

# Annual Report 2021

SEIKO EPSON CORPORATION

April 2020 - March 2021

**Note:** This document has been extracted and translated for reference purposes only from the Japanese original report (Yukashoken-Hokokusho) issued on June 28, 2021, which was created in accordance with the Financial Instruments and Exchange Act. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

## **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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# SEIKO EPSON CORPORATION

## Consolidated Financial Highlights

For the years ended March 31	Millions of yen					Thousands of U.S. dollars
	2017	2018	2019	2020	2021	2021
Revenue	1,024,856	1,102,116	1,089,676	1,043,600	995,940	8,997,967
Profit before tax	67,470	62,663	72,040	39,713	44,933	405,953
Profit for the period attributable to owners of the parent company	48,320	41,836	53,710	7,733	30,922	279,369
Total comprehensive income for the period	55,982	41,581	49,542	(3,869)	68,818	621,746
Equity attributable to owners of the parent company	492,196	512,727	540,181	503,746	550,924	4,977,404
Total assets	974,387	1,033,350	1,038,389	1,040,910	1,161,314	10,492,063
Equity attributable to owners of the parent company, per share	Yen 1,397.40	Yen 1,455.67	Yen 1,533.57	Yen 1,456.20	Yen 1,592.36	\$ 14.39
Basic earnings per share	Yen 136.82	Yen 118.78	Yen 152.49	Yen 22.26	Yen 89.38	\$ 0.81
Diluted earnings per share	Yen 136.82	Yen 118.75	Yen 152.44	Yen 22.25	Yen 89.35	\$ 0.81
Equity attributable to owners of the parent company ratio	% 50.51	% 49.62	% 52.02	% 48.39	% 47.44	-
Return on equity	% 10.07	% 8.33	% 10.20	% 1.48	% 5.86	-
Price earnings ratio	times 17.13	times 15.92	times 11.12	times 52.56	times 20.14	-
Dividend payout ratio	% 43.9	% 52.2	% 40.7	% 278.5	% 69.4	-
Total shareholder return (Comparison index: TOPIX (Dividend included))	% 132.2 (114.7)	% 110.7 (132.9)	% 103.4 (126.2)	% 77.9 (114.2)	% 116.0 (162.3)	-
Net cash from (used in) operating activities	96,873	84,279	76,961	102,324	133,222	1,203,613
Net cash from (used in) investing activities	(75,759)	(74,661)	(82,738)	(76,131)	(57,448)	(519,022)
Net cash from (used in) financing activities	(26,691)	37	(49,430)	(283)	23,150	209,152
Cash and cash equivalents at end of period	221,782	229,678	175,238	196,245	304,007	2,746,596
Number of employees	persons 72,420	persons 76,391	persons 76,647	persons 75,608	persons 79,944	-

(Note) The Consolidated Financial Statements have been prepared on the basis of International Financial Reporting Standards (IFRS) from the year ended March 31, 2014.

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 ¥110.685 = 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 as well as dry fiber technology and other technologies to develop, manufacture, and sell products and provide services related thereto.

The main activities of these businesses are described below.

#### **Printer business**

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

#### **Professional printing business**

This business is primarily responsible for inkjet printers for commercial and industrial applications, printers for use in POS systems, inkjet printheads, 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 for office and home, serial impact dot matrix printers, page printers, color image scanners, dry process office papermaking systems, and related consumables, and others	Tohoku Epson Corporation Akita Epson Corporation Epson Portland Inc. Epson Telford Ltd. Epson Como Printing Technologies S.r.l.	Epson Sales Japan Corporation Epson America, Inc. Epson Europe B.V. Epson (U.K.) Ltd. Epson Deutschland GmbH Epson France S.A.S. Epson Italia S.p.A. Epson Como Printing Technologies S.r.l. Epson Iberica, S.A.U. Epson (China) Co., Ltd. Epson Korea Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd. PT. Epson Indonesia Epson (Thailand) Co., Ltd. Epson Philippines Corporation Epson Australia Pty. Ltd. Epson India Pvt. Ltd.
Professional printing	Commercial and industrial inkjet printers, printers for use in POS systems, inkjet printheads, and related consumables, and others	Tianjin Epson Co., Ltd. Epson Engineering (Shenzhen) Ltd. PT. Epson Batam PT. Indonesia Epson Industry Epson Precision (Philippines), Inc.	
Others	PCs and other equipment	—	Epson Sales Japan Corporation Epson Direct Corporation

## **Visual Communications Business Segment**

The businesses in this segment leverage Epson's original microdisplay and projection technologies to develop, manufacture, and sell 3LCD projectors mainly for business, education, the home, and event as well as smart glasses and provide services related thereto.

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

## **Wearable & Industrial Products Business Segment**

This segment comprises the wearable products business, robotics solutions business, and the microdevices business and develops, manufactures and sells the products below, and provides services related thereto.

The main activities of these businesses are described below.

### **Wearable products business**

This business leverages its ultrafine and ultraprecision machining and processing technologies, its high-density mounting and assembly technologies and high-accuracy sensing technology to develop, manufacture and sell wristwatches, watch movements and others.

### **Robotics solutions business**

This business leverages advanced precision mechatronics, high-accuracy sensing technology, software technology 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 operates metal powders business and surface finishing services business.

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

\* IC handler business was transferred to another company in April 2021.

## **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, 2021

Name of plant (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m <sup>2</sup> )	Other	Total	
Head Office (Suwa-shi, Nagano)	Overall administration and other	Other facilities	1,321	257	1,201 (42,384) [2,136]	109	2,889	443
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	5,765	–	– (–)	53	5,819	218
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Other	Other facilities	1,090	25	3,764 (179,759) [1,758]	154	5,035	581
Hirooka Office (Shiojiri-shi, Nagano)	Printing solutions Other	Printer development and design and component manufacturing facilities Research and development facilities	50,738	21,473	6,944 (217,655) [14,414]	4,145	83,302	6,174
Toyoshina Plant (Azumino-shi, Nagano)	Visual communications Wearable & Industrial products	3LCD projector, smart glasses and factory automation product development and design facilities	3,072	1,223	901 (75,912) [33,982]	1,301	6,498	1,636
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Printing solutions Visual communications Other	Printer component and liquid crystal panel manufacturing facilities Research and development facilities	5,963	8,758	1,443 (113,082) [28,909]	436	16,601	919
Chitose Plant (Chitose-shi, Hokkaido)	Visual communications	Liquid crystal panel manufacturing facilities	2,904	5,500	1,375 (160,529)	127	9,907	227
Ina Plant (Minowa-machi, Kamiina-gun, Nagano)	Wearable & Industrial products	Crystal device development and design facilities	1,678	2,193	129 (39,943) [1,503]	120	4,122	463
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Wearable & Industrial products Other	Semiconductor development and design facilities Research and development facilities	5,884	2,554	1,996 (247,143)	1,016	11,451	853
Sakata Plant (Sakata-shi, Yamagata)	Wearable & Industrial products	Semiconductor manufacturing facilities Other	8,013	3,942	2,177 (538,829)	336	14,469	24
Hino Office (Hino-shi, Tokyo)	Wearable & Industrial products	Other facilities	2,196	0	3,221 (15,681)	27	5,446	125
Shiojiri Plant (Shiojiri-shi, Nagano)	Wearable & Industrial products	Watch development, design and manufacturing facilities	1,371	14	1,079 (43,061) [6,067]	12	2,479	549

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## (2) Domestic subsidiaries

As of March 31, 2021

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m <sup>2</sup> )	Other	Total	
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Printing solutions Wearable & Industrial products	Printer component and semiconductor manufacturing facilities	3	6	— (—)	372	382	1,999
Akita Epson Corporation (Yuzawa-shi, Akita)	Printing solutions Wearable & Industrial products	Printer component and watch movements manufacturing facilities	4,424	62	724 (89,011)	189	5,402	1,047
Epson Atmix Corporation (Hachinohe-shi, Aomori)	Wearable & Industrial products	Manufacturing facilities for metal powders, etc.	3,973	3,081	883 (30,653) [34,208]	212	8,150	329

## (3) Overseas subsidiaries

As of March 31, 2021

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m <sup>2</sup> )	Other	Total	
Epson Engineering (Shenzhen) Ltd. (Shenzhen, China)	Printing solutions Visual communications Wearable & Industrial products	Printer, 3LCD projector and factory automation product manufacturing facilities	3,521	3,542	332 (—) [64,104]	4,173	11,570	8,396
Singapore Epson Industrial Pte. Ltd. (Singapore)	Wearable & Industrial products	Watch component and semiconductor manufacturing facilities and surface finishing facilities	2,232	1,324	985 (—) [41,567]	257	4,799	623
PT. Epson Batam (Batam, Indonesia)	Printing solutions	Printer consumables manufacturing facilities	757	3,097	7 (—) [8,644]	268	4,131	3,081
PT. Indonesia Epson Industry (Bekasi, Indonesia)	Printing solutions	Printer manufacturing facilities	6,337	5,863	1,886 (—) [254,871]	8,625	22,713	14,486
Epson Precision (Thailand) Ltd. (Chachoengsao, Thailand)	Wearable & Industrial products	Watch and crystal device manufacturing facilities	7,152	3,321	625 (97,435)	139	11,239	1,789
Epson Precision (Philippines), Inc. (Lipa, Philippines)	Printing solutions Visual communications	Printer and 3LCD projector manufacturing facilities	25,716	9,171	2,212 (117,489) [130,000]	3,677	40,778	18,092
Epson Precision Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Wearable & Industrial products	Crystal device manufacturing facilities	339	3,065	312 (32,437)	27	3,744	1,921

### Notes

1. The above amounts do not include consumption tax.
2. The above amounts include right-of-use assets.
3. “Other” under the book value column includes tools, furniture and fixtures and other property, plant and equipment, but does not include construction in progress.
4. Portions of land are leased from companies not included in consolidated accounts. The size of each area of leased land is indicated in brackets [ ].
5. Tohoku Epson Corporation uses a portion of the facilities of the Sakata Plant.
6. Figures for Epson Precision (Philippines), Inc., are included in consolidated business results.
7. 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 and software) amounted to ¥52.8 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 ¥27.2 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 ¥8.0 billion in the fiscal year under review.

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

Investment used for commercializing new products such as wristwatches, factory automation products, crystal devices and semiconductors, and for increasing production capacity, rationalizing, upgrading and maintaining equipment and facilities amounted to ¥10.5 billion in the fiscal year under review.

#### **Other and overall**

Investment used for strengthening R&D structure, creating a global management database, and integrating systems, etc. amounted to ¥6.9 billion in the fiscal year under review.

#### 4. Plans for new additions or disposals

Epson plans to allocate ¥60.0 billion to capital expenditures for the fiscal year ending March 31, 2022.

Business segment	Planned amount of capital expenditures (Billions of yen)	Main type and purpose of equipment and facilities
Printing solutions	33.0	Commercializing new products, automating, upgrading and maintaining equipment and facilities, etc.
Visual communications	6.0	Commercializing new products, automating, upgrading and maintaining equipment and facilities, etc.
Manufacturing-related & Wearables	13.0	Commercializing new products, automating, upgrading and maintaining equipment and facilities, etc.
Other and overall	8.0	Strengthening R&D, carrying out environmental investment, automating, upgrading and maintaining equipment and facilities, etc.
Total	60.0	—

#### Notes

1. The above amounts do not include consumption tax.
2. The above amounts include capital expenditures through leases.
3. The required funds will be covered by internal funds, borrowings from financial institutions and issuance of bonds.
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. From FY2021, changes have been made to segment classification in line with the “Epson 25 Renewed” policy. The former “Wearable & Industrial products business segment” has changed to become the “Manufacturing-related & Wearables business segment.”

## 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 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. For these risks, although matters that may possibly become risk factors are described, they do not cover all risks, and risks that were not assumed as of the filing date of the Annual Securities Report and risks that are of low significance may also have an effect on our financial position, operating results and cash flows in the future.

Furthermore, while as our policy, we strive to recognize, prevent, and control potential risks and to address risks that materialize, there is no assurance we will succeed in these efforts, and if we are unable to effectively counteract the risks, our financial position, operating results and cash flows could be adversely affected.

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, etc. could be adversely affected by fluctuations in printer sales.**

The ¥707.7 billion in revenue in the printing solutions segment in the year ended March 31, 2021 accounted for about 70% of Epson's ¥995.9 billion in consolidated revenue. Inkjet printers (including printer consumables) for the office and home 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, etc.

### **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 declines in 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, etc. 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 office & home printing innovation, commercial & industrial printing innovation, manufacturing innovation, visual innovation, and lifestyle innovation. We are looking to create value truly sought by customers and achieve our vision for each business by making each innovation happen. Epson is executing plans and strategies based on a long-range corporate vision Epson 25 Renewed and each business strategy 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 evolving product technologies, including digital technologies and our original core technologies, such as Micro Piezo inkjet technology, microdisplays, sensing, and robotics, all of which arose from Epson's rich legacy of efficient, compact, and precision technologies, as well as the core technologies that underpin these. In this way, 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 long-range corporate vision, 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, etc. 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 we experience revenue and profit declines in businesses such as our ink cartridge business as a result of shrinking unit shipments in response to an expansion of sales of third-party alternative products and drop of the market share of genuine Epson products, or if we must lower the prices of Epson brand products to stay competitive, our operating results, etc. could be adversely affected.

### **5. Expanding businesses overseas entails risks for Epson.**

We continue to expand our businesses overseas, and overseas revenue accounted for 75% or more of our consolidated revenue for the year ended March 31, 2021. 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 2021, 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 entail 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, etc. 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, etc.

## **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, etc. 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 “Environmental Vision 2050,” through which we aim to become carbon negative and underground resource<sup>6</sup> free by 2050. For example, we have programs to develop and manufacture products that have a small environmental footprint and programs to develop environmental technologies. 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. For our goals for GHG emissions reduction, we obtained approval from the Science Based Targets initiative (SBTi), and we are working on activities to reduce GHG emissions over the medium to long term, including activities to drive the use of renewable energy, with the aim of achieving the global RE100 in 2023.

As a result of these efforts, Epson has reduced its GHG emissions (Scope 1 and 2) for the 2020 fiscal year to 460,000 tons. This represents an approximately 21% reduction since the 2017 fiscal year, a base fiscal year. In addition, we have increased our renewable energy ratio to 19% (on an electric power basis).

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, etc. could be adversely affected.

<sup>6</sup> Non-renewable resources such as oil and metals

## **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 foster a corporate culture that enables diverse personnel to demonstrate their abilities, create comfortable working environments, and hire and retain talented personnel by, for example, introducing compensation and benefit packages that are commensurate with roles, nurturing talent, implementing diversity initiatives, promoting work-style reform and health management, and 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, etc. 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 position and operating results, etc.

## **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, etc. 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, including worker protection activities as a member of the RBA (Responsible Business Alliance) and further promotion of environmental conservation efforts. 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, etc.

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

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, etc. 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 products related to printing solutions, visual communications, and manufacturing-related & wearables, 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 adjoined. 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 development, etc. could be affected, depending on the outcomes of suits and legal proceedings.

**15. Epson is vulnerable to certain risks in internal control related to 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 related to 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, etc. exactly as expected.

## **17. Epson could be severely affected in the event of a natural disaster or an infectious disease, etc.**

We have research and development, procurement, manufacturing, logistics, sales and service sites around the globe, and our operating results and future business development, etc. could be adversely affected by any number of unpredictable events, including but not limited to natural disasters, pandemics involving new infectious diseases such as COVID-19 infection, supply chain disruptions mainly 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.

In addition, the spread of the COVID-19 infection will affect Epson. If stoppages or long delays in procurement, production, shipping, and logistics due to government imposed measures such as lockdowns and closures; weak consumer spending; a drop in capital expenditure demand; delays in B2B business and tender opportunities; and other factors are prolonged or expanded, Epson's financial position and operating results could be affected.

Under these circumstances, Epson gives the highest priority to safety and health of its employees and their family, and all stakeholders including customers and shareholders, and works to promptly advance measures to normalize production and sales operations to get out of these confusions as early as possible. Moreover, although adequate financial soundness has been maintained at this stage, Epson makes the best possible efforts for financing by concluding commitment line contracts with financial institutions and other means.

During the period under the influence of the spread of the COVID-19 infection, as well as after the influence settles down, our society will see people's lifestyle drastically shifting to a one where traveling, human contact and face-to-face interaction are no more essential. In response to these major changes to be faced by society, we will further accelerate our initiatives based on the long-range corporate vision Epson 25 Renewed and each business strategy, and proactively work on business opportunities by addressing anticipated social issues in a proactive manner as our policy in order to minimize these risks.

## **18. Epson faces risks concerning the information security**

The scope of what Epson's network of information systems are used for and frequency of use continue to grow, and this network is becoming increasingly important. Also, in our global business activities, we handle the personal information of customers and confidential data of business partners. Security threats are increasing year on year and our operating results and future business development, etc. could be adversely affected by occurrences such as computer virus infections, leaks of customer data, failures of key internal systems, cyber-attacks, and reputational damage through social media.

We are responding to this by carrying out information security training for all employees, as well as establishing a grand design that specifies policies concerning cyber security measures, and we are implementing various measures under this. We also plan to engage in initiatives such as establishing a global security incident response structure, planning and implementing cyber security response measures, and strengthening product security.

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

### 1. Operating results overview

#### (1) Operating results

There is ongoing uncertainty regarding the prospect of an end to the COVID-19 epidemic, but the global economy in the year under review is generally headed toward improvement thanks to economic measures introduced in each country and higher vaccination rates, but the level of recovery varies by country, region, and industry. Moreover, with consumer demand rising as the global economy recovers, supply chain problems have become evident, including shortages of shipping containers, electronic parts, and semiconductors, so Epson will continue to closely watch trends going forward. Emerging economies in some regions such as India, Southeast Asia, and part of Latin America continue to face difficult economic conditions due to ongoing restrictions on economic activity, but economic activity in China continues to gradually recover. Developed countries are expected to rebound from bottom, but some countries and regions are seeing a resurgence in infections, so the situation needs to be closely monitored.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥106.01 and ¥123.67, respectively. This represents a 3% appreciation of the yen against the dollar and a 2% depreciation of the yen against the euro compared to the same period last year. The yen also rose against the currencies of some emerging countries, in places such as Latin America.

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

(Billions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Change	Percentage of change	Main reason(s) for change
Revenue	1,043.6	995.9	(47.6)	(4.6%)	[Revenue]
Cost of sales	(681.6)	(643.5)	38.0	–	Printing Solutions Segment (0.8)
Gross profit	362.0	352.3	(9.6)	(2.7%)	Visual Communications Segment (41.8)
Selling, general and administrative expenses	(321.1)	(290.7)	30.4	–	Wearable & Industrial Products Segment (4.2)
Business profit *	40.8	61.6	20.7	50.9%	[Business profit] Printing Solutions Segment 32.9 Visual Communications Segment (12.2) Wearable & Industrial Products Segment 1.3
Other operating income and Other operating expense	(1.3)	(13.9)	(12.6)	–	Recording of impairment loss in the wearable products business and increases in exchange-rate loss, etc.
Profit from operating activities	39.4	47.6	8.1	20.7%	
Finance income and Finance costs	0.1	(2.8)	(2.9)	–	Increases in foreign exchange losses
Profit before tax	39.7	44.9	5.2	13.1%	
Income taxes	(31.8)	(13.9)	17.9	–	Decreases caused by an increase in the reversal of deferred tax assets in the previous fiscal year and the absence of a significant amount of reversal of deferred tax assets in the current fiscal year.
Profit for the period	7.8	30.9	23.1	296.2%	

# SEIKO EPSON CORPORATION

(Billions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Change	Percentage of change	Main reason(s) for change
Profit for the period attributable to owners of the parent company	7.7	30.9	23.1	299.9%	

\* 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 increased. Office and home inkjet printer demand soared as more people began working and learning from home. High-capacity ink tank printer and ink cartridge printer revenue increased in part due to an increase in selling prices. However, sales were tempered by the pandemic, which resulted in an inability to supply enough product due to temporary factory shutdowns and production limitations, and shipping delays caused by a shortage of shipping containers and port congestion. Consumables revenue increased owing to actions taken to increase production to meet rising at-home print demand. Serial impact dot matrix printer revenue decreased due to negative foreign exchange effects and a decline in sales associated with a market contraction.

