ending March 31, 2022 as the period covered by the Plan.

(1) Summary of the Plan

The Plan has employed a framework referred to as the officer compensation BIP trust and is designed to deliver a variable number of shares to Eligible Officers based on the levels of achievements of mid- to long-term operating performance targets for the Company’s business profit, ROS, ROE, etc., and other factors. The BIP trust is, like the U.S. Performance Share and Restricted Stock systems, a stock compensation plan for officers under which the Company’s shares and cash equivalent to the amounts obtained through the conversion of such shares into cash are delivered and paid based on position, the levels of achievement of operating performance targets and other factors.



- 1) Epson resolves the continuation of the Plan at the meeting of its Board of Directors.
- 2) Epson additionally contributes funds within the scope of approval by resolution at the 2016 General Meeting of Shareholders and extends the period of a trust with beneficiaries who are the Eligible Officers who satisfy the beneficiary requirements (hereinafter referred to as the “Trust”).

- 3) According to the trust administrator's instructions, the Trust uses funds remaining in the trust assets at the time of the change in the trust agreement and funds contributed as in 2) above as the source of funds to acquire Epson shares in the stock market.
- 4) The allocation of surplus funds for the Epson shares within the Trust is handled in the same manner as for other Epson shares, and is appropriated for necessary expenses for the Plan.
- 5) Throughout the trust period, voting rights are not to be exercised on Epson 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. 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.

**(2) Overview of the trust agreement after continuation (planned)**

|  |  |
|--|--|
| 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 the Eligible Officers  |
| 3) Trustor                                   | Epson  |
| 4) Trustee                                   | Mitsubishi UFJ Trust and Banking Corporation<br>(Joint trustee: The Master Trust Bank of Japan, Ltd.)  |
| 5) Beneficiaries                             | The Eligible Officers who meet the beneficiary requirements  |
| 6) Trust administrator                       | A third-party specialist without relationship with Epson   |
| 7) Date of trust agreement                   | August 2, 2016 (planned to be changed on August 1, 2019)   |
| 8) Trust period                              | August 2, 2016 through August 31, 2019 (planned to be extended through August 31, 2022 due to the change in the trust agreement)   |
| 9) Plan launch date                          | 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 additional trust money | 220 million yen (including trust fees and expenses)  |
| 13) Maximum amount of trust money            | 500 million yen (including trust fees and expenses)  |
| 14) Method of acquiring shares               | Acquisition in the stock market  |
| 15) Period for acquiring shares              | November 1, 2019 through November 29, 2019   |
| 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. plan to handle the trust-related business as trustees of the BIP Trust.                                     |
| 2) Stock-related business | Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. plans to handle the business related to the delivery of Epson shares to the beneficiaries in accordance with a business consignment agreement. |

**(4) Total number or total amount of shares to be acquired by the Eligible Officers**

190,305 shares

**(5) Scope of beneficiaries and persons entitled to other rights under the Plan**

The Eligible Officers who meet the beneficiary requirements

**5. Corporate data and investor information**

|  |   |
|--|---|
| <b>(1) Company name</b>  | Seiko Epson Corporation   |
| <b>(2) Founded</b>   | May 1942  |
| <b>(3) Head office</b>   | 3-5, Owa 3-chome, Suwa, Nagano 392-8502, Japan<br>Tel: +81-266-52-3131 (main)   |
| <b>(4) Tokyo office</b>  | JR Shinjuku Miraina Tower, 4-1-6 Shinjuku, Tokyo<br>160-8801, Japan<br>Tel: +81 3-5368-0700 (main)  |
| <b>(5) Investor information</b>  |   |
| <b>Closing of accounts</b>   | March 31  |
| <b>Regular general shareholders' meeting</b>   | June  |
| <b>Date for confirmation to shareholders of the cash dividend payment date</b>         | March 31  |
| <b>Date for confirmation to shareholders of the interim cash dividend payment date</b> | September 30  |
| <b>Transfer agent</b>  | Mitsubishi UFJ Trust and Banking Corporation<br>4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo  |
| <b>Agent's business address</b>  | Stock Transfer Agency Department<br>Mitsubishi UFJ Trust and Banking Corporation<br>1-1, Nikkocho, Fuchu, Tokyo, Japan<br>Tel: +81-42-204-0303<br><a href="http://www.tr.mufg.jp/english/">http://www.tr.mufg.jp/english/</a>                         |
| <b>Intermediary offices</b>  | Head Office and Branches of Mitsubishi UFJ Trust and Banking Corporation  |
| <b>Posting of public notices</b>   | 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) |
| <b>Public notice website address</b>   | <a href="http://kmasterplus.pronexus.co.jp/main/corp/6/7/6724/index.html">http://kmasterplus.pronexus.co.jp/main/corp/6/7/6724/index.html</a> (Japanese)  |



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