Revenue in the professional printing business decreased. Commercial and industrial inkjet printer revenue fell in the first quarter due to the strong impact of restrictions on economic activity around the world due to the pandemic. However, revenue for the year increased owing primarily to strength in the remaining three quarters, resulting from the capture of large orders for photo and proofing printers and strong sales of corporate printers, CAD printers, and dye-sublimation transfer printers. POS system product revenue decreased. This was both a counteraction to the extra demand generated last year by tax reforms in Italy and a result of demand that was weakened by the restrictions on economic activity due to the pandemic.

Other revenue decreased compared to the same period last year, when PC demand rose as users sought to upgrade their operating systems.

Printing solutions segment profit increased despite negative foreign exchange effects because inkjet printer selling prices rose, sales of consumables increased, and we rigorously selected and sharply curtailed spending projects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥707.7 billion, down 0.1% year on year. Segment profit was ¥108.5 billion, up 43.5% year on year.

## Visual Communications Segment

Visual communications revenue decreased despite wins in the education market as schools reopened and despite increased demand in the home segment. The decrease was due to a combination of factors, including restrictions placed on economic activity around the world to slow the spread of COVID-19, the postponement or cancellation of events, the continued shrinkage of the projector market due to the continued incursion of flat panel displays, and product supply shortages due to shipping delays.

Epson was rigorously selective about spending projects and sharply cut costs. Nevertheless, visual communications segment profit decreased due to lower revenue.

As a result of the foregoing factors, revenue in the visual communications segment was ¥141.4 billion, down 22.8% year on year. Segment profit was ¥1.3 billion, down 90.1% year on year.

## Wearable & Industrial Products Segment

Wearable products business revenue fell sharply primarily as a result of the pandemic, which caused dealers and distributors around the world to voluntarily close and limited economic activity. Furthermore, COVID-19

infections in Japan caused year-end demand to slump while demand from travelers to Japan vanished.

Robotics solutions business revenue rose sharply on contract wins in China that boosted unit sales.

Microdevices business revenue increased amid a recent surge in demand for crystal devices in the PC and healthcare markets and for foundry services in the semiconductor business.

Segment profit in the wearable & industrial products segment was muted by the effects of lower revenue in the wearable products business yet still increased owing to spending controls and spending cuts.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥148.6 billion, down 2.8% year on year. Segment profit was ¥3.2 billion, up 75.0% year on year.

Epson also recorded a ¥7.5 billion impairment loss in the wearable products business due to the decline in profitability and changes in business strategy.

## **Other**

Other revenue amounted to ¥0.8 billion, down 12.2% year on year. Segment loss was ¥0.6 billion, compared to a segment loss of ¥0.5 billion last year.

## **Adjustments**

Adjustments to the total profit of reporting segments amounted to negative ¥50.8 billion. (Adjustments in the previous fiscal year were negative ¥49.6 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 ¥133.2 billion. The total for the previous year was ¥102.3 billion. Whereas Epson recorded a ¥30.9 billion profit for the period, there were negative factors such as a ¥12.8 billion increase in inventories. However, net cash was positively affected by the recording of ¥69.8 billion in depreciation and amortization and a ¥13.1 billion increase in trade payables.

Net cash used in investing activities totaled ¥57.4 billion (compared to ¥76.1 billion in the previous year), mainly because Epson used ¥55.8 billion in the purchase of property, plant and equipment and purchase of intangible assets.

Although Epson paid ¥21.4 billion in dividends and repaid ¥14.0 billion in long-term loans payable, net cash from financing activities totaled ¥23.1 billion (compared to ¥0.2 billion used in the previous year), chiefly due to a ¥69.6 billion issue of corporate bonds.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥304.0 billion (compared to ¥196.2 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, 2021 (From April 1, 2020, to March 31, 2021) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	662,229	95.8
Visual communications	135,636	76.5
Wearable & Industrial products	137,854	96.5
Total for the segments	935,720	92.5
Other	–	–
Total	935,720	92.5

#### 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, 2021 (From April 1, 2020, to March 31, 2021) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	707,563	100.0
Visual communications	141,468	77.2
Wearable & Industrial products	140,595	96.9
Total for the segments	989,626	95.5
Other	190	102.5
Total	989,817	95.5

#### 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 ¥1,161.3 billion, an increase of ¥120.4 billion from the previous fiscal year end. Total assets increased chiefly because cash and cash equivalents increased by ¥107.7 billion primarily due to bonds issued, and because of a ¥22.9 billion increase in inventories.

Total liabilities were ¥608.3 billion, up ¥73.4 billion compared to the end of the last fiscal year. Total liabilities increased mainly because of a ¥56.2 billion increase in bonds issued, borrowings and lease liabilities due to an issue of green bonds and because of an ¥13.1 billion increase in other current liabilities.

The equity attributable to owners of the parent company totaled ¥550.9 billion, a ¥47.1 billion increase compared to the previous fiscal year end. While Epson recorded ¥30.9 billion in profit for the period attributable to owners of the parent company and recorded ¥37.6 billion in other comprehensive income, the primary component of which was the remeasurement of the defined benefit plan, there were ¥21.4 billion in dividend payments.

Working capital, defined as current assets less current liabilities, was ¥434.0 billion, an increase of ¥96.4 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 ¥60.0 billion to capital expenditures for the fiscal year ending March 31, 2022, and the required funds will be covered by internal funds, borrowings from financial institutions and issuance of bonds.

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 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 ¥265.9 billion, up ¥56.2 billion compared to the previous fiscal year end, due to an increase in bonds issued, borrowings and lease liabilities due to an issue of green bonds. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥304.0 billion, up ¥107.7 billion compared to the end of the last fiscal year, giving Epson sufficient liquidity.

In addition, amid an uncertain outlook due to the COVID-19 pandemic, the Company entered into a commitment line contract for an environmentally conscious financing product with a main partner bank in May 2020, as part of its efforts to strengthen the financial foundation in preparation for emergencies. There is no outstanding balance of executed borrowings based on the said commitment line contract as of March 31, 2021.

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.

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 boldly undertakes challenges and strives to make innovations beyond its own conventions and vision in order to solve social issues, based on the Company's unique strengths of efficient, compact, and precision technologies since the time of its founding. We are making



efforts to have all employees share values and act autonomously while demonstrating their comprehensive strengths. By doing so, we will continuously create and provide game-changing customer value in a timely fashion, play a central role as an indispensable company in building a better society, and achieve sustainable growth and improvement of our corporate value over the medium to long term.

In March 2021, we revised our Corporate Vision and established “Epson 25 Renewed,” with the goal of achieving sustainability and enriching communities, which we have set as our aspirational goal to pursue into the future. In response to environmental issues that Epson views as very important, we have revised “Environmental Vision 2050” with the aims of becoming carbon negative and underground resource\* free by 2050.

\* Non-renewable resources such as oil and metals

Additionally, the status of progress on financial targets set with the aim of realizing our Corporate Vision is provided in “Management Analysis of Financial Position, Operating Results and Cash Flows 5. Management policy, business environment and issues to be addressed, etc.”

#### **(4) Significant accounting estimates and assumptions used for those estimates**

The consolidated financial statements of Epson are prepared in conformity with IFRS in accordance with the provision of Article 93 of “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.” Estimates that are deemed necessary have been made based on reasonable criteria.

Significant accounting policies applied in the consolidated financial statements of Epson, accounting estimates, and assumptions used for those estimates are provided in “Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 3. Significant Accounting Policies and 4. Significant Accounting Estimates and Judgments.”

## 4. Research and development activities

Epson seeks to co-create sustainability and enrich communities to connect people, things, and information by leveraging efficient, compact, and precision technologies that have been an Epson strength since its founding in addition to digital technologies. To this end, Epson places research and development activities as a part of initiatives to strengthen the business infrastructure, and promotes the evolution of foundational technologies, core technologies and product technologies to realize innovation. Going forward, the corporate R&D division and the R&D units of the operations divisions are teaming up to strengthen materials, AI and digital technologies in particular and strengthen the manufacturing foundation, primarily in growth areas and new areas. 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 ¥46.4 billion. The printing solutions segment accounted for ¥17.0 billion, the visual communications segment for ¥8.3 billion, and the wearable and industrial products segment for ¥5.5 billion. The “other” segment and corporate segment accounted for the remaining ¥15.6 billion.

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

### Printing solutions segment

In the printer business, Epson launched a new line of EcoTank inkjet printers for the home (three models) that have high-capacity ink tanks. These printers are six-color models that are loaded with the newly developed ClearChrome K2 Plus ink and include both pigment- and dye-type black inks. In particular, the ability to print on art paper, such as Velvet Fine Art Paper, which has been difficult to print on until now, has improved significantly.

Epson launched the LX-10020MF series of dedicated monochrome A3 multifunction printers for business as new Epson Smart Charge products, where one can select a plan and printer that matches ones’ usage of printing and copying. These printers deliver the same ease of use as they print at a high speed of 100 pages/minute<sup>1</sup>, reduce the trouble of replacing ink cartridges due to being loaded with high-capacity ink, reduce the trouble of replacing the paper supply due to high-capacity paper feed and ejection, and other factors. They can fold paper in half and staple, and are compatible with high-speed, easy to use finishers. Furthermore, by using Heat-Free Technology<sup>2</sup>, which does not use heat during the printing process, the environmental impact is reduced as power consumption is limited to 320W<sup>3</sup> or less.

In the professional printing business, Epson launched two new SureColor series printers for the sign display industry. The SC-R5050/R5050L, which is loaded with the newly developed water-based resin ink UltraChrome RS ink and takes into consideration an environment with a low VOC (volatile organic compound) content, contributes to the significant shortening of the time until delivery, such as by making it possible to carry out post-processing immediately after printing as drying time after printing is not needed. This printer prints not only on polyvinyl, tarpaulin and film, which solvent inks specialize in, but can also print on a wide variety of mediums, such as plain paper, wallpaper and textiles, and realizes outstanding image quality with little granularity or banding through the use of Epson Precision Dot Technology, which consists of Epson’s proprietary microweave, halftone module and LUT<sup>4</sup>, all of which having been cultivated through inkjet technologies over many years.

Epson launched the ML-8000 for textile printing, which is ideal for manufacturing many products in small quantities, as a new product in the Monna Lisa series of inkjet digital textile printers. In the textile printing market, it is necessary to shift from analogue to digital textile printing, such as by expanding manufacturing of many products in small quantities due to the diversification of consumers’ needs, and taking the environment into consideration to realize a sustainable society. The ML-8000 is the entry model of the Monna Lisa series, which has a lower introductory cost, that also realizes high productivity, printing quality and stable operation. It is equipped with eight of the newest 4.7 inch PrecisionCore micro TFP printheads, and realizes a printing speed of 155m<sup>2</sup> per hour (600x600 dpi<sup>5</sup> – 2Pass) while using the standard mode.

<sup>1</sup> Details about measurement data and measurement conditions are provided on Epson websites.

<sup>2</sup> Details about Heat-Free Technology are provided on Epson websites.

<sup>3</sup> This is the largest power consumption figure only for the main unit.

<sup>4</sup> LUT (Look Up Table) refers to a table that decides what color ink to use and in what quantity in order to faithfully recreate the color specified by the data.

<sup>5</sup> When outputting multi-layer halftone.

## Visual communications segment

Epson launched two new business projectors, including high-brightness models whose use for image rendering has expanded due to their support for large to small spaces, and four signage models. The high-brightness models EB-L30000U and EB-L30002U are the smallest and lightest in the world<sup>6</sup>, and realize the intense brightness of 30,000lm, which is the highest brightness for Epson's projectors. Moreover, through the use of the stacking function, which uses Epson Projector Professional Tool and the unit's internal camera, they can reduce the time needed for adjustment during setup as they can quickly and simply project images whose brightness is increased by layering images from multiple projectors into one. The signage models EV-110 and EV-115 can render a wide range of images and have superior installability as they can be installed like spotlights on ceilings, rails or on the floor, and because they have a wide range of movement due to their arm-like form.

In smart glasses, Epson developed the optical engine VM-40 for the fourth generation of smart glasses, which are loaded with Epson's cutting edge optical technologies for the next generation of the MOVERIO series. This newly developed optical engine realizes 1.5 times higher definition, 5 times higher contrast and 1.5 times wider field of view when compared with the Company's usual products due to Epson's proprietary silicone OLED (organic light emitting diode) display and optical technologies.

<sup>6</sup> For the main unit of the 3LCD projector that is currently being sold and can output 30,000lm (not including the protruding portion, handle or lens).

Researched by Epson. (as of October 2020)

## Wearable and industrial products segment

In the microdevices business, Epson developed the single-chip microcontroller S1C31W73, which is loaded with high-capacity memory and a high-resolution liquid crystal driver. The number of functions provided in electronic equipment has been growing in recent years, and program sizes are increasing, as the amount of information is displayed. Meanwhile, equipment manufacturers need either maintain or further shrink the size of their products, making it essential to reduce the number of parts and save board space. This microcontroller has 384 kB of built-in flash memory and a liquid crystal driver that can directly drive a display of up to 2,560 dots. By combining Epson's strong microcontroller display driver technology with the proven Arm®Cortex®-M0+ processor, Epson will help customers to increase the functionality and performance of their products while also reducing their development burden.

Epson also developed the S2D13V02, its first warning light monitoring IC for in-vehicle display systems. Amid the proliferation of vehicle functions, electronics, and automation, the S2D13V02 can properly display warning lights, which are information that is of particular importance to drivers. The S2D13V02 monitors images streamed from the host (SoC<sup>7</sup>), and when a warning light irregularity is detected, it notifies the host and, if necessary, performs display processing, for example, by overwriting the warning light image or displaying error messages. Even when warning lights are overlaid on images with changing backgrounds, such as on a map display, the IC can check the warning light in images and also detect visibility errors. The S2D13V02 supports the construction of highly reliable display systems with a full range of display safety functions.

<sup>7</sup> A system on a chip (SoC) integrates most or all the functions required for the operation of a system on a single chip. The configuration differs depending on the system, but SoC generally integrate a CPU, memory, and I/O functions.

## 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) Business and financial issues to be addressed with higher priority

In March 2021, Epson revised its Corporate Vision and established "Epson 25 Renewed" with the goal of achieving sustainability and enriching communities, which was set as the aspirational goal to pursue into the future. Furthermore, in response to environmental issues that Epson views as important, we have revised "Environmental Vision 2050" with the aims of becoming carbon negative and underground resource<sup>1</sup> free by 2050.

<sup>1</sup> Non-renewable resources such as oil and metals

#### ① Our aspirational goal that Epson will pursue into the future

At present, humanity is facing a wide range of social issues, including climate change and the COVID-19 pandemic. We believe that we have entered an era in which people aspire to achieve a variety of enrichment, including not only material and economic wealth, but also spiritual and cultural enrichment. Sustainability is a fundamental requirement for achieving this. With this background, Epson develops its business by always focusing on social issues as a starting point, considering what we can do to solve them, and how we can use our technologies to solve problems and contribute to society. This is how we work to realize our abovementioned aspirational goal that Epson will pursue into the future.

#### ② "Epson 25 Renewed"

##### a. Reflecting on "Epson 25"

The social environment has changed significantly as described above since we established our previous "Epson 25" Corporate Vision. We have been expanding our products and services and strengthening our

foundation, but have not yet achieved sufficient results, and we recognize that there have been some issues and causes as listed below.

As a response based on these reflections, we will redefine our business area goals and evolve our strategies. Simultaneously, we will strengthen our efforts for the environment, DX, and co-creation across business domains going forward. In addition, we will clarify our business portfolio, allocate management resources appropriately, and work to further strengthen the business infrastructure that supports strategy execution.

Issue	Cause	Response
<ul style="list-style-type: none"> <li>● Plan assumed excessive revenue growth</li> <li>● Strategy execution lacked speed</li> <li>● Slow response to environmental changes</li> </ul>	<ul style="list-style-type: none"> <li>● Unmindful of customer and competitor perspectives, together with mindset that superior products would be enough to drive sales</li> <li>● Lack of sensitivity to changes in societal demands and weakness in incorporating them in company-wide strategy</li> <li>● Lack of ability to execute strategy and over-emphasis on self-reliance</li> </ul>	<ul style="list-style-type: none"> <li>● Redefine business area goals and evolve strategies</li> <li>● Strengthen company-wide strategy across businesses</li> <li>● Allocate management resources to new areas and growth areas by clarifying business portfolio</li> <li>● Strengthen business infrastructure to execute strategy</li> </ul>

b. Recognizing our external environment

In achieving “Epson 25 Renewed,” we recognize the following as the external environment surrounding Epson.

- With digitalization and the evolution of technologies such as AI, the megatrend towards diversified consumption and lifestyles is accelerating and moving forward faster than expected.
- There is growing demand to solve social issues including environmental issues.
- Decentralization is accelerating along with demand for new lifestyles, including telecommuting and contact-free exchanges.
- The importance of “connecting” and “information” is growing further in response to issues such as obstruction and division of communication due to decentralization.

c. Vision statement

On this occasion, we have established the vision statement for “Epson 25 Renewed,” which is “Co-creating sustainability and enriching communities to connect people, things, and information by leveraging our efficient, compact, and precision technologies and digital technologies.”

Based on the aforementioned recognition of our external environment, we will provide solutions that connect people, things, and information in a smart manner to society as a whole, including people’s personal lives, industries, and manufacturing sites, in order to achieve our aspirational goal. The three most important initiatives in doing so are the environment, DX, and co-creation.

Environmental initiatives

- Promote decarbonization and close the resource loop, develop environmental technologies, and provide products and services that reduce environmental impacts.

DX initiatives

- Contribute to customer success by building a robust digital platform, connecting people, things, and information, and co-creating solutions that continue to meet customer needs.

Co-creation initiatives

- Leveraging our technologies and product families, solve societal issues with partners by providing core devices and a place for co-creation and networking, as well as through collaboration and investment.

d. “Epson 25 Renewed” policies

With uncertainty in the social environment expected to continue, we will seek to secure profitability and future growth by focusing on priorities. We will continuously strengthen the necessary environmental, DX, and co-creation initiatives in all areas.

Category	Applicable businesses	Policy
Growth areas	Office printing, commercial & industrial printing, printhead sales, production systems	See environmental changes as an opportunity and invest management resources.
Mature areas	Home printing, projection, watches, microdevices	Emphasize profitability through structural changes and efficiency improvements, etc.
New areas	Sensing, environmental business	Develop new technologies and businesses.

e. Innovation strategies

On this occasion, in order to execute the strategy for realizing our goals, we have reorganized the areas of innovation into five areas as follows. In addition, in the past, we focused on technology-centered innovation, but we have reconfigured the innovation areas around customer value and societal issues.

The microdevices business supports innovation in these five areas. Here, Epson will contribute to the development of a smart society with crystal and semiconductor solutions that elevate our efficient, compact and precision technologies.

Epson sees environmental contributions as a priority issue for achieving sustainability and will develop new environmental solutions that integrate materials technologies and contribute to decarbonization and resource recycling.

Innovation areas	Goals	Value proposition to customers
Office & home printing innovation	Lead the evolution toward distributed printing to reduce environmental impacts and increase work productivity by proposing inkjet technology, paper recycling technology, and open solutions.	Increased work productivity; reduction of environmental impacts; distributed printing; support for at-home learning; lower printing costs; high-quality printing
Commercial & industrial printing innovation	Offer inkjet technology and solutions that lead the digitization of printing and contribute to lower environmental impacts and higher productivity.	Power of digital expression; small lot production and fast delivery; distributed production, and local production for local consumption; waste reduction; improved work environment; accommodate logistics changes
Manufacturing innovation	Innovate manufacturing by co-creating flexible high-throughput production systems that reduce environmental impacts.	Accommodate low volume, high mix production; alleviate labor shortages; distributed production and local production for local consumption; reduced environmental impacts and close the resource loop; save space; reduce burden for system building

Innovation areas	Goals	Value proposition to customers
Visual innovation	Connect people, things, information, and services with inspiring video experiences and quality visual communications to support learning, working, and lifestyles.	Equal, high-quality learning environment; higher productivity and creativity; support lifestyle and work arrangement diversification; enrich lives
Lifestyle innovation	Utilize craftsmanship and co-create solutions that utilize sensing technologies to enrich diverse lifestyles.	Appeal to people of every sensibility; improve environmental performance with automatic power generating systems; personalized information; support tailored to lifestyle and work changes

f. Initiatives to strengthen business infrastructure

To realize each of the above-mentioned types of innovation, Epson will work to strengthen business infrastructure going forward as follows:

Measure	Initiatives
Sales strategies	<ul style="list-style-type: none"> <li>● Provide customer sales/support utilizing digital technology                             <ul style="list-style-type: none"> <li>- Further develop solution sales.</li> <li>- Use digital technology to create and expand customer touch points that are unconstrained by time and place.</li> </ul> </li> <li>● Focused organizational strengthening by region and business segment.</li> </ul>
Production strategies	<ul style="list-style-type: none"> <li>● Leverage changes caused by the spread of COVID-19 to accelerate the existing strategy.                             <ul style="list-style-type: none"> <li>- Use automation and digital technology to double productivity in FY2025.</li> <li>- Strengthen distributed production and local production for local consumption.</li> <li>- Total investment: approximately 40 billion yen (5 years)</li> </ul> </li> </ul>
Technology development strategy	<ul style="list-style-type: none"> <li>● Advance basic, core, and product technologies that support innovation.                             <ul style="list-style-type: none"> <li>- Particularly reinforce material, AI, and digital technologies.</li> </ul> </li> </ul>
Human resources strategies	<ul style="list-style-type: none"> <li>● Allocate human resources to priority areas                             <ul style="list-style-type: none"> <li>- Acquisition of specialists</li> <li>- Priority placement in growth areas</li> </ul> </li> <li>● Strengthen human resource development                             <ul style="list-style-type: none"> <li>- Enhancement of specialized education</li> <li>- Acceleration of rotation that broadens knowledge and experience</li> </ul> </li> <li>● Organizational activation                             <ul style="list-style-type: none"> <li>- Respect diversity and maximize team strength</li> <li>- Create a free and open organizational culture</li> <li>- Respond to diversification of working styles</li> </ul> </li> </ul>

g. Financial targets

To realize the above-mentioned “Epson 25 Renewed,” we will aim to shift to profitability-focused management, and rather than pursue excessive revenue growth, focus on priorities, secure profitability, and seek future growth. In line with this policy, we have set targets for ROIC, ROE, and ROS.

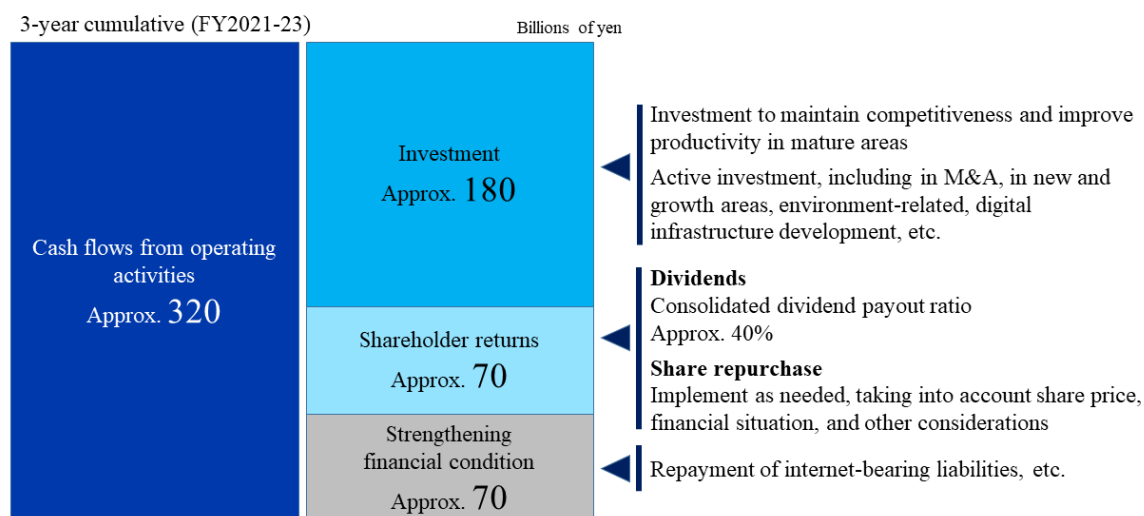
Company-wide financial targets	FY2020 (Result)	FY2023 (Target)	FY2025 (Target)
ROIC <sup>2</sup>	5.6%	8% or more	11% or more
ROE	5.9%	10% or more	13% or more
ROS	6.2%	8% or more	10% or more

<sup>2</sup> ROIC = Profit for the period attributable to owners of the parent company / (equity attributable to owners of the parent company + interest-bearing liabilities)

By newly setting ROIC as a financial target, management with even higher capital efficiency is required. For this, Epson will increase the efficiency of management by introducing business portfolio management that clarifies the positioning of profitability and the Company's growth, realizing the efficient circulation of capital and increasing management efficiency. Epson's business areas are broadly classified as "growth areas," "mature areas" and "new areas" as stated above. We will carry out capital allocation and target setting that matches these positions, and while going through the cycle of periodically reviewing this, decide the direction of business.

#### h. Cash allocation

Allocate cash toward investments in growth and new areas and areas related to the environment, continuously provide stable shareholder returns, and strengthen our financial condition, such as the repayment of interest-bearing liabilities, while comprehensively taking capital demand into consideration.



#### i. Initiatives to strengthen governance

We will continue to speed up and ensure the transparency of management decision-making to realize "Epson 25 Renewed." To this end, we will improve the effectiveness of the board of directors and work for continuous engagement with investors and other stakeholders. We will also centralize management of information by providing a global integrated IT infrastructure with the aim of speeding up management decisions.

#### ③ "Environmental Vision 2050"

Epson revised "Environmental Vision 2050," the vision related to environmental issues, which are a prerequisite for a sustainable society, as described below. We also set goals to be achieved by 2050 and established initiatives to realize them.



Item	Details
Vision statement	Epson will become carbon negative and underground resource free by 2050 to achieve sustainability and enrich communities
Goals	2030: Reduce total emissions in line with the 1.5°C scenario <sup>3</sup> 2050: Carbon negative and underground resource free
Actions	<ul style="list-style-type: none"> <li>● Reduce the environmental impacts of products and services and in supply chains.</li> <li>● Achieve sustainability in a circular economy and advance the frontiers of industry through creative, open innovation.</li> <li>● Contribute to international environmental initiatives.</li> </ul>

<sup>3</sup> Target for reduction of greenhouse gas emissions that conforms with scientific knowledge based on the criteria of the Science Based Targets initiative (SBTi)

#### ④ Climate change initiatives and TCFD

Climate change is greatly impacting society and Epson sees it as a significant social problem to be worked on. The goal of the Paris Agreement is to achieve decarbonization and limit the global average temperature to well below 2°C, and work to limit it to 1.5°C, compared to pre-industrial levels. To achieve this, Epson is working to “reduce total emissions in line with the 1.5°C scenario” by 2030. Furthermore, Epson has revised “Environmental Vision 2050” in coordination with the announcement of “Epson 25 Renewed.” To become carbon negative and underground resource free by 2050, which is stated as our goal, we are working for decarbonization and to close the resource loop. We are also promoting the provision of products and services that reduce environmental impacts, and the development of environmental technologies.

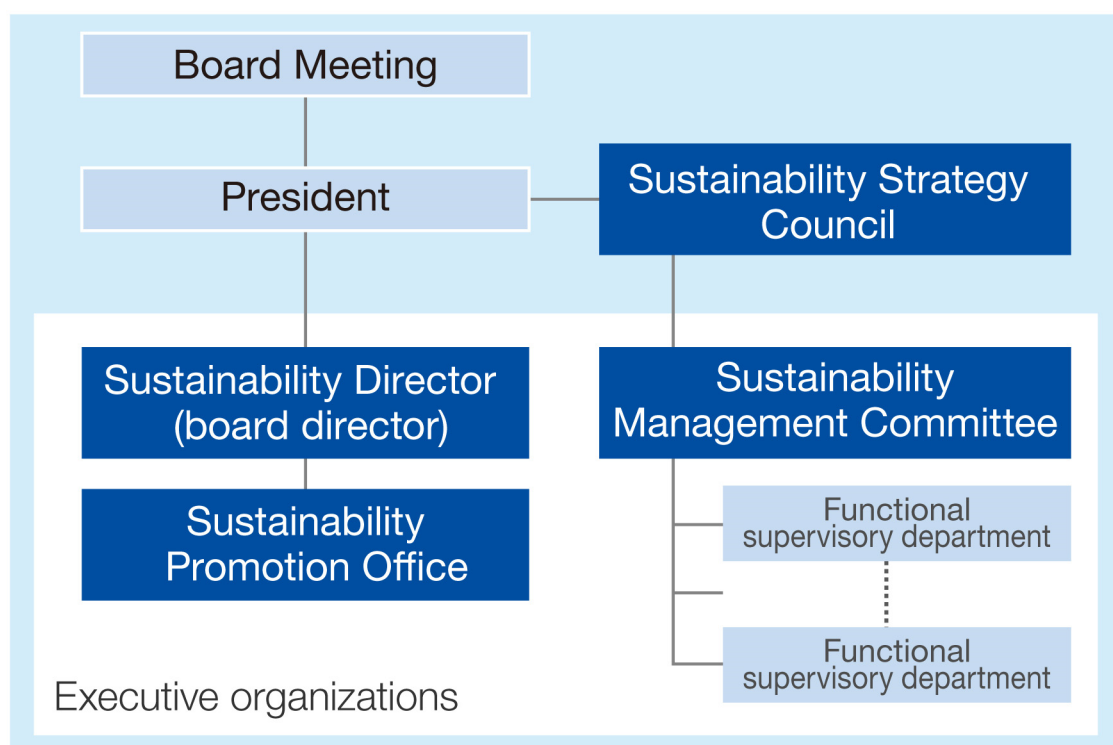
Since Epson indicated its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in October 2019, it has disclosed information (on governance, strategy, risk management, and metrics and targets) based on the TCFD framework so as to enable good communication with shareholders, investors, and a broad spectrum of other stakeholders. Epson has decided to disclose the level of financial impact in 2021 in a quantitative manner for the first time.

##### a. Governance

Important matters related to climate change are supervised by the board of directors, who receives reports at least once a year after deliberations at the “Sustainability Strategy Council,” which formulates medium- to long-term strategy for the Epson Group’s sustainability activities and carries out reviews of the status of implementation as the president’s advisory body.

In addition, Seiko Epson’s president and representative director, the individual who has the highest responsibility and authority for climate-related issues, delegates responsibility for climate-related issues to the Sustainability Director, who heads the Sustainability Promotion Office and manages and promotes climate change initiatives, including TCFD.

■ Executive organization



b. Strategy

Epson has determined that achieving sustainability in a circular economy and advancing the frontiers of industry are material matters in its value creation story. To achieve these, we will further reduce greenhouse gas (GHG) emissions by leveraging our efficient, compact, and precision technologies to drive innovation.

Epson identified and evaluated scenarios in the categories of transition risk, physical risk, and opportunity to evaluate the importance of climate-related risks and opportunities. Six risks and opportunities were singled out for evaluation. We evaluated the business impact and financial impact of each on the basis of the scenarios corresponding to temperature increase of 1.5°C presented by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) as well as on the basis of internal and external information. The results of the evaluation of climate-related risks and opportunities based on this scenario analysis are as follows:

**Climate-Related Risks and Opportunities in a 1.5°C Scenario**

The results of evaluating climate-related risks and opportunities based on scenario analysis are as follows.

Category		Evaluated risks & opportunities	Actualization	Business impacts	Financial impact
Transition risks	Market changes Policy & laws and regulations	Paper demand	Short-term	<b>Impact</b> <ul style="list-style-type: none"> <li>We were unable to detect a strong relationship between climate change and the change in paper demand, but demand for printing and communication paper is assumed to be on a declining trend. Even if that shift to paperless advances further due to changes in trends due to COVID-19 (such as the contraction of office printing because of decentralization), we expect that the financial impact from the strengthening of products and services based on inkjet technology and paper recycling technology (reduction of printing costs, reduction of environmental impacts, increase of ease of printing, appeal using usefulness of paper information) will be limited.</li> </ul>	Small
		(Initiatives in Environmental Vision 2050) - Decarbonization - Closed resource loop - Environmental technology development	Short-term	<b>Impact</b> <ul style="list-style-type: none"> <li>“Decarbonization” of products and services as well as the supply chain and advanced initiatives in “resource recycling” are needed to respond to “climate change” and “resource depletion,” which are social issues shared globally.</li> <li>Scientific and specific solutions are necessary to develop environmental technologies linked with the rapid decrease of environmental impacts.</li> </ul> <b>Response to risks</b> <ul style="list-style-type: none"> <li>Decarbonization                             <ul style="list-style-type: none"> <li>Renewable energy use</li> <li>Energy-saving facilities</li> <li>Greenhouse gas removal</li> <li>Supplier engagement</li> <li>Carbon-free logistics</li> </ul> </li> <li>Closed resource loop                             <ul style="list-style-type: none"> <li>Effective use of resources</li> <li>Minimize production losses</li> <li>Extend product service lives</li> </ul> </li> <li>Environmental technology development                             <ul style="list-style-type: none"> <li>Dry fiber technology applications</li> <li>Naturally derived (plastic-free) materials</li> <li>Material recycling (metal, paper)</li> <li>CO<sub>2</sub> absorption technology</li> </ul> </li> </ul>	Invest a total of approximately ¥100.0 billion by 2030
Physical risks	Acute	Damage to business sites due to floods, etc.	Long-term	<b>Impact</b> <ul style="list-style-type: none"> <li>Based on the results of the latest FY2021 risk assessment for 36 sites (17 sites in Japan and 19 sites overseas), the changes in future operational risks due to flooding (rivers overflowing) and high tides are limited.</li> <li>Short-term climate change risks to the supply chain will be addressed in line with our business continuity plans.</li> </ul>	Small
	Chronic	Damage to business sites due to rising sea levels			

# SEIKO EPSON CORPORATION

Category		Evaluated risks & opportunities	Actualization	Business impacts	Financial impact
Opportunities	Products and services	(Initiatives in “Environment Vision 2050”) - Customer environmental impact mitigation	Short-term	<b>Assumed scenarios</b> <ul style="list-style-type: none"> <li>The need for environmentally friendly products and services will increase due to the introduction of a carbon tax, soaring electricity prices, rising waste disposal costs, sustainable production amounts, and reduced resource use.</li> </ul> <b>Business opportunities</b> <ul style="list-style-type: none"> <li>For the growth areas of “Epson 25 Renewed,” a CAGR (compound annual growth rate) of 15% is expected for revenue growth by providing 1) office printing, commercial &amp; industrial printing and printhead sales utilizing inkjet technology to achieve a reduction of environmental impacts, increased work productivity and reduction of printing costs and 2) production systems with expanded use of new production devices to achieve a reduction of environmental impacts.</li> </ul>	Large CAGR of 15% is expected in growth areas until 2025
		Environmental business	Short-term	<b>Assumed scenarios</b> <ul style="list-style-type: none"> <li>Market growth is expected in the field of combatting global warming and the field of waste treatment and effective utilization of resources.</li> <li>Due to the shift to a circular economy, market growth is expected for recycled plastics, high-performance biomaterials, bioplastics and metal recycling.</li> </ul> <b>Business opportunities</b> <ul style="list-style-type: none"> <li>As effective solutions for combatting global warming and responding to the shift to a circular economy, generate revenue by upcycling (enhancing functionality), eliminating plastics (packing and molding materials), creating new high-value-added materials and carrying out other measures through the establishment of technologies, such as applications of dry fiber technology, including paper recycling, development of naturally derived materials (elimination of plastics) and recycling of raw materials (metal and paper recycling).</li> </ul>	Medium

**Actualization** Short term: ≤ 10 years

Medium term: 10-50 years

Long term: > 50 years

**Financial impact** Small: ≤ 1 billion yen

Medium: 1-10 billion yen

Large: >10 billion yen

## c. Risk management

As the environment in which we operate grows more complex and uncertain, effectively dealing with risks that could have a significant impact on corporate activities will be essential in order to carry out business strategies and business objectives.

Epson sees climate-related issues as risks that could significantly impact management and manages them appropriately.

### ■ Climate-related risk identification, assessment and management process

1. Study	2. Identify & assess	3. Manage
<ul style="list-style-type: none"> <li>- Study risks of natural disasters caused by climate change at major sites worldwide.</li> <li>- Research social trends.</li> </ul>	<ul style="list-style-type: none"> <li>- Identify risks and opportunities from the policies and action of “Epson 25 Renewed” and “Environmental Vision 2050.”</li> <li>- Evaluate scenario analysis through the Sustainability Strategy Council and board of directors.</li> </ul>	<ul style="list-style-type: none"> <li>- Effectively manage risks through the Sustainability Strategy Council and the board of directors.</li> </ul>

## d. Metrics and targets

Under “Environmental Vision 2050,” in order to achieve the medium- and long-term greenhouse gas (GHG) emission reduction targets validated by the Science Based Targets initiative (SBTi), we are actively working to reduce environmental impacts throughout the value chain such as by improving the environmental performance of our products, utilizing renewable energy, and enhancing our business activities, based on our efficient, compact, and precision technologies, which are a source of Epson’s technologies.

The current targets validated by the SBTi correspond to the target of 2°C. In FY2021, we plan to update the reduction targets to those that correspond to the target of 1.5°C, which is the target in “Environmental Vision 2050.”

### GHG Reduction Targets (reduction targets in line with “SBT 1.5 Scenario”)

scopes 1, 2, 3	Reduce GHG emissions by 55% compared to FY2017 by FY2030.
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Scope 1: Direct emissions from the use of fuel, etc., by the reporting company

Scope 2: Indirect emissions from purchased energy

Scope 3: Emissions from the reporting company’s value chain

## 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 its dividend policy and the perspective of stable dividend, the Company has paid an annual dividend of ¥62 per share.

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

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

### Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 29, 2020, by resolution of the board of directors	10,731	31
June 25, 2021, by resolution of the general shareholders' meeting	10,731	31

#### Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 29, 2020 includes ¥6 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 25, 2021 includes ¥6 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 11 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 FY2020, the Company held a total of 13 meetings of the Board of Directors with 100% attendance by all Directors. Chairman of the Board, who is a non-executive director, acts as the chairman of the Board meetings.

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 evaluates their independence, audit quality, etc. based on certain standards. 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. Financial auditors and the head of the internal audit control departments attend meetings of the Committee as observers.

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*

Both the Director Nomination Committee and the Director Compensation Committee are composed of all Outside Directors, President and Representative Director, and Officer in charge of human resources. Directors who are full-time members of the Audit & Supervisory Committee can attend meetings of either Committee as observers. Also, based on the resolution of the board of directors in June 2021, the Outside Directors shall select committee chairs from among themselves.

### *Activities of the Director Nomination Committee*

The Committee met eight times during the period from April 2020 to the Ordinary General Meeting of Shareholders held in June 2021. The Committee deliberated on matters including policies for selecting Officers (Directors, Executive Officers and Special Audit & Supervisory Officers) and proposing candidates, changing the



length of terms of offices of Executive Officers, and chairs of the Director Nomination Committee and Director Compensation Committee.

### *Activities of the Director Compensation Committee*

The Committee met nine times during the period from April 2020 to the Ordinary General Meeting of Shareholders held in June 2021. The Committee deliberated on matters including the amount of base compensation and bonuses for each Director, as well as granting of basic points under the performance-linked compensation plan.

### **(3) Approach to selecting Directors**

Epson believes that a diverse Board of Directors is useful for facilitating substantive board discussions that cover all angles. Therefore, our basic policy is to maintain a board that is well-balanced and composed of persons who combine a broad spectrum of knowledge, experience, and skill in their respective areas of expertise, without regard to gender, race, ethnicity, country of origin, nationality, cultural background, age, etc.

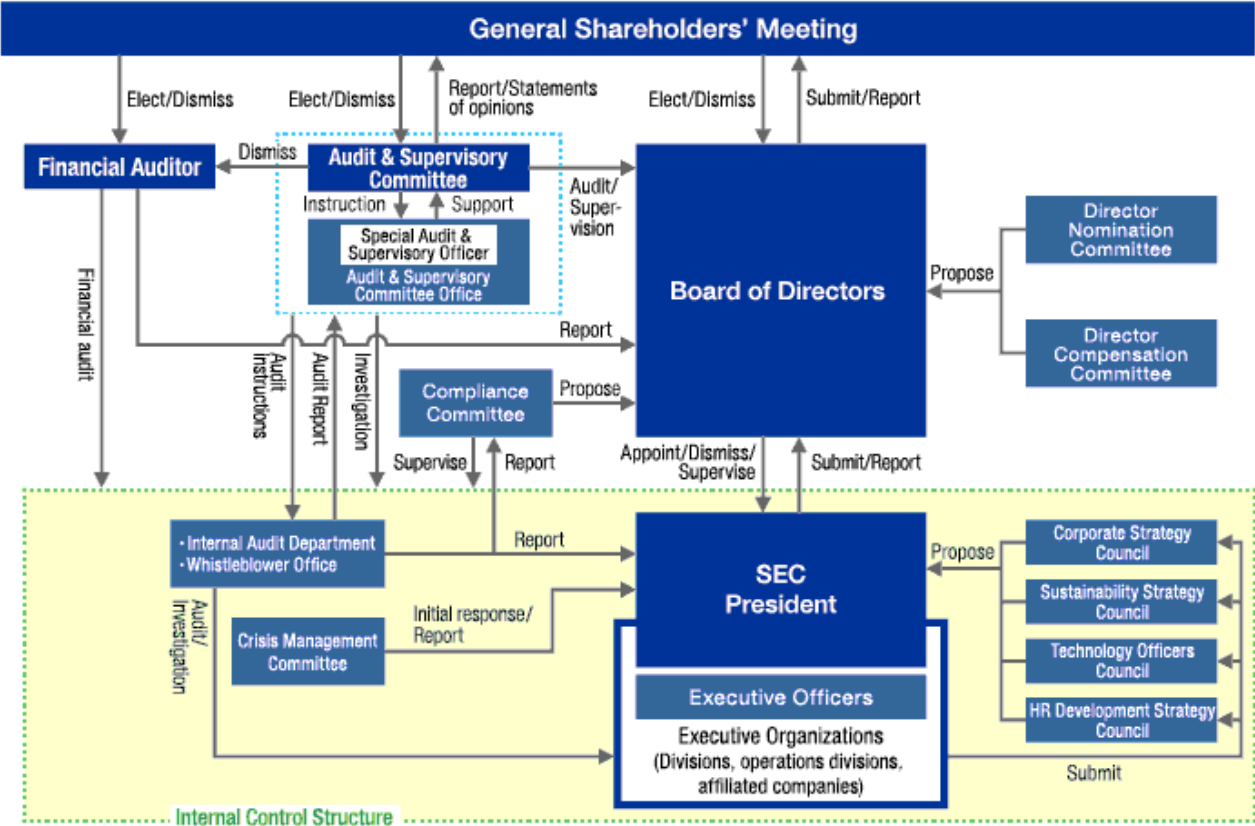
The current Board of Directors has been established based on this policy, clarifying a management system toward achieving the Management Philosophy and Corporate Vision in order to realize sustained growth and increase medium- to long-term corporate value. The skills of the Company's Directors and areas in which they are particularly expected to show expertise are as follows.

Title	Name	Areas of expertise and skills particularly expected by the Company						
		Corporate management	Development Design Technology Production	Sales Marketing	IT Digital	Finance Accounting	Legal affairs Compliance	Global (Internationality)
Chairman and Director	Minoru Usui	●	●	●				
President and Representative Director	Yasunori Ogawa	●	●		●			
Representative Director Senior Managing Executive Officer	Koichi Kubota	●		●				●
Director Managing Executive Officer	Tatsuaki Seki				●	●	●	
Director Executive Officer	Taro Shigemoto					●	●	●
Outside Director	Hideaki Omiya	●	●		●			
Outside Director	Mari Matsunaga			●	●			
Director Full-Time Audit & Supervisory Committee Member	Masayuki Kawana					●	●	
Outside Director Audit & Supervisory Committee Member	Yoshio Shirai	●	●					●
Outside Director Audit & Supervisory Committee Member	Susumu Murakoshi					●	●	
Outside Director Audit & Supervisory Committee Member	Michiko Ohtsuka					●	●	

\*Up to three areas of expertise particularly expected are stated.

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

Corporate Governance System



## **(4) 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) as follows, 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 and the head of the internal audit control departments 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 compliance 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. Furthermore, prior consent from the Audit & Supervisory Committee must be obtained for the appointment and dismissal of the head of the internal audit control departments.
- (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.

## **(5) 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.

## **(6) 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.

## **(7) 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 in Article 423, Paragraph 1 of the Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the Board of Directors so that the Directors (excluding Executive Directors) to fully apply themselves to their expected roles.

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

The Company has executed agreements with non-executive directors Hideaki Omiya, Mari Matsunaga, Masayuki Kawana, Yoshio Shirai, Susumu Murakoshi, and Michiko Ohtsuka 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.

## **(9) Outline of directors and officers liability insurance contract**

The Company has entered into a directors and officers liability insurance contract, whose outline is as follows.

### 1) Scope of the insured

- a. Directors, Executive Officers, Professional Officers and Special Audit & Supervisory Officers of the Company
- b. Directors and Audit & Supervisory Board Members of the Company's domestic subsidiaries
- c. Employees in management positions of the Company and its domestic subsidiaries
- d. Individuals occupying officer positions of companies other than the Company or its domestic subsidiaries based on a request or an instruction from the Company
- e. The Company and its domestic subsidiaries

### 2) Actual ratio of premiums paid by the insured

The premiums are paid by the Company, and the insured does not effectively bear a ratio of the premiums.

### 3) Outline of events insured against

Damages (legal compensation for damages, litigation expenses, etc.) arising from claims for damages due to the execution of duties by the insured will be covered.

### 4) Measures to ensure the appropriateness of the execution of duties by officers, etc. is maintained

An exemption clause is included in the contract, which stipulates to the effect that damages arising from personal offers of illegal profit, criminal acts, etc. will not be covered.

## **(10) 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.

## **(11) 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**

Endowed with a rich legacy of efficient, compact, and precision technologies, Epson will seek 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.

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 (hereinafter referred to as "large-scale acquisitions") should ultimately be put before the shareholders.

However, shareholders' decisions on whether to allow large-scale acquisitions need to be made appropriately. In order to ensure this, Epson believes that information and opinions necessary for shareholders should be provided by both persons seeking to do large-scale acquisitions of Epson's shares and the Epson Board of Directors, and time necessary to examine the information and opinions needs to be secured.

Epson believes that persons who control its financial and business policy decisions need to fully understand Epson's businesses and sources of corporate value, and to understand the importance of Epson's directors, managers, and employees working as a team to create value, pursuing the Epson tradition of creativity and challenge, and earning and keeping the trust of its customers.

### **2) Summary of measures in support of the basic policy**

#### **a. Specific actions in support of the basic policy**

In March 2021, we revised our Corporate Vision and established "Epson 25 Renewed," with the goal of achieving sustainability and enriching communities, which we have set as our aspirational goal to pursue into the future.

For "Epson 25 Renewed," we will redefine our business area goals and evolve our strategies. Simultaneously, we will strengthen our efforts for the environment, DX, and co-creation across business domains going forward. In addition, we will clarify our business portfolio, allocate management resources appropriately, and work to further strengthen the business infrastructure that supports strategy execution.

#### **b. 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**

The Company will request those who intend to conduct a large-scale acquisition of the Company shares to provide sufficient information necessary to properly judge whether or not to accept such acquisition, for the benefit of maintaining and increasing its corporate value and common interests of shareholders. The Company will also disclose its Board's opinions on such a large-scale acquisition in order to secure time and information necessary for shareholders to judge whether or not to accept such acquisition, while taking appropriate measures pursuant to the Financial Instruments and Exchange Act, the Companies Act and other applicable laws and regulations.

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

The above efforts are for contributing to maintenance and increase of Epson's corporate value and the common interests of its shareholders, do not undermine the common interests of its shareholders, and reflect the above basic policy. Moreover, Epson considers that these efforts are not for keeping its Directors in their posts.



## 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	Chairman and Director
Yasunori Ogawa	President and Representative Director
Koichi Kubota	Representative Director, Senior Managing Executive Officer General Administrative Manager, Sales & Marketing Division
Tatsuaki Seki	Director, Managing Executive Officer General Administrative Manager, Corporate Strategy and Management Control Division General Administrative Manager, Sustainability Promotion Office
Taro Shigemoto	Director Executive Officer General Administrative Manager, Human Resources Division General Administrative Manager, Health Management Office
Hideaki Omiya	Outside Director
Mari Matsunaga	Outside Director
Masayuki Kawana	Director Full-Time Audit & Supervisory Committee Member
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member
Susumu Murakoshi	Outside Director, Audit & Supervisory Committee Member
Michiko Ohtsuka	Outside Director, Audit & Supervisory Committee Member
Junichi Watanabe	Managing Executive Officer Deputy General Administrative Manager, Production Planning Division
Hideki Shimada	Managing Executive Officer General Administrative Manager, Production Planning Division
Akihiro Fukaishi	Executive Officer President, Epson (China) Co., Ltd.
Sunao Murata	Executive Officer Chief Information Systems Officer Deputy General Administrative Manager, DX Division
Yoshiyuki Moriyama	Executive Officer Chairman and President, Epson Engineering (Shenzhen) Ltd.

# SEIKO EPSON CORPORATION

Name	Position and current function
Nobuyuki Shimotome	Executive Officer Chief Operating Officer, Microdevices Operations Division
Hitoshi Igarashi	Executive Officer Deputy Chief Operating Officer, Printing Solutions Division Chief Operating Officer, P Commercial & Industrial Operations Division
Keith Kratzberg	Executive Officer President and Chief Executive Officer, Epson America, Inc.
Isamu Otsuka	Executive Officer President, Epson Atmix Corporation
Eiichi Abe	Executive Officer President, PT. Indonesia Epson Industry
Kazuhiro Ichikawa	Executive Officer Chief Technology Officer General Administrative Manager, Technology Development Division
Keijiro Naito	Executive Officer Chief Operating Officer, Manufacturing Solutions Operations Division
Yoshifumi Yoshida	Executive Officer Deputy General Administrative Manager, Production Planning Division Deputy General Administrative Manager, Technology Development Division
Andrea Zoeckler	Executive Officer Senior Vice President, Chief Operating Officer and Chief Financial Officer, Epson America, Inc.
Yoshiro Nagafusa	Executive Officer President, Epson Europe B.V.
Satoru Hosono	Executive Officer Deputy General Administrative Manager, Technology Development Division
Fuminori Suzumura	Executive Officer President, Epson Sales Japan Corp.
Akifumi Takei	Executive Officer President, Epson Precision (Philippines), Inc.
Junkichi Yoshida	Executive Officer Chief Operating Officer, Printing Solutions Division
Samba Moorthy	Executive Officer Managing Director, Epson India Pvt. Ltd.
Yoichi Yamada	Executive Officer Deputy Chief Operating Officer, Printing Solutions Division Chief Operating Officer, P Office & Home Operations Division

Name	Position and current function
Tomoo Takaso	Executive Officer Chief Information Security Officer Chief Privacy Officer General Administrative Manager, DX Division
Yasunori Yoshino	Executive Officer Chief Operating Officer, Visual Products Operations Division
Tsuyoshi Kitahara	Professional Officer In charge of Exploration for New Technology Development, Technology Development Division
Munenori Ando	Professional Officer In charge of specific projects, Sales & Marketing Division
Akihiko Toeda	Special Audit & Supervisory Officer General Administrative Manager, Audit & 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 utilize his wealth of experience and insight to continue to 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.

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

Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

b. Mari Matsunaga

Ms. Matsunaga has created new business models and has a wealth of experience and considerable insight 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 utilize her wealth of experience and insight to continue to 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.

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

Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

c. 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 utilize his wealth of experience and insight to continuously 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.

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.

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

Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

d. Susumu Murakoshi (Outside Director who is an Audit & Supervisory Committee member)

Mr. Murakoshi has a high level of expertise as an attorney. Having served as the President of Japan Federation of Bar Associations and the President of Japan Attorneys Political Association, he has a wealth of experience in the legal community. Epson believes that he will utilize his wealth of experience and insight to 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. The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Mr. Murakoshi who is an attorney-at-law, and the law office to which he belongs.

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

Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

e. Michiko Ohtsuka (Outside Director who is an Audit & Supervisory Committee member)

Ms. Ohtsuka has a high level of expertise as a certified public accountant. She has a considerable insight and experience as an independent officer of a listed company. Epson believes that she will utilize her wealth of experience and insight to 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.

The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Ms. Ohtsuka who is a certified public accountant, and there is no transactional relationship.

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

Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

### **(3) Interconnections between supervision or audits by Outside Directors and internal audits, Audit & Supervisory Committee audits, 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. Furthermore, prior consent from the Audit & Supervisory Committee should be obtained for the appointment and dismissal of the head of the internal audit control departments. As part of a structure that can continuously pursue the maintenance and improvement of efforts to strengthen coordination between the Audit & Supervisory Committee and internal audit departments, etc., we have put in place a structure in which the head of the internal audit control departments can attend, as an observer, meetings of a Compliance Committee, which is made up of Outside Directors and a Director who is a member of the Audit & Supervisory Committee.

Epson's internal audit departments regularly report their audit plans, audit results and improvement plans for audited companies based on the audit findings 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 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 composed primarily of Outside Directors, 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 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 Chairman of the Board of Directors and 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.

### **(4) Internal audits**

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

(Structure of the Audit & Supervisory Committee)

Epson's Audit & Supervisory Committee is composed of four Directors, three of whom are Outside Directors. The three Audit & Supervisory Committee members who are Outside Directors have experienced serving as an attorney-at-law, certified public accountant and corporate manager, and each of them has a high level of expertise, a wealth of experience and considerable insight and has executed balanced audit and supervisory activities as the Audit & Supervisory Committee. Masayuki Kawana 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 member Michiko Ohtsuka is a certified public accountant and has an appreciable degree of knowledge and insight into finance and accounting.

In addition, 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.

(Activities of the Audit & Supervisory Committee)

All Audit & Supervisory Committee members properly check and monitor the demonstrating of functions by the Board of Directors, decision-making on important matters, such as business strategies and corporate governance, and execution of business affairs by attending important meetings such as meetings of the Board of Directors, the Director Nomination Committee and the Director Compensation Committee, and regularly discussing with Chairman of the Board of Directors and representative directors, among others. Moreover, Audit & Supervisory Committee members audit and supervise the state of legal compliance and results of execution of operations through regular hearing and conformation letters for execution of duties for each Director and Executive Officer. In addition, Audit & Supervisory Committee members confirm the status of improvement and operation of the internal control system and other matters (including internal control over compliance system, risk management system, and financial reporting) through regular hearing from internal audit departments, supervisory departments for internal control, Head Office supervisory departments, audit & supervisory board members of the Group's subsidiaries, and others. In addition, the Audit & Supervisory Committee or individual Audit & Supervisory Committee members conduct on-site inspection of or remote interviews with business offices and subsidiaries in Japan and overseas, and if it is considered necessary, they ask internal audit departments and the financial auditor for inspection and provide specific directions on the execution of the duties. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

As for appropriateness of audits of the financial auditor, the Audit & Supervisory Committee confirms the audit plan of the financial auditor after risk assessment is shared between each other at the beginning of the fiscal year, and checks the implementation of audits by regularly holding discussion during the fiscal year, while increasing effectiveness of audits of the both. In addition, the Audit & Supervisory Committee assesses multiple audit firms that have overseas network, including the current financial auditor, based on a wide variety of items such as audit quality, governance system, and global audit system.

With regard to the effectiveness assessment of the Audit & Supervisory Committee, which has been implemented each year since FY2017 after the transition to a company with an Audit & Supervisory Committee, reporting to and sharing with the Board of Directors have been regularized from FY2020. In FY2020, the assessment result that effectiveness of the Audit & Supervisory Committee was ensured was shared at the Board of Directors meeting, and the recommendations for the Board of Directors on improvement in the Company's internal control and governance system, which were extracted in the effectiveness assessment of the Audit & Supervisory Committee, were made.

(Holding and attendance of the Audit & Supervisory Committee meeting)

In FY2020, the Audit & Supervisory Committee conducted discussions and examinations through the fiscal year, focusing on the improvement of global compliance systems, responding appropriately to changes in the environment such as trends in the auditing industry and systematic changes like KAM, watching over the strengthening of the Board of Directors' auditing function, and the progress of the reorganization of corporate strategy structures, as the perspective of important audit and supervision.

The Audit & Supervisory Committee meeting was held 21 times from April 2020 to the Ordinary General Meeting of Shareholders in June 2021. The status of attendance by each Audit & Supervisory Committee member is as shown in the following table.

Name	Title	Attendance at meetings of the Audit & Supervisory Committee (Attendance rate)
Taro Shigemoto	Director, Full-Time Audit & Supervisory Committee Member	21/21 (100%)
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member	21/21 (100%)
Susumu Murakoshi	Outside Director, Audit & Supervisory Committee Member	16/16 (100%)
Michiko Ohtsuka	Outside Director, Audit & Supervisory Committee Member	16/16 (100%)

Note: Attendance at meetings of the Audit & Supervisory Committee for Mr. Susumu Murakoshi and Ms. Michiko Ohtsuka are counted based on 16 meetings held after their appointment at the Ordinary General Meeting of Shareholders on June 25, 2020.

### 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. In FY2020, amid restrictions on auditing activities due to the spread of the COVID-19 infection, they conducted audits by using online communication and revising the audit process, upon reviewing the subjects of audits and timing of implementation planned at the beginning of the fiscal year.

### 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. Furthermore, prior consent from the Audit & Supervisory Committee should be obtained for the appointment and dismissal of the head of the internal audit control departments. As part of a structure that can continuously pursue the maintenance and improvement of efforts to strengthen coordination between the Audit & Supervisory Committee and internal audit departments, etc., we have put in place a structure in which the head of the internal audit control departments can attend, as an observer, meetings of a Compliance Committee, which is made up of Outside Directors and a Director who is a member of the Audit & Supervisory Committee.



Epson's internal audit departments regularly report their audit plans, audit results and improvement plans for audited companies based on the audit findings 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 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 composed primarily of Outside Directors, 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.

## (5) Accounting audits

- a. Name of accounting firm  
Ernst & Young ShinNihon LLC

- b. Continuous audit period  
37 years

(Note) Epson entered into an auditing agreement with Misuzu Audit Corporation (then named Chuo Audit Corporation) from 1984 to 2007 (including the period from July 1, 2006 to August 31, 2006 when a temporary accounting firm was selected to substitute for Misuzu Audit Corporation (then named ChuoAoyama Audit Corporation). Accompanying Misuzu Audit Corporation's dissolution, Epson entered into an auditing agreement with Ernst & Young ShinNihon LLC (then named Ernst & Young ShinNihon) from 2007. However, the certified public accountants who had been executing the auditing operations for Epson also transferred to Ernst & Young ShinNihon LLC (then named Ernst & Young ShinNihon), and they have been performing audit work for Epson continuously since their aforesaid relocation. Accordingly, as it can be considered that the same accounting firm has been continuously executing Epson's audit work, the audit period of the accounting firm before the relocation of said certified public accountants has been included in the continuous audit period.

- c. Certified public accountants performing audits

Name of CPA		No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Makoto Usui	2
Designated and Engagement Partner, Certified Public Accountant	Yoshiyuki Sakuma	5
Designated and Engagement Partner, Certified Public Accountant	Ryuichi Minami	1

- d. Composition of auditing team

The auditing team comprises 53 staff including 16 certified public accountants, 8 accountant examination passers, and 29 other accounting staff.

e. Policy and reasons for selection of audit firm

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.

f. Evaluation of financial auditor by the Audit & 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.

**(6) Details of audit remuneration**

**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	164	2	160	2
Consolidated subsidiaries	44	–	43	–
Total	208	2	203	2

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

**b. Remuneration for audits by certified public accountants belonging to the Ernst & Young network (excluding a.)**

(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	–	31	–	9
Consolidated subsidiaries	492	159	485	176
Total	492	191	485	186

Details of the non-audit services performed for Epson and its consolidated subsidiaries consist mainly of various consultancy services, mostly tax related.

**c. Description of other fees for important audit certificate services**

Other than the items applicable to a. and b. above, there were no significant items applicable to fees for audit certificate services of Epson and its consolidated subsidiaries in the previous fiscal year or fiscal year under review.

**d. Governing policy for audit remuneration and reason for the Audit & Supervisory Committee consenting to the fees, etc. of the Financial 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*

The Committee consists of all Outside Directors, President and Representative Director, and Officer in charge of human resources. Directors who are full-time members of the Audit & Supervisory Committee can attend meetings of the Committee as observers.

Also, based on the resolution of the board of directors on June 2, 2021, Outside Directors shall select the committee chair from among themselves.

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

The Committee met nine times during the period from April 2020 to the Ordinary General Meeting of Shareholders held in June 2021. The Committee deliberated on matters including the amount of base compensation and bonuses for each Director, as well as granting of basic points under the performance-linked compensation plan.

### **Policies**

#### 1) Decision-making policies, etc. on compensation for individual Directors who are not Audit & Supervisory Committee members

The Company has established its decision-making policies on compensation for individual Directors who are not Audit & Supervisory Committee members.

<Outline of contents of the decision-making policies>

##### (i) Basic stance

The Company's officer compensation shall consist of base compensation, which is comprised of fixed compensation and a variable portion, bonuses, which is performance-linked compensation, and stock compensation, which is performance-linked, non-monetary compensation. Given their roles to monitor the management as a whole as well as their independence from the business affairs, the Company pays only fixed compensation as base compensation to non-executive officers and therefore does not pay bonuses and stock compensation that are linked with performance and share price.

##### 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.

- (ii) Decision-making policies on base compensation for individual Directors who are not Audit & Supervisory Committee members

*Base compensation*

Base compensation is a monthly-paid monetary compensation that is determined by taking into account all factors such as an individual's position and responsibilities. Of base compensation, the variable portion for officers with executive duties reflects the results of annual performance based on criteria set according to the individuals' roles. (Variable range:  $\pm 20\%$ )

- (iii) Decision-making policies on performance-linked compensation for Directors who are not Audit & Supervisory Committee members

*Bonuses*

An annual bonus is an annually-paid monetary compensation for officers with executive duties that is determined by the achievement level of the annual operating performance targets. The bonus may not be paid in cases where business profit failed to reach a certain threshold. The bonus reflects the results of annual performance based on criteria set according to the individuals' roles. (Variable range of months for bonuses:  $\pm 1.2$  months)

[Details of performance indicators and reasons for selection thereof]

In consideration of the nature of bonuses as a short-term incentive, the amount of annual business profit is set as a performance indicator, taking into account factors such as the incurrence of nonrecurring losses.

[Calculation method]

The amount of bonuses payable is calculated by multiplying the monthly amount of base compensation by a certain number of months determined according to the achievement level of the abovementioned performance indicators, in accordance with the calculation standards predetermined by the Board of Directors. The final amount payable is determined by the General Meeting of Shareholders to ensure transparency.

[Results of performance indicators]

Business profit for the fiscal year under review was 61,642 million yen.

*Performance-linked stock compensation (officer compensation BIP trust)*

Details are as stated in "(iv) Decision-making policies on non-monetary compensation for Directors who are not Audit & Supervisory Committee members."

- (iv) Decision-making policies on non-monetary compensation for Directors who are not Audit & Supervisory Committee members

*Performance-linked stock compensation (officer compensation BIP trust)*

This is a stock compensation plan for officers with executive duties wherein Company's shares are delivered using a trust scheme. Under this plan, the Company contributes money up to 500 million yen in total for each target period, which covers a period of three consecutive fiscal years, to the trust as compensation for officers eligible for this plan. During each target period, the said trust uses the entrusted money to acquire up to 300,000 shares (in the event of a share split, share consolidation, etc., the said maximum number of shares will fluctuate in proportionate to the ratio of split or consolidation) of the Company's ordinary shares from the stock market or the Company (disposal of treasury shares). Every July during the trust period, basic points are granted based on positions and other factors. The number of points will fluctuate by multiplying the said basic points by a performance-based coefficient determined based on the achievement level of the Company's medium- to long-term performance targets (the maximum number of total points per year is 100,000 points, and one point is equivalent to one share). In principle, after the elapse of three years from the date of grant of basic points, approximately 50% of the Company's ordinary shares equivalent to the number of points after multiplying the performance-based coefficient determined based on the achievement level of the Company's medium-term performance targets, which include business profit, ROS, and ROE, are delivered from the trust, and the remainder is paid as money equivalent to the cash value of the Company's ordinary shares for the purpose of appropriating it as funds to pay withholding

taxes and other taxes.

The plan is designed such that the ratio of stock compensation to base compensation ranges between 10% and 22% depending on position, while the number of shares issued depends on the achievement level of financial indicators during a target period (three years). Under the stock compensation plan, mechanisms (malus and clawback clauses) have been established with which the Company may cause officers to forfeit the right to receive delivery of shares and demand a refund of the amount equivalent to the shares already delivered by the Company in the event of violations of laws and regulations, internal regulations, etc. by officers.

[Details of performance indicators and reasons for selection thereof]

The Company has selected quantitative evaluations (business profit, ROS, ROE, cash flows from operating activities) as well as qualitative evaluations as indicators, so that the performance-linked compensation based on performance indicators can provide appropriate incentives to Directors and for the purpose of showing its commitment to promoting sustainable growth and increasing its medium to long-term corporate value.

[Calculation method]

Calculated by multiplying basic points granted based on factors such as positions by the performance-based coefficient calculated using the following formula (one point is equivalent to one ordinary share in the Company).

Performance coefficient = {(Business profit factor) + (ROS factor) + (ROE factor) + (Operating cash flow factor) + (Qualitative evaluation factor × 2)} ÷ 6

Quantitative evaluation				Qualitative evaluation (*)	Performance coefficient (times)
As at the end of FY2021		Average for three years from FY2019 through FY2021	Cumulative for three years from FY2019 through FY2021	As at the end of FY2021	
Business profit	ROS	ROE	Operating CF		
116.0 billion yen or more	10% or more	12% or more	390.0 billion yen or more	Far above expectation	1.20
106.0 billion yen or more	9% or more	11% or more	380.0 billion yen or more	Above expectation	1.10
96.0 billion yen or more	8% or more	10% or more	370.0 billion yen or more	Meets expectation	1.00
86.0 billion yen or more	7% or more	9% or more	360.0 billion yen or more	Below expectation	0.90
Less than 86.0 billion yen	Less than 7%	Less than 9%	Less than 360.0 billion yen	Far below expectation	0.80

\* 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 previous Mid-Range Business Plan, the amount of effect of exchange rate changes, progress in ESG management (environment assessment, CSR survey ranking and evaluation of the effectiveness of the Board of Directors, etc.) and other evaluation items.

Changes from FY2016–FY2018:

- Variable range of performance-based coefficient was expanded from “0.90x to 1.10x” to “0.80x to 1.20x.”
- “Progress in ESG management” was added as a qualitative evaluation item.

[Results of performance indicators]

As a result of calculations in accordance with the above formula and determination table, the performance-based coefficient for FY2016–FY2018 was 0.90x.

- (v) Decision-making policies on the ratio of compensation for individual Directors who are not Audit & Supervisory Committee members

With regard to the policies on decisions on the ratio of compensation by category for Directors who are not Audit & Supervisory Committee members (excluding Chairman and Director without the right of representation and Outside Directors), the monthly compensation of “base compensation” is used as the basis to calculate “bonuses,” which are calculated by multiplying a certain number of months determined based on the achievement level of performance indicators. In addition, “stock compensation” is designed so that it ranges between 10% and 22% of the monthly base compensation depending on position, with the ratio of “stock compensation” increasing commensurate with position. For FY2020, the composition ratio of the total amount of compensation for Directors who are not Audit & Supervisory Committee members (excluding Chairman and Director without the right of representation and Outside Directors) was as follows: approximately 67% as base compensation, approximately 25% as bonuses, and approximately 8% as stock compensation.

- (vi) Matters regarding delegation of decisions on compensation for individual Directors who are not Audit & Supervisory Committee members

The Board of Directors has provided Mr. Yasunori Ogawa, President and Representative Director, with discretion to determine matters including the amounts of compensation for individual Directors who are not Audit & Supervisory Committee members, as he is in a position to oversee the overall performance of the Company. Mr. Ogawa determines the amounts of compensation for individual Directors who are not Audit & Supervisory Committee members based on the content discussed and approved by the Director Compensation Committee, in which Outside Directors make significant contributions, so that the said authority is exercised appropriately.

- (vii) Other important matters regarding decisions on the details of compensation for individual Directors who are not Audit & Supervisory Committee members

Under the stock compensation plan, mechanisms (malus and clawback clauses) have been established with which the Company may cause officers to forfeit the right to receive delivery of shares and demand a refund of the amount equivalent to the shares already delivered by the Company in the event of violations of laws and regulations, internal regulations, etc. by officers.

<Reasons why the Board of Directors has determined that the details of compensation for individual Directors who are not Audit & Supervisory Committee members for the fiscal year under review comply with the said decision-making policies>

The Board of Directors has confirmed the following points and determined that the compensation for Directors who are not Audit & Supervisory Committee members for the fiscal year under review complies with the said policies.

- A fair, transparent, and rigorous reporting by the Director Compensation Committee in which Outside Directors make significant contributions has been conducted.
- The Audit & Supervisory Committee shared and discussed the details that were discussed by the Director Compensation Committee and reported that there were no items to be stated at the General Meeting of Shareholders.

- 2) Decision-making policies, etc. on compensation for individual Directors who are Audit & Supervisory Committee members

The Company has established its decision-making policies on compensation for individual Directors who are Audit & Supervisory Committee members.

<Method of determining the decision-making policies>

Decision-making policies are determined by the Audit & Supervisory Committee.

<Outline of contents of the decision-making policies>

The Company’s compensation for individual Directors who are Audit & Supervisory Committee members shall be decided by taking into consideration factors such as whether he or she is Full-Time or not, how the audit

work has been divided, and the details and levels of compensation for Directors who are not Audit & Supervisory Committee members.

Given their roles to monitor the management as a whole based on independence from the business affairs, the Company pays only fixed compensation to Directors who are Audit & Supervisory Committee members. In addition, basic stance for such fixed compensation is as stated in “Compensation for non-executive officers,” and it is determined by the Board of Directors upon deliberation of its contents at the Director Compensation Committee, in which Outside Directors make significant contributions.

### 3) Resolutions by the General Meeting of Shareholders on compensation for Directors

#### *Base compensation*

Upon the resolution at the Ordinary General Meeting of Shareholders of June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (including 10 million yen per month for Outside Directors). At the conclusion of the said Ordinary General Meeting of Shareholders, the number of Directors who are not Audit & Supervisory Committee members was eight (including two Outside Directors).

In addition, upon the resolution at the said Ordinary General Meeting of Shareholders, the maximum base compensation was set at 20 million yen per month for Directors who are Audit & Supervisory Committee members. At the conclusion of the said Ordinary General Meeting of Shareholders, the number of Directors who are Audit & Supervisory Committee members was four.

#### *Performance-linked stock compensation (officer compensation BIP trust)*

Upon the resolution at the Ordinary General Meeting of Shareholders of June 28, 2016, the maximum amount of performance-linked stock compensation for Directors who are not Audit & Supervisory Committee members (excluding those who are independent from business execution, such as Outside Directors, as well as those residing overseas) was set at 500 million yen in total over a period of three fiscal years, with the maximum number of total points to be granted per year set at 100,000 points (one point is equivalent to one share in the Company). Upon the resolution at the Board of Directors meeting held on May 16, 2019, these standards have been continued. At the conclusion of the said Ordinary General Meeting of Shareholders, the number of Directors who are not Audit & Supervisory Committee members was six.



**(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
		Base compensation		Performance-linked compensation		
		Fixed (monetary)	Variable (monetary)	Bonus (monetary)	Stock compensation (non-monetary)	
Directors who are not Audit & Supervisory Committee members (amount accounted for by Outside Directors)	400 (28)	290 (28)	9 (-)	76 (-)	24 (-)	8 (2)
Directors who are Audit & Supervisory Committee members (amount accounted for by Outside Directors)	81 (48)	81 (48)	- (-)	- (-)	- (-)	6 (5)
Total	482	372	9	76	24	14

Notes:

- 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.
- The amount above includes bonuses to be paid to Directors in the amount of 76 million yen (amount to be paid to five Directors excluding Chairman and Director without the right of representation, Outside Directors, and Directors who are Audit & Supervisory Committee members), as resolved at the Ordinary General Meeting of Shareholders held on June 25, 2021.
- 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 number of individuals above includes two Directors who are Audit & Supervisory Committee members who retired at the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2020.
- 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)			
			Base compensation		Performance-linked compensation	
			Fixed (monetary)	Variable (monetary)	Bonus (monetary)	Stock compensation (non-monetary)
Yasunori Ogawa	100	Director who is not an Audit & Supervisory Committee member	60	-	27	12

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.

- 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	1,991
Stocks other than unlisted stocks	11	7,289

#### 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	103	Increase due to conversion of bonds with share acquisition rights into shares
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	—	—
Stocks other than unlisted stocks	—	—

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- 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	FY2020	FY2019	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) Balance sheet total (millions of yen)	Stocks (shares) Balance sheet total (millions of yen)		
NGK Insulators, Ltd.	1,257,000	1,257,000	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	2,544	1,781		
Mizuho Financial Group, Inc.	1,500,888	15,008,880	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services. In the fiscal year under review, the number of shares fell due to a one-for-ten reverse stock split. The effect of holding the shares was examined at the Board of Directors' meeting (held in April 2021) 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
	2,399	1,855		
Otsuka Corporation	120,000	120,000	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Printing Solutions business segment.	None
	621	554		
Seiko Holdings Corporation	328,816	328,816	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	617	573		
Hakuto Co., Ltd.	190,000	190,000	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	243	183		
King Jim Co., Ltd.	221,980	221,980	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Printing Solutions business segment.	None
	211	184		

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Company	FY2020	FY2019	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)		
Joshin Denki Co., Ltd.	65,000	65,000	To maintain and strengthen the business relationship with a major buyer of Epson products.	None
	205	135	Epson has a transactional relationship primarily with the Printing Solutions business segment.	
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
	197	191		
Marubun Corporation	332,640	332,640	To maintain and strengthen the business relationship with a major buyer of Epson products.	Yes
	176	158	Epson has a transactional relationship primarily with the Wearable & Industrial Products 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
	36	33	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
	36	30	Epson has a transactional relationship primarily with the Visual Communications business segment.	

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

None

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**Consolidated Statement of Financial Position**

**Years ended March 31, 2020 and 2021:**

	Notes	Millions of yen		Thousands of
		March 31, 2020	March 31, 2021	U.S. dollars March 31, 2021
<u>Assets</u>				
Current assets				
Cash and cash equivalents	7, 34	196,262	304,007	2,746,596
Trade and other receivables	8, 34	157,782	161,332	1,457,577
Inventories	9	233,434	256,366	2,316,176
Income tax receivables		5,217	3,518	31,783
Other financial assets	10, 34	3,159	1,156	10,444
Other current assets	11	13,989	13,160	118,895
Subtotal		609,846	739,540	6,681,483
Assets held for sale		-	457	4,128
Total current assets		609,846	739,997	6,685,612
Non-current assets				
Property, plant and equipment	12, 15, 20	360,517	344,637	3,113,673
Intangible assets	13	29,052	27,976	252,753
Investment property	14	1,043	1,246	11,257
Investments accounted for using the equity method		1,512	1,718	15,521
Net defined benefit assets	22	33	140	1,264
Other financial assets	10, 34	16,959	20,213	182,617
Other non-current assets	11	1,871	1,614	14,581
Deferred tax assets	16	20,072	23,770	214,753
Total non-current assets		431,064	421,317	3,806,450
Total assets		1,040,910	1,161,314	10,492,063

# SEIKO EPSON CORPORATION

	Notes	Millions of yen		Thousands of
		March 31, 2020	March 31, 2021	U.S. dollars March 31, 2021
<u>Liabilities and equity</u>				
Liabilities				
Current liabilities				
Trade and other payables	17, 34	125,069	134,149	1,211,988
Income tax payables		3,286	7,305	65,998
Bonds issued, borrowings and lease liabilities	18, 34	22,320	28,127	254,117
Other financial liabilities	34	363	2,361	21,330
Provisions	19	11,406	11,014	99,507
Other current liabilities	21	109,827	122,973	1,111,017
Subtotal		272,274	305,931	2,763,978
Liabilities directly associated with assets held for sale		-	12	108
Total current liabilities		272,274	305,943	2,764,087
Non-current liabilities				
Bonds issued, borrowings and lease liabilities	18, 34	187,362	237,780	2,148,258
Other financial liabilities	34	1,877	2,730	24,664
Net defined benefit liabilities	22	52,964	33,087	298,929
Provisions	19	7,585	7,757	70,081
Other non-current liabilities	21	11,814	13,483	121,814
Deferred tax liabilities	16	993	7,582	68,500
Total non-current liabilities		262,598	302,421	2,732,267
Total liabilities		534,873	608,365	5,496,363
Equity				
Share capital	23	53,204	53,204	480,679
Capital surplus	23	84,434	84,418	762,686
Treasury shares	23	(40,953)	(40,874)	(369,282)
Other components of equity	23	37,451	54,869	495,722
Retained earnings		369,609	399,306	3,607,589
Equity attributable to owners of the parent company		503,746	550,924	4,977,404
Non-controlling interests		2,290	2,025	18,295
Total equity		506,037	552,949	4,995,699
Total liabilities and equity		1,040,910	1,161,314	10,492,063

**Consolidated Statement of Comprehensive Income**

**Years ended March 31, 2020 and 2021:**

	Notes	Millions of yen		Thousands of
		Year ended		U.S. dollars
		2020	2021	Year ended March 31, 2021
Revenue	6, 25	1,043,600	995,940	8,997,967
Cost of sales	9, 12, 13, 27	(681,600)	(643,563)	(5,814,365)
Gross profit		362,000	352,377	3,183,602
Selling, general and administrative expenses	12, 13, 26, 27	(321,138)	(290,735)	(2,626,688)
Other operating income	28	5,181	3,225	29,136
Other operating expense	12, 15, 29	(6,563)	(17,213)	(155,513)
Profit from operating activities		39,479	47,654	430,537
Finance income	30	2,306	1,317	11,898
Finance costs	30	(2,150)	(4,137)	(37,376)
Share of profit of investments accounted for using the equity method		77	99	894
Profit before tax		39,713	44,933	405,953
Income taxes	16	(31,889)	(13,937)	(125,915)
Profit for the period		7,823	30,995	280,028
Profit for the period attributable to:				
Owners of the parent company		7,733	30,922	279,369
Non-controlling interests		90	73	659
Profit for the period		7,823	30,995	280,028



# SEIKO EPSON CORPORATION

	Notes	Millions of yen		Thousands of
		Year ended		U.S. dollars
		2020	2021	Year ended March 31, 2021
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss, net of tax				
Remeasurement of net defined benefit liabilities (assets)	31	2,442	20,220	182,680
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	31	(1,475)	1,505	13,597
Subtotal		967	21,726	196,286
Items that may be reclassified subsequently to profit or loss, net of tax				
Exchange differences on translation of foreign operations	31	(13,068)	17,172	155,142
Net changes in fair value of cash flow hedges	31	441	(1,130)	(10,209)
Share of other comprehensive income of investments accounted for using the equity method	31	(33)	54	487
Subtotal		(12,660)	16,096	145,421
Total other comprehensive income, net of tax		(11,693)	37,822	341,708
Total comprehensive income for the period		(3,869)	68,818	621,746
Total comprehensive income for the period attributable to:				
Owners of the parent company		(3,783)	68,564	619,451
Non-controlling interests		(86)	254	2,294
Total comprehensive income for the period		(3,869)	68,818	621,746

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

	Notes	Yen		U.S. dollars
		Year ended		Year ended
		2020	2021	March 31, 2021
Earnings per share for the period:				
Basic earnings per share for the period	32	22.26	89.38	0.81
Diluted earnings per share for the period	32	22.25	89.35	0.81

**Consolidated Statement of Changes in Equity****Years ended March 31, 2020 and 2021:**

Notes	Millions of yen											
	Equity attributable to owners of the parent company											Total equity
	Share capital	Capital surplus	Treasury shares	Other components of equity					Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	
				Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity				
As of April 1, 2019	53,204	84,427	(30,788)	-	2,234	48,069	136	50,440	382,897	540,181	2,565	542,747
Cumulative effects of change in accounting policy	-	-	-	-	-	-	-	-	(847)	(847)	-	(847)
As of April 1, 2019 (restated)	53,204	84,427	(30,788)	-	2,234	48,069	136	50,440	382,049	539,333	2,565	541,899
Profit for the period	-	-	-	-	-	-	-	-	7,733	7,733	90	7,823
Other comprehensive income	-	-	-	2,442	(1,475)	(12,925)	441	(11,516)	-	(11,516)	(176)	(11,693)
Total comprehensive income for the period	-	-	-	2,442	(1,475)	(12,925)	441	(11,516)	7,733	(3,783)	(86)	(3,869)
Acquisition of treasury shares	23	-	(10,224)	-	-	-	-	-	-	(10,224)	-	(10,224)
Dividends	24	-	-	-	-	-	-	-	(21,646)	(21,646)	(188)	(21,835)
Share-based payment transactions	33	-	7	59	-	-	-	-	-	66	-	66
Transfer from other components of equity to retained earnings	-	-	-	(2,442)	970	-	-	(1,472)	1,472	-	-	-
Total transactions with the owners	-	7	(10,164)	(2,442)	970	-	-	(1,472)	(20,173)	(31,803)	(188)	(31,992)
As of March 31, 2020	53,204	84,434	(40,953)	-	1,729	35,144	577	37,451	369,609	503,746	2,290	506,037

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

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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, 2020	53,204	84,434	(40,953)	-	1,729	35,144	577	37,451	369,609	503,746	2,290	506,037
Profit for the period	-	-	-	-	-	-	-	-	30,922	30,922	73	30,995
Other comprehensive income	-	-	-	20,220	1,503	17,047	(1,130)	37,641	-	37,641	181	37,822
Total comprehensive income for the period	-	-	-	20,220	1,503	17,047	(1,130)	37,641	30,922	68,564	254	68,818
Acquisition of treasury shares	23	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Dividends	24	-	-	-	-	-	-	-	(21,449)	(21,449)	(519)	(21,968)
Share-based payment transactions	33	-	(16)	80	-	-	-	-	-	63	-	63
Transfer from other components of equity to retained earnings	-	-	-	(20,220)	(3)	-	-	(20,224)	20,224	-	-	-
Total transactions with the owners	-	(16)	78	(20,220)	(3)	-	-	(20,224)	(1,225)	(21,386)	(519)	(21,906)
As of March 31, 2021	53,204	84,418	(40,874)	-	3,229	52,192	(552)	54,869	399,306	550,924	2,025	552,949

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Thousands of U.S. dollars												
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, 2020	480,679	762,831	(369,995)	-	15,620	317,513	5,212	338,356	3,339,287	4,551,167	20,689	4,571,866
Profit for the period	-	-	-	-	-	-	-	-	279,369	279,369	659	280,028
Other comprehensive income	-	-	-	182,680	13,579	154,013	(10,209)	340,073	-	340,073	1,635	341,708
Total comprehensive income for the period	-	-	-	182,680	13,579	154,013	(10,209)	340,073	279,369	619,451	2,294	621,746
Acquisition of treasury shares	23	-	(9)	-	-	-	-	-	-	(9)	-	(9)
Dividends	24	-	-	-	-	-	-	-	(193,784)	(193,784)	(4,688)	(198,473)
Share-based payment transactions	33	-	(144)	722	-	-	-	-	-	569	-	569
Transfer from other components of equity to retained earnings	-	-	-	(182,680)	(27)	-	-	(182,716)	182,716	-	-	-
Total transactions with the owners	-	(144)	704	(182,680)	(27)	-	-	(182,716)	(11,067)	(193,214)	(4,688)	(197,912)
As of March 31, 2021	480,679	762,686	(369,282)	-	29,172	471,536	(4,987)	495,722	3,607,589	4,977,404	18,295	4,995,699

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

## Consolidated Statement of Cash Flows

### Years ended March 31, 2020 and 2021:

	Notes	Millions of yen		Thousands of
		Year ended		U.S. dollars
		March 31,		Year ended
		2020	2021	March 31, 2021
<b>Cash flows from operating activities</b>				
Profit (loss) for the period		7,823	30,995	280,028
Depreciation and amortisation		68,416	69,852	631,088
Impairment loss (reversal of impairment loss)		581	7,823	70,678
Finance (income) costs		(156)	2,820	25,477
Share of (profit) loss of investments accounted for using the equity method		(77)	(99)	(894)
Loss (gain) on sale and disposal of property, plant and equipment, intangible assets and investment property		672	316	2,854
Income taxes		31,889	13,937	125,915
Decrease (increase) in trade receivables		12,407	(1,004)	(9,070)
Decrease (increase) in inventories		9,224	(12,865)	(116,230)
Increase (decrease) in trade payables		(11,420)	13,151	118,814
Increase (decrease) in net defined benefit liabilities		1,863	2,888	26,092
Other		(10,136)	14,779	133,523
<b>Subtotal</b>		<b>111,088</b>	<b>142,595</b>	<b>1,288,295</b>
Interest and dividends income received		2,084	1,365	12,332
Interest expenses paid		(1,181)	(1,111)	(10,037)
Proceeds from insurance income		2,614	339	3,062
Income taxes paid		(12,281)	(9,966)	(90,039)
<b>Net cash from (used in) operating activities</b>		<b>102,324</b>	<b>133,222</b>	<b>1,203,613</b>
<b>Cash flows from investing activities</b>				
Purchase of investment securities		(1,041)	(297)	(2,683)
Proceeds from sales of investment securities		25	26	234
Purchase of property, plant and equipment		(65,250)	(47,504)	(429,181)
Proceeds from sale of property, plant and equipment		840	467	4,219
Purchase of intangible assets		(10,457)	(8,371)	(75,629)
Proceeds from sale of intangible assets		14	21	189
Proceeds from sale of investment property		16	-	-
Other		(280)	(1,790)	(16,172)
<b>Net cash from (used in) investing activities</b>		<b>(76,131)</b>	<b>(57,448)</b>	<b>(519,022)</b>
<b>Cash flows from financing activities</b>				
Net increase (decrease) in current borrowings	18	(9,816)	(889)	(8,031)
Proceeds from non-current borrowings	18	29,948	-	-
Repayment of non-current borrowings	18	-	(14,000)	(126,485)
Proceeds from issuance of bonds issued	18	29,846	69,676	629,498
Redemption of bonds issued	18	(10,000)	-	-
Payment of lease liabilities	18	(8,203)	(9,667)	(87,337)
Dividends paid	24	(21,646)	(21,449)	(193,784)
Dividends paid to non-controlling interests		(188)	(519)	(4,688)
Purchase of treasury shares	23	(10,224)	(1)	(9)
<b>Net cash from (used in) financing activities</b>		<b>(283)</b>	<b>23,150</b>	<b>209,152</b>
Effect of exchange rate changes on cash and cash equivalents		(4,901)	8,837	79,839
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>21,007</b>	<b>107,761</b>	<b>973,582</b>
Cash and cash equivalents at beginning of period	7	175,238	196,245	1,773,004
Cash and cash equivalents at end of period	7	196,245	304,007	2,746,596

**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 “6. 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 ¥110.685 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.

*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. 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 the 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**

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

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

liabilities are presented in the consolidated statement of comprehensive income separately from the depreciation expenses for right-of-use assets. Epson presents right-of-use assets as “Property, plant and equipment” in the consolidated statement of financial position.

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

## **(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 property, plant and equipment, goodwill, intangible assets, investment property and right-of-use assets (“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.

Assets and liabilities are recognised as estimated amounts if uncertain tax position of income taxes arising from interpretation of tax laws and regulations is probable.

## **(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 for measurements of income, expenses, assets and liabilities, and disclosure of contingencies as of the end of the fiscal year. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors including impacts of the COVID-19 pandemic deemed to be reasonable as of the end of the fiscal year. 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 Non-financial Assets**

Epson performs an impairment test for property, plant and equipment, goodwill, intangible assets, investment property and right-of-use assets ("asset") 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 or cash-generating units. If the recoverable amount falls below the carrying amount, impairment losses are recognised. Recoverable amount is the higher of fair value less costs of disposal and value in use of assets or cash-generating units with certain assumptions of useful life, future cash flow of an asset, discount rate and long-term growth rate.

Value in use is the present value of the future cash flows expected to be derived from assets or cash-generating units and in measuring the value in use, Epson bases cash flow projections on the most recent business plan and others approved by management which includes assumptions such as projected growth in revenue. If an estimate is required for the periods beyond the period covered by the business plan, etc., Epson takes future uncertainties into consideration. The future cash flows include net cash flows from the disposal of the assets or cash-generating units. 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 content related to impairment of non-financial assets is stated in "15. Impairment of Non-financial Assets."

## **(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 "22. 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 end of the fiscal year.

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 "19. 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 factors such as the business plan which includes assumptions such as projected growth in revenue.

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 "16. 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 "38. Contingencies."

## *5. New Standards and Interpretations Not Yet Applied*

The new standards, amended standards and new interpretations issued as of the date of approval of the consolidated financial statements on which have a significant effect are applied by Epson.

## 6. Segment Information

### (1) Outline of Reportable Segments

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

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

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

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## (2) Revenues and Performances of Reportable Segments

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

FY2019: Year ended March 31, 2020

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal				
Millions of yen								
Revenue								
External revenues	707,816	183,345	145,072	1,036,234	186	7,179	1,043,600	
Intersegment revenues	787	0	7,887	8,675	735	(9,411)	-	
Total revenue	708,604	183,345	152,959	1,044,910	921	(2,231)	1,043,600	
Segment profit (loss) (Business profit) (Note 1)	75,680	13,558	1,839	91,077	(588)	(49,627)	40,861	
							Other operating income (expense)	(1,381)
							Profit from operating activities	39,479
							Finance income (costs)	156
							Share of profit of investments accounted for using the equity method	77
							Profit before tax	39,713

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation	(37,736)	(11,784)	(10,327)	(59,848)	(18)	(7,956)	(67,822)
Impairment losses of assets other than financial assets	(0)	(0)	(195)	(197)	-	(384)	(581)
Segment assets	440,822	124,694	147,992	713,510	210	327,190	1,040,910
Capital expenditures	43,575	14,141	14,777	72,493	9	7,587	80,090

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

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

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

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

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FY2020: Year ended March 31, 2021

Millions of yen

	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 3)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products					
<b>Revenue</b>								
External revenues	707,563	141,468	140,595	989,626	190	6,123	995,940	
Intersegment revenues	192	1	8,101	8,294	618	(8,913)	-	
Total revenue	707,755	141,469	148,696	997,921	809	(2,789)	995,940	
<b>Segment profit (loss)</b>								
(Business profit) (Note 1)	108,587	1,348	3,218	113,154	(619)	(50,893)	61,642	
							Other operating income (expense)	(13,988)
							Profit from operating activities	47,654
							Finance income (costs)	(2,820)
							Share of profit of investments accounted for using the equity method	99
							Profit before tax	44,933
<b>Other items</b>								
	Reportable segments			Subtotal	Other (Note 2)	Adjustments (Note 4)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products					
Depreciation and amortisation	(38,112)	(13,062)	(10,094)	(61,269)	(14)	(8,152)	(69,436)	
Impairment losses of assets other than financial assets	(0)	(60)	(Note 5) (7,763)	(7,823)	-	(0)	(7,823)	
Segment assets	455,236	121,029	134,684	710,950	187	450,176	1,161,314	
Capital expenditures	27,285	8,078	10,514	45,878	62	6,937	52,878	

(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 (¥50,893) million comprised "Eliminations" of ¥616 million and "Corporate expenses" of (¥51,509) 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 ¥450,176 million comprised "Eliminations" of (¥15,128) million and "Corporate assets" of ¥465,305 million.

(Note 5) Epson recognised impairment losses of (¥7,516) million in total for the asset that belongs to the wearable products business which is a part of the Wearable & Industrial Products Segment by reviewing its business strategy because of declining profitability of the business at the end of the fiscal year. The amount includes certain amount of impairment losses that Epson has already recognised in the fiscal year.



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FY2020: Year ended March 31, 2021

Thousands of U.S. dollars

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal				
<b>Revenue</b>								
External revenues	6,392,582	1,278,113	1,270,226	8,940,922	1,716	55,319	8,997,967	
Intersegment revenues	1,734	9	73,189	74,933	5,583	(80,525)	-	
<b>Total revenue</b>	<b>6,394,317</b>	<b>1,278,122</b>	<b>1,343,416</b>	<b>9,015,864</b>	<b>7,309</b>	<b>(25,197)</b>	<b>8,997,967</b>	
<b>Segment profit (loss)</b>								
(Business profit) (Note 1)	981,045	12,178	29,073	1,022,306	(5,592)	(459,800)	556,913	
							Other operating income (expense)	(126,376)
							Profit from operating activities	430,537
							Finance income (costs)	(25,477)
							Share of profit of investments accounted for using the equity method	894
							Profit before tax	405,953
<b>Other items</b>								
	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated	
	Printing Solutions	Visual Communi- cations	Wearable & Industrial Products	Subtotal				
Depreciation and amortisation	(344,328)	(118,010)	(91,195)	(553,543)	(126)	(73,650)	(627,329)	
Impairment losses of assets other than financial assets	(0)	(542)	(Note 5) (70,135)	(70,678)	-	(0)	(70,678)	
Segment assets	4,112,896	1,093,454	1,216,822	6,423,182	1,689	4,067,181	10,492,063	
Capital expenditures	246,510	72,981	94,990	414,491	560	62,673	477,734	

(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 (\$459,800) thousand comprised "Eliminations" of \$5,565 thousand and "Corporate expenses" of (\$465,365) 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 \$4,067,181 thousand comprised "Eliminations" of (\$136,676) thousand and "Corporate assets" of \$4,203,866 thousand.

(Note 5) Epson recognised impairment losses of (\$67,904) thousand in total for the asset that belongs to the wearable products business which is a part of the Wearable & Industrial Products Segment by reviewing its business strategy because of declining profitability of the business at the end of the fiscal year. The amount includes certain amount of impairment losses that Epson has already recognised in the fiscal year.

**(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,
	2020	2021	2021
Japan	239,851	223,430	2,018,611
The Philippines	44,494	42,698	385,761
Indonesia	31,556	29,351	265,175
China	26,221	23,589	213,118
Other	51,874	56,405	509,599
Total	393,998	375,474	3,392,275

(Note) Non-current assets, excluding Investments accounted for using the equity method, 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,
	2020	2021	2021
Japan	254,993	221,285	1,999,232
The United States	201,259	209,641	1,894,032
China	132,550	144,821	1,308,406
Other	454,796	420,192	3,796,286
Total	1,043,600	995,940	8,997,967

(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.

*7. 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,
	2020	2021	2021
Cash and deposits	128,671	252,218	2,278,700
Short-term investments	67,590	51,788	467,886
Total	196,262	304,007	2,746,596

The balance of cash and cash equivalents in the consolidated statement of cash flow was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Cash and cash equivalents in consolidated statement of financial position	196,262	304,007	2,746,596
Short-term borrowings (Overdrafts)	(16)	-	-
Cash and cash equivalents in consolidated statement of cash flow	196,245	304,007	2,746,596

### 8. Trade and Other Receivables

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

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Notes and trade receivables	141,340	147,093	1,328,933
Other receivables	17,631	15,349	138,672
Allowance account for credit losses	(1,190)	(1,110)	(10,028)
<b>Total</b>	<b>157,782</b>	<b>161,332</b>	<b>1,457,577</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.

### 9. Inventories

The breakdown of “Inventories” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Merchandise and finished goods	126,262	147,978	1,336,929
Work in process	54,155	61,301	553,832
Raw materials	40,851	34,230	309,255
Supplies	12,165	12,855	116,140
<b>Total</b>	<b>233,434</b>	<b>256,366</b>	<b>2,316,176</b>

The amount of inventories included in cost of sales recognised as an expense totaled (¥654,007) million and (¥607,252) million ((\$5,486,307) thousand) for the years ended March 31, 2020 and 2021, respectively.

Losses recognised as cost of sales as a result of valuations for the years ended March 31, 2020 and 2021 were (¥24,045) million and (¥28,602) million ((\$258,408) thousand), respectively. In addition, Epson has no inventories pledged as collateral.

## 10. Other Financial Assets

### (1) The Breakdown of “Other financial assets”

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

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Derivative assets	1,631	356	3,216
Equity securities	10,964	13,171	118,995
Bonds receivable	720	602	5,438
Time deposits	47	1	9
Other	6,818	7,292	65,880
Allowance account for credit losses	(64)	(54)	(487)
<b>Total</b>	<b>20,118</b>	<b>21,370</b>	<b>193,070</b>
Current assets	3,159	1,156	10,444
Non-current assets	16,959	20,213	182,617
<b>Total</b>	<b>20,118</b>	<b>21,370</b>	<b>193,070</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 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) Equity Instruments Measured at Fair Value Through Other Comprehensive Income

The names of major equity instruments measured at fair value through other comprehensive income, their fair values and dividends received were as follows.

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2020		March 31, 2021		March 31, 2021	
	Fair value	Dividends received	Fair value	Dividends received	Fair value	Dividends received
NGK Insulators, Ltd.	1,781	62	2,544	43	22,984	388
Mizuho Financial Group, Inc.	1,855	112	2,399	112	21,674	1,011

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.

When the decline in the fair value of equity instruments measured at fair value through other comprehensive income is significant, accumulated loss recognised as other comprehensive income is transferred to retained earnings. The amount of accumulated loss transferred to retained earnings (net of tax) was ¥966 million for the year ended March 31, 2020. No amount of accumulated loss was transferred to retained earnings for the year ended March 31, 2021.

*11. Other Assets*

The breakdown of “Other assets” was as follows:

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2020	2021	March 31, 2021
Prepaid expense	10,566	10,628	96,020
Advances to suppliers	1,865	972	8,781
Other	3,429	3,174	28,675
<b>Total</b>	<b>15,861</b>	<b>14,774</b>	<b>133,477</b>
Current assets	13,989	13,160	118,895
Non-current assets	1,871	1,614	14,581
<b>Total</b>	<b>15,861</b>	<b>14,774</b>	<b>133,477</b>

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## 12. 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:

Cost	Millions of yen					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2019	513,523	500,375	200,546	21,845	186	1,236,477
Effect of changes in accounting policies	30,430	1,483	364	-	-	32,278
As of April 1, 2019	543,954	501,858	200,910	21,845	186	1,268,755
Individual acquisition	9,695	3,676	4,645	58,908	12	76,938
Transfer from (to) investment property	723	-	-	-	-	723
Sale or disposal	(8,929)	(11,921)	(9,722)	(568)	(2)	(31,144)
Exchange differences on translation of foreign operations	(4,288)	(5,487)	(3,434)	(168)	(6)	(13,385)
Transfer from construction in progress	30,797	25,283	16,485	(72,566)	-	-
Other	(144)	(304)	(136)	(324)	(103)	(1,013)
As of March 31, 2020	571,807	513,104	208,749	7,125	85	1,300,873
Individual acquisition	12,933	1,882	4,098	30,826	1	49,742
Transfer from (to) investment property	(2,562)	-	-	-	-	(2,562)
Transfer to (from) assets held for sale	(61)	(133)	(540)	-	-	(735)
Sale or disposal	(4,943)	(11,938)	(13,573)	(218)	(13)	(30,687)
Exchange differences on translation of foreign operations	6,163	5,875	3,778	379	6	16,203
Transfer from construction in progress	6,748	12,204	10,025	(28,979)	-	-
Other	(234)	313	(159)	(863)	-	(943)
As of March 31, 2021	589,853	521,308	212,378	8,269	81	1,331,890

Cost	Thousands of U.S. dollars					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2020	5,166,074	4,635,713	1,885,973	64,371	767	11,752,929
Individual acquisition	116,845	17,003	37,023	278,502	9	449,401
Transfer from (to) investment property	(23,146)	-	-	-	-	(23,146)
Transfer to (from) assets held for sale	(551)	(1,201)	(4,878)	-	-	(6,640)
Sale or disposal	(44,658)	(107,855)	(122,627)	(1,969)	(117)	(277,246)
Exchange differences on translation of foreign operations	55,680	53,078	34,132	3,424	54	146,388
Transfer from construction in progress	60,965	110,258	90,572	(261,815)	-	-
Other	(2,114)	2,827	(1,436)	(7,796)	-	(8,519)
As of March 31, 2021	5,329,114	4,709,834	1,918,760	74,707	731	12,033,157

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Millions of yen						
Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2019	(342,276)	(404,550)	(167,523)	-	(171)	(914,521)
Effect of changes in accounting policies	(1,754)	-	-	-	-	(1,754)
As of April 1, 2019	(344,031)	(404,550)	(167,523)	-	(171)	(916,275)
Depreciation expense (Note)	(18,187)	(24,751)	(18,358)	-	(20)	(61,318)
Impairment losses	(395)	(116)	(26)	(42)	-	(580)
Transfer to (from) investment property	(468)	-	-	-	-	(468)
Sale or disposal	8,565	11,276	9,495	-	2	29,340
Exchange differences on translation of foreign operations	1,629	3,871	2,833	-	6	8,340
Other	(0)	369	139	-	97	606
As of March 31, 2020	(352,888)	(413,900)	(173,440)	(42)	(84)	(940,355)
Depreciation expense (Note)	(19,099)	(24,435)	(17,912)	-	(2)	(61,450)
Impairment losses	(1,214)	(4,362)	(937)	(599)	-	(7,112)
Transfer to (from) investment property	2,342	-	-	-	-	2,342
Transfer to (from) assets held for sale	37	133	427	-	-	599
Sale or disposal	4,049	11,197	13,323	42	13	28,626
Exchange differences on translation of foreign operations	(2,719)	(4,447)	(3,266)	(7)	(6)	(10,446)
Other	(38)	527	160	(105)	(0)	543
As of March 31, 2021	(369,529)	(435,286)	(181,644)	(712)	(80)	(987,253)

Thousands of U.S. dollars						
Accumulated Depreciation and Accumulated Impairment Losses	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2020	(3,188,218)	(3,739,440)	(1,566,969)	(379)	(758)	(8,495,776)
Depreciation expense (Note)	(172,552)	(220,761)	(161,828)	-	(18)	(555,179)
Impairment losses	(10,968)	(39,409)	(8,465)	(5,411)	-	(64,254)
Transfer to (from) investment property	21,159	-	-	-	-	21,159
Transfer to (from) assets held for sale	334	1,201	3,857	-	-	5,411
Sale or disposal	36,581	101,160	120,368	379	117	258,625
Exchange differences on translation of foreign operations	(24,565)	(40,177)	(29,507)	(63)	(54)	(94,375)
Other	(343)	4,761	1,445	(948)	(0)	4,905
As of March 31, 2021	(3,338,564)	(3,932,655)	(1,641,089)	(6,432)	(722)	(8,919,483)

(Note) Depreciation expense for Property, plant and equipment was included in Cost of sales, Selling, general and administrative expenses and Other operating expense 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, 2019	171,247	95,825	33,023	21,845	15	321,956
As of March 31, 2020	218,919	99,204	35,308	7,083	1	360,517
As of March 31, 2021	220,323	86,022	30,734	7,557	0	344,637

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, 2020	1,977,856	896,273	318,995	63,992	9	3,257,144
As of March 31, 2021	1,990,540	777,178	277,670	68,274	0	3,113,673

The effect of changes in accounting policies was due to application of IFRS16 Leases.

*13. Intangible Assets*

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

Millions of yen						
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2019	49,055	13,669	11,223	4,853	5,323	84,125
Individual acquisition	4,243	444	6,098	-	358	11,144
Sale or disposal	(3,109)	(3,439)	(901)	-	(136)	(7,587)
Exchange differences on translation of foreign operations	(537)	-	(3)	(114)	(60)	(716)
Other	122	8	-	-	2	134
As of March 31, 2020	49,774	10,683	16,416	4,738	5,486	87,099
Individual acquisition	4,173	5	3,084	-	389	7,652
Sale or disposal	(2,804)	(1,005)	(1,653)	-	(153)	(5,617)
Exchange differences on translation of foreign operations	755	-	3	224	80	1,064
Other	(66)	8	-	-	-	(58)
As of March 31, 2021	51,832	9,692	17,850	4,963	5,802	90,140

Thousands of U.S. dollars						
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2020	449,690	96,517	148,312	42,806	49,564	786,908
Individual acquisition	37,701	45	27,862	-	3,514	69,133
Sale or disposal	(25,333)	(9,079)	(14,934)	-	(1,382)	(50,747)
Exchange differences on translation of foreign operations	6,821	-	27	2,023	722	9,612
Other	(596)	72	-	-	-	(524)
As of March 31, 2021	468,283	87,563	161,268	44,838	52,419	814,383

# SEIKO EPSON CORPORATION

Millions of yen

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2019	(35,570)	(11,113)	(9,790)	-	(2,459)	(58,934)
Amortisation expense (Note)	(4,358)	(494)	(1,711)	-	(531)	(7,094)
Impairment losses	(1)	-	-	-	-	(1)
Sale or disposal	3,092	3,438	901	-	123	7,555
Exchange differences on translation of foreign operations	414	-	3	-	37	454
Other	(17)	(8)	-	-	-	(26)
As of March 31, 2020	(36,441)	(8,178)	(10,596)	-	(2,830)	(58,046)
Amortisation expense (Note)	(4,479)	(470)	(2,891)	-	(558)	(8,400)
Impairment losses	(143)	-	(162)	-	(405)	(711)
Sale or disposal	2,801	1,005	1,653	-	144	5,604
Exchange differences on translation of foreign operations	(608)	-	(3)	-	(48)	(660)
Other	57	(8)	-	-	-	48
As of March 31, 2021	(38,814)	(7,652)	(12,000)	-	(3,698)	(62,164)

Thousands of U.S. dollars

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2020	(329,231)	(73,885)	(95,731)	-	(25,568)	(524,425)
Amortisation expense (Note)	(40,466)	(4,246)	(26,119)	-	(5,041)	(75,891)
Impairment losses	(1,291)	-	(1,463)	-	(3,659)	(6,423)
Sale or disposal	25,306	9,079	14,934	-	1,300	50,630
Exchange differences on translation of foreign operations	(5,493)	-	(27)	-	(433)	(5,962)
Other	514	(72)	-	-	-	433
As of March 31, 2021	(350,670)	(69,133)	(108,415)	-	(33,410)	(561,629)

(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			Total
			development assets	Goodwill	Other	
As of April 1, 2019	13,484	2,556	1,432	4,853	2,863	25,191
As of March 31, 2020	13,332	2,505	5,819	4,738	2,656	29,052
As of March 31, 2021	13,017	2,040	5,850	4,963	2,104	27,976

Thousands of U.S. dollars

Carrying Amount	Software	Patent rights	Product			Total
			development assets	Goodwill	Other	
As of March 31, 2020	120,449	22,631	52,572	42,806	23,996	262,474
As of March 31, 2021	117,604	18,430	52,852	44,838	19,008	252,753

## 14. Investment Property

### (1) Schedule of Investment Property

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

	Millions of yen		Thousands of U.S. dollars
	Year ended		Year ended
	March 31,		March 31,
	2020	2021	2021
Balance at the beginning of the year	1,461	1,043	9,423
Transfer from (to) property, plant and equipment	(254)	219	1,978
Depreciation expense	(3)	(1)	(9)
Sale or disposal	(156)	(17)	(153)
Exchange differences on translation of foreign operations	(2)	2	18
Balance at the end of the year	1,043	1,246	11,257
Breakdown of “Balance at the beginning of the year”			
Cost	2,879	1,669	15,078
Accumulated depreciation and accumulated impairment losses	(1,418)	(625)	(5,646)
Total	1,461	1,043	9,423
Breakdown of “Balance at the end of the year”			
Cost	1,669	4,192	37,873
Accumulated depreciation and accumulated impairment losses	(625)	(2,945)	(26,607)
Total	1,043	1,246	11,257

**(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, 2020		March 31, 2021		March 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment property	1,043	1,471	1,246	1,836	11,257	16,587

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.

*15. Impairment of Non-financial Assets*

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 year ended March 31, 2020, 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. 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.

Total amount of impairment losses recognised for the year ended March 31, 2020 was ¥581 million, mainly comprised “Buildings and structures” of ¥395 million and “Machinery and equipment” of ¥116 million.

Impairment loss recognised in the year ended March 31, 2021, was mainly for business assets that belong to the wearable products business which is a part of the Wearable & Industrial Products Segment by reviewing its business strategy at the end of the consolidated fiscal year as reflecting a decline in profitability of the business. An impairment loss of ¥7,516 million (\$67,904 thousand) was recognised, including the amount which had been already recognised during the consolidated fiscal year. The recoverable amount of ¥9,704 million (\$87,672 thousand) was determined at value in use by estimating future cash flows over 5 years, based on the business plan, etc. approved by management and net cash inflows from the disposal of assets and by discounting the future cash flows to the present value at the pretax discount rate (7.5%).

Total amount of impairment losses recognised for the year ended March 31, 2021 was ¥7,823 million (\$70,678 thousand), mainly comprised “Machinery and equipment” of ¥4,362 million (\$39,409 thousand), “Buildings and structures” of ¥1,214 million (\$10,968 thousand) and “Tools, furniture and fixtures” of ¥937 million (\$8,465 thousand).

Impairment losses were recognised as “Other operating expense” in the consolidated statement of comprehensive income.

*16. 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,
	2020	2021	2021
Inter-company profits and write downs on inventories	15,136	17,470	157,835
Accrued bonus	4,454	5,322	48,082
Net defined benefit liabilities	3,533	3,349	30,257
Fixed assets (Note 1)	2,896	3,469	31,341
Carryforward of unused tax losses	1,094	1,485	13,416
Other	11,770	13,697	123,747
<b>Total deferred tax assets</b>	<b>38,886</b>	<b>44,794</b>	<b>404,698</b>
Undistributed profit	(13,693)	(16,290)	(147,174)
Fixed assets (Note 1)	(2,259)	(5,340)	(48,245)
Other	(3,854)	(6,975)	(63,016)
<b>Total deferred tax liabilities</b>	<b>(19,807)</b>	<b>(28,606)</b>	<b>(258,445)</b>
<b>Net deferred tax assets (Note 2)</b>	<b>19,078</b>	<b>16,188</b>	<b>146,252</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, 2020 and 2021, 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 deductible temporary differences and 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, 2020 and 2021, were ¥84,000 million and ¥26,954 million (\$243,519 thousand), respectively. The amounts of deductible temporary differences, for which deferred tax assets have not been recognised, as of March 31, 2020 and 2021, were ¥144,275 million and ¥135,980 million (\$1,228,531 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:

# SEIKO EPSON CORPORATION

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
1st year	54,017	7,323	66,160
2nd year	7,323	-	-
3rd year	-	-	-
4th year	-	-	-
5th year and thereafter or indefinite periods	22,659	19,631	177,359
Total	84,000	26,954	243,519

Epson has no taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised as of March 31, 2020 and 2021.

## (2) Tax Expense

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

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Current tax expense	(11,747)	(15,099)	(136,414)
Deferred tax expense	(20,142)	1,162	10,498
Total	(31,889)	(13,937)	(125,915)

Deferred tax expense decreased by ¥229 million and decreased by ¥149 million (\$1,346 thousand) due to the effect of changes in applicable tax rates for the year ended March 31, 2020 and 2021, respectively.

Current tax expense and deferred tax expense include 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 current tax expense and the deferred tax expense increased by ¥21,502 million and increased by ¥769 million (\$6,947 thousand) for the years ended March 31, 2020 and 2021, 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 30.5% for the years ended March 31, 2020 and 2021 respectively. Foreign subsidiaries are subject to income tax at their locations.

	%	
	Year ended March 31, 2020	Year ended March 31, 2021
Effective statutory tax rate	30.5	30.5
Different tax rates applied to foreign subsidiaries	(9.0)	(3.2)
Expenses not deductible for tax purposes	1.2	1.9
Reassessment of recoverability of deferred tax assets	54.2	1.9
Changes in applicable tax rates	(0.6)	(0.4)
Other	4.1	0.3
Actual tax rate	80.3	31.0

### 17. Trade and Other Payables

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

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Notes and trade payables	63,561	78,495	709,174
Other payables	61,507	55,654	502,814
Total	125,069	134,149	1,211,988

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



*18. 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	
	2020	2021	March 31,		
Current borrowings	1,267	-	-	-	-
Current portion of non-current borrowings	13,992	500	4,517	0.28	-
Current portion of bonds issued (Note 2)	-	19,991	180,611	(Note 2)	(Note 2)
Non-current borrowings	66,419	65,936	595,708	0.39	2027
Bonds issued (Note 2)	99,677	149,472	1,350,426	(Note 2)	(Note 2)
Lease liabilities	28,326	30,007	271,102	1.11	2021 to 2068
<b>Total</b>	<b>209,682</b>	<b>265,907</b>	<b>2,402,376</b>		
Current liabilities	22,320	28,127	254,117		
Non-current liabilities	187,362	237,780	2,148,258		
<b>Total</b>	<b>209,682</b>	<b>265,907</b>	<b>2,402,376</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 rate			March 31,		U.S. dollars
						2020	2021	March 31,
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 (20,000)	180,692 (180,692)
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	180,692
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	90,346
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	90,346
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	90,346
The Company	The 18th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jul 19, 2019	0.20	Non	Jul 17, 2026	10,000	10,000	90,346
The Company	The 19th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jul 19, 2019	0.30	Non	Jul 19, 2029	20,000	20,000	180,692
The Company	The 20th Series unsecured straight bonds issued (with inter-bond pari passu clause) (Green bonds)	Jul 16, 2020	0.02	Non	Jul 14, 2023	-	10,000	90,346
The Company	The 21st Series unsecured straight bonds issued (with inter-bond pari passu clause) (Green bonds)	Jul 16, 2020	0.23	Non	Jul 16, 2025	-	40,000	361,385
The Company	The 22nd Series unsecured straight bonds issued (with inter-bond pari passu clause) (Green bonds)	Jul 16, 2020	0.45	Non	Jul 16, 2030	-	20,000	180,692
						100,000	170,000	1,535,890
						(-)	(20,000)	(180,692)

\*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:

Millions of yen						
	Current borrowings	Non-current borrowings	Bonds issued	Lease liabilities (Note)	Lease liabilities	Total
As of April 1, 2019	11,204	50,435	79,767	944	-	142,351
Effect of changes in accounting policies	-	-	-	(944)	28,701	27,756
As of April 1, 2019	11,204	50,435	79,767	-	28,701	170,108
Changes from cash flows	(9,816)	29,948	19,846	-	(8,203)	31,775
Non-cash changes						
New leases	-	-	-	-	8,522	8,522
Foreign exchange movement	(137)	-	-	-	(1,114)	(1,252)
Other	16	27	64	-	420	529
As of March 31, 2020	1,267	80,411	99,677	-	28,326	209,682
Changes from cash flows	(889)	(14,000)	69,676	-	(9,667)	45,120
Non-cash changes						
New leases	-	-	-	-	9,290	9,290
Foreign exchange movement	(384)	-	-	-	1,504	1,119
Other	6	24	109	-	553	694
As of March 31, 2021	-	66,436	169,463	-	30,007	265,907

(Note) Lease obligations for finance lease under IAS17

Thousands of U.S. dollars						
	Current borrowings	Non-current borrowings	Bonds issued	Lease liabilities (Note)	Lease liabilities	Total
As of March 31, 2020	11,446	726,485	900,546	-	255,915	1,894,403
Changes from cash flows	(8,031)	(126,485)	629,498	-	(87,337)	407,643
Non-cash changes						
New leases	-	-	-	-	83,931	83,931
Foreign exchange movement	(3,469)	-	-	-	13,588	10,109
Other	54	216	984	-	4,996	6,270
As of March 31, 2021	-	600,225	1,531,038	-	271,102	2,402,376

(Note) Lease obligations for finance lease under IAS17

The effect of changes in accounting policies was due to application of IFRS16 Leases.

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

**19. Provisions**

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

FY2019: Year ended March 31, 2020

	Millions of yen				
	Provision for product warranties	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2019	12,938	3,808	313	4,751	21,812
Arising during the year	12,171	375	543	465	13,557
Utilised	(12,479)	(254)	(190)	(1,625)	(14,548)
Unused amounts reversed	(459)	-	-	(720)	(1,180)
Exchange differences on translation of foreign operations	(504)	(35)	(14)	(92)	(647)
As of March 31, 2020	11,666	3,895	651	2,777	18,992
Current liabilities	9,693	93	527	1,092	11,406
Non-current liabilities	1,973	3,801	124	1,685	7,585
Total	11,666	3,895	651	2,777	18,992

FY2020: Year ended March 31, 2021

	Millions of yen				
	Provision for product warranties	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2020	11,666	3,895	651	2,777	18,992
Arising during the year	10,540	128	265	854	11,788
Utilised	(10,628)	(134)	(349)	(1,238)	(12,351)
Unused amounts reversed	(293)	-	-	(144)	(438)
Exchange differences on translation of foreign operations	580	57	46	96	780
As of March 31, 2021	11,865	3,947	614	2,345	18,772
Current liabilities	9,489	27	479	1,018	11,014
Non-current liabilities	2,376	3,919	134	1,326	7,757
Total	11,865	3,947	614	2,345	18,772

FY2020: Year ended March 31, 2021

	Thousands of U.S. dollars				
	Provision for product warranties	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2020	105,398	35,189	5,881	25,089	171,586
Arising during the year	95,225	1,156	2,394	7,715	106,500
Utilised	(96,020)	(1,210)	(3,153)	(11,184)	(111,586)
Unused amounts reversed	(2,647)	-	-	(1,300)	(3,957)
Exchange differences on translation of foreign operations	5,240	514	415	867	7,047
As of March 31, 2021	107,196	35,659	5,547	21,186	169,598
Current liabilities	85,729	243	4,327	9,197	99,507
Non-current liabilities	21,466	35,406	1,210	11,979	70,081
Total	107,196	35,659	5,547	21,186	169,598

## **(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. Most of these expenditures are expected to be paid in the next fiscal year.

*20. Lease*

**(1) Leasing Activities**

Epson enters into contracts mainly for real estate of business office and warehouse and other as a lessee. Extension and termination options are mainly included in leases of real estate, and these options are used by the lessee as necessary to utilise real estate.

**(2) Right-of-use Assets**

The schedule of the carrying amount of “Right-of-use asset” was as follows:

Millions of yen				
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2019	29,392	1,669	393	31,455
Individual acquisition	7,747	822	127	8,697
Depreciation	(6,816)	(727)	(135)	(7,680)
Exchange differences on translation of foreign operations	(793)	(56)	(3)	(853)
Other	(263)	(65)	(14)	(343)
As of March 31, 2020	29,265	1,642	367	31,275
Individual acquisition	10,092	864	323	11,281
Depreciation	(7,340)	(828)	(172)	(8,342)
Exchange differences on translation of foreign operations	1,355	84	3	1,443
Other	(1,029)	(97)	(0)	(1,127)
As of March 31, 2021	32,343	1,666	521	34,530

Thousands of U.S. dollars				
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2020	264,398	14,834	3,315	282,558
Individual acquisition	91,177	7,805	2,918	101,919
Depreciation	(66,314)	(7,480)	(1,553)	(75,367)
Exchange differences on translation of foreign operations	12,241	758	27	13,036
Other	(9,296)	(876)	(0)	(10,182)
As of March 31, 2021	292,207	15,051	4,707	311,966

**(3) Breakdown of Profit or Loss Related to Lease Transactions**

The breakdown of profit or loss related to lease transactions was as follows;

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Interest expenses paid for lease liabilities	(441)	(347)	(3,135)
Short-term leases	(5,517)	(5,075)	(45,850)
Low-value leases	(97)	(74)	(668)
Variable leases	(374)	(438)	(3,957)

*21. Other Liabilities*

The breakdown of “Other liabilities” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Accrued expense	20,525	23,472	212,061
Accrued bonus	22,875	29,531	266,802
Accrued employee’s unused paid vacations	25,613	26,599	240,312
Contract liabilities	19,126	21,705	196,097
Refund liabilities	20,388	21,652	195,618
Other	13,112	13,495	121,922
Total	121,642	136,456	1,232,831
Current liabilities	109,827	122,973	1,111,017
Non-current liabilities	11,814	13,483	121,814
Total	121,642	136,456	1,232,831

## 22. 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 U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Balance at the beginning of the year	329,331	323,837	2,925,753
Service cost	10,741	10,147	91,674
Interest cost	2,881	2,857	25,811
Remeasurement			
Actuarial gains and losses arising from changes in demographic assumptions	(1,657)	121	1,093
Actuarial gains and losses arising from changes in financial assumptions	(3,222)	(1,891)	(17,084)
Past service cost and losses (gains) arising from settlements	-	15	135
Exchange differences on translation of foreign operations	(2,213)	4,120	37,222
Benefits paid	(12,023)	(11,452)	(103,464)
Balance at the end of the year	323,837	327,755	2,961,151

## (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 ¥6,541 million (\$59,095 thousand) for the year ending March 31, 2022.

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Balance at the beginning of the year	275,832	270,906	2,447,540
Interest income	1,946	1,990	17,978
Remeasurement			
Return on plan assets	(2,037)	22,667	204,788
Exchange differences on translation of foreign operations	(1,068)	2,635	23,806
Contributions by the employer	6,872	6,750	60,983
Contributions by plan participants	1,124	1,110	10,028
Benefits paid	(11,763)	(11,251)	(101,648)
Balance at the end of the year	270,906	294,808	2,663,486

## (3) Schedule of Right to Reimbursement

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

## (4) Effect of Asset Ceiling

There was no effect from the asset ceiling.

## (5) Reconciliation of Defined Benefit Obligations and Plan Assets

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

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Funded defined benefit obligations	318,015	320,141	2,892,361
Plan assets	(270,906)	(294,808)	(2,663,486)
Subtotal	47,109	25,332	228,865
Unfunded defined benefit obligations	5,821	7,614	68,789
Net defined benefit liabilities or assets recognised in the consolidated statement of financial position	52,931	32,947	297,664
Net defined benefit liabilities	52,964	33,087	298,929
Net defined benefit assets	(33)	(140)	(1,264)
Net defined benefit liabilities and assets recognised in the consolidated statement of financial position	52,931	32,947	297,664



## (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 U.S. dollars
	March 31,		March 31,
	2020	2021	2021
<b>Investments quoted in active markets</b>			
Equity securities	11,933	17,016	153,733
Bonds receivable	3,169	3,283	29,660
Alternative investments (Note 1)	3,355	4,700	42,462
Cash and deposits	4,191	3,433	31,015
Other	3,760	4,489	40,556
<b>Total</b>	<b>26,409</b>	<b>32,923</b>	<b>297,447</b>
<b>Investments unquoted in active markets</b>			
Pooled funds (Equity securities)	20,882	32,464	293,300
Pooled funds (Bonds receivable)	54,687	50,553	456,728
General accounts of life insurance companies (Note 2)	128,407	136,770	1,235,668
Alternative investments (Note 1)	40,057	41,555	375,434
Other	461	540	4,878
<b>Total</b>	<b>244,496</b>	<b>261,885</b>	<b>2,366,038</b>

(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 the 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.

**(7) Matters Related to Actuarial Assumptions**

The major item of actuarial assumptions was as follows:

	%	
	March 31, 2020	March 31, 2021
Discount rate	0.9	1.0

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, 2021 were as follows. Each of these sensitivities assumes that other variables remain fixed. Negative figures show a decrease in the defined benefit obligations, while positive figures show an increase.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2021	March 31, 2021
Discount rate (1% increase)	(47,990)	(433,572)
Discount rate (1% decrease)	55,466	501,115

The weighted-average duration of the defined benefit obligations at March 31, 2021 was 15.3 years.

**(8) Defined Contribution Plans**

Expenses for the defined contribution plans were ¥19,957 million and ¥18,852 million (\$170,321 thousand) for the years ended March 31, 2020 and 2021, respectively.

## 23. Equity and Other Equity Items

### (1) Share Capital and Capital Surplus

(A) Shares Authorised

The number of authorised shares as of March 31, 2020 and 2021 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, 2019	399,634,778	53,204	84,427		
Increase (decrease)	-	-	7		
As of March 31, 2020	399,634,778	53,204	84,434	480,679	762,831
Increase (decrease)	-	-	(16)	-	(144)
As of March 31, 2021	399,634,778	53,204	84,418	480,679	762,686

(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, 2019	47,397,639	30,788	
Increase (decrease) (Note1)	6,305,882	10,164	
As of March 31, 2020 (Note3)	53,703,521	40,953	369,995
Increase (decrease) (Note2)	(47,696)	(78)	(704)
As of March 31, 2021 (Note4)	53,655,825	40,874	369,282

(Note 1) Net increase in the number of treasury shares during the year ended March 31, 2020 resulted from:

the purchase by the resolution of the board of directors	6,210,600 shares
the purchase by BIP trust	130,000 shares
the delivery to beneficiaries of BIP trust	(35,130) shares
the purchase of odd shares	412 shares

(Note 2) Net decrease in the number of treasury shares during the year ended March 31, 2021 resulted from:

the delivery to beneficiaries of BIP trust	(48,540) shares
the purchase of odd shares	844 shares

(Note 3) The number of treasury shares as of March 31, 2020 included 259,468 shares held by BIP trust.

(Note 4) The number of treasury shares as of March 31, 2021 included 210,928 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.

**24. Dividends**

Dividends paid were as follows:

FY2019: Year ended March 31, 2020

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 26, 2019)	Ordinary shares	(Note1) 10,924	31	March 31, 2019	June 27, 2019
Board of Directors Meeting (October 30, 2019)	Ordinary shares	(Note2) 10,731	31	September 30, 2019	November 29, 2019

(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 ¥4 million corresponding to the Company's shares held by BIP trust.

FY2020: Year ended March 31, 2021

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2020)	Ordinary shares	(Note1) 10,731	31	March 31, 2020	June 26, 2020
Board of Directors Meeting (October 29, 2020)	Ordinary shares	(Note2) 10,731	31	September 30, 2020	November 30, 2020

(Note 1) The amount of dividends includes dividends of ¥8 million corresponding to the Company's shares held by BIP trust.

(Note 2) The amount of dividends includes dividends of ¥6 million corresponding to the Company's shares held by BIP trust.

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FY2020: Year ended March 31, 2021

(Resolution)	Class of shares	Thousands of U.S. dollars	U.S. dollars	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2020)	Ordinary shares	(Note1) 96,950	0.28	March 31, 2020	June 26, 2020
Board of Directors Meeting (October 29, 2020)	Ordinary shares	(Note2) 96,950	0.28	September 30, 2020	November 30, 2020

(Note 1) The amount of dividends includes dividends of \$72 thousand corresponding to the Company's shares held by BIP trust.

(Note 2) The amount of dividends includes dividends of \$54 thousand corresponding to the Company's shares held by BIP trust.

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

FY2019: Year ended March 31, 2020

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2020)	Ordinary shares	(Note) 10,731	31	March 31, 2020	June 26, 2020

(Note) The amount of dividends includes dividends of ¥8 million corresponding to the Company's shares held by BIP trust.

FY2020: Year ended March 31, 2021

(Resolution)	Class of shares	Millions of yen	Yen	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2021)	Ordinary shares	(Note) 10,731	31	March 31, 2021	June 28, 2021

(Note) The amount of dividends includes dividends of ¥6 million corresponding to the Company's shares held by BIP trust.

FY2020: Year ended March 31, 2021

(Resolution)	Class of shares	Thousands of U.S. dollars	U.S. dollars	Basis date	Effective date
		Total dividends	Dividends per share		
Annual Shareholders Meeting (June 25, 2021)	Ordinary shares	(Note) 96,950	0.28	March 31, 2021	June 28, 2021

(Note) The amount of dividends includes dividends of \$54 thousand corresponding to the Company's shares held by BIP trust.

## 25. Revenue

### (1) Disaggregation of Revenue

The revenue of the reportable segments stated in “6. 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 U.S. dollars
	Year ended March 31,	Year ended March 31,	Year ended March 31,
	2020	2021	2021
Printing Solutions Segment	708,604	707,755	6,394,317
Printers	482,518	509,328	4,601,599
Professional Printing	197,966	179,515	1,621,854
Other	28,254	19,019	171,829
Inter-segment revenue	(134)	(108)	(975)
Visual Communications Segment	183,345	141,469	1,278,122
Wearable and Industrial Products Segment	152,959	148,696	1,343,416
Wearable products	44,042	28,157	254,388
Robotic solutions	21,244	28,465	257,171
Micro-devices, Other	92,975	94,395	852,825
Inter-segment revenue	(5,303)	(2,321)	(20,969)
Others	(Note 1) (1,309)	(Note 2) (1,980)	(17,888)
<b>Total revenue from contracts with customers</b>	<b>1,043,600</b>	<b>995,940</b>	<b>8,997,967</b>

(Note 1) “Others” consisted of the intra-group services of ¥921 million and revenues which are not attributed to reportable segments and eliminations of (¥2,231) million.

(Note 2) “Others” consisted of the intra-group services of ¥809 million (\$7,309 thousand) and revenues which are not attributed to reportable segments and eliminations of (¥2,789) million ((\$25,197) 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. Consideration for transactions is received mainly within one year and includes no significant financing components.

**(2) Contract Balance**

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

	Millions of yen			Thousands of U.S. dollars
	April 1,	March 31,	March 31,	March 31,
	2019	2020	2021	
Contract liabilities	17,773	19,126	21,705	196,097
Current liabilities	8,728	9,408	10,766	97,267
Non-current liabilities	9,044	9,717	10,938	98,820
<b>Total</b>	<b>17,773</b>	<b>19,126</b>	<b>21,705</b>	<b>196,097</b>

Contract liabilities are included in “Other current liabilities” and “Other non-current liabilities” in the consolidated statement of financial position. The balance of receivables from contracts with customers is stated in “8. 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.

*26. Selling, General and Administrative Expenses*

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

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Employee benefit expense	(108,530)	(110,450)	(997,876)
Research and development expense	(49,209)	(46,479)	(419,921)
Promotion expense	(34,156)	(23,500)	(212,314)
Transportation expense	(16,844)	(17,680)	(159,732)
Service contract expense	(17,815)	(15,197)	(137,299)
Depreciation and amortisation	(15,217)	(14,504)	(131,038)
Advertising expense	(18,687)	(11,844)	(107,006)
Other	(60,676)	(51,077)	(461,462)
Total	(321,138)	(290,735)	(2,626,688)

*27. Employee Benefit Expenses*

The employee benefit expenses included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Salaries and wages	(209,983)	(216,183)	(1,953,137)
Legal welfare expense	(20,066)	(20,067)	(181,298)
Welfare expense	(9,700)	(10,219)	(92,325)
Expenses of post-employment benefits			
Expense for defined contribution plans	(19,957)	(18,852)	(170,321)
Expense for defined benefit plans (Note)	(10,275)	(9,603)	(86,759)
Total	(269,983)	(274,925)	(2,483,850)

(Note) Epson used to present “Expense for defined benefit plans” by including amounts recognised in Finance costs and Other comprehensive income. From the fiscal year 2020, to make the presentation clearer and more understandable, Epson changed the presentation of “Expense for defined benefit plans” by including only the amounts recognised in “Cost of sales” and “Selling, general and administrative expenses”.

In the previous presentation, the amounts of “Expense for defined benefit plans” were (¥8,767) million for the year ended March 31, 2020 and ¥9,735 million (\$87,952 thousand) for the year ended March 31, 2021, and the amounts of “Total” were (¥268,475) million for the year ended March 31, 2020 and (¥255,587) million ((\$2,309,138) thousand) for the year ended March 31, 2021.

Employee benefit expenses recognised in Finance costs and Other comprehensive income are stated in “30. Finance income and finance costs” and “31. Other comprehensive income”, respectively.



*28. Other Operating Income*

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

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Government grant income	382	989	8,935
Insurance claim income	2,614	339	3,062
Other	2,185	1,895	17,120
Total	5,181	3,225	29,136

*29. Other Operating Expense*

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

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Impairment loss	(581)	(7,823)	(70,678)
Foreign exchange loss	(1,941)	(4,272)	(38,596)
Losses related to suspension and others caused by COVID-19 (Note)	(1,991)	(2,396)	(21,647)
Other	(2,049)	(2,719)	(24,565)
Total	(6,563)	(17,213)	(155,513)

(Note) “Losses related to suspension and others caused by COVID-19” shows the amounts of fixed manufacturing costs related to suspension and others for overseas manufacturing subsidiaries in response to requests and statements from the governments of each country issued to prevent the spread of the COVID-19 infection.

*30. Finance Income and Finance Costs*

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

Finance Income	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Interest income	1,547	1,058	9,558
Dividend income	490	259	2,339
Foreign exchange gain (Note 1)	269	-	-
Other	0	-	-
Total	2,306	1,317	11,898

Finance Costs	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2020	2021	2021
Foreign exchange loss (Note 1)	-	(1,829)	(16,524)
Interest expense	(1,210)	(1,199)	(10,832)
Employee benefit expense (Note 2)	(935)	(866)	(7,824)
Other	(4)	(242)	(2,186)
Total	(2,150)	(4,137)	(37,376)

(Note 1) The increase or decrease in the fair value of currency derivatives is included in the foreign exchange gain (loss).

(Note 2) The employee benefit expense is the net amount of interest cost and interest income related to employee benefits.

## 31. 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:

FY2019: Year ended March 31, 2020

Millions of yen					
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	2,933	-	2,933	(491)	2,442
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	(1,625)	-	(1,625)	149	(1,475)
Exchange differences on translation of foreign operations	(13,068)	-	(13,068)	-	(13,068)
Net changes in fair value of cash flow hedges	2,623	(1,988)	634	(193)	441
Share of other comprehensive income of investments accounted for using the equity method	(33)	-	(33)	-	(33)
<b>Total</b>	<b>(9,170)</b>	<b>(1,988)</b>	<b>(11,158)</b>	<b>(534)</b>	<b>(11,693)</b>

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2020: Year ended March 31, 2021

Millions of yen					
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	24,415	-	24,415	(4,195)	20,220
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	1,831	-	1,831	(325)	1,505
Exchange differences on translation of foreign operations	17,172	-	17,172	-	17,172
Net changes in fair value of cash flow hedges	(5,587)	3,962	(1,625)	494	(1,130)
Share of other comprehensive income of investments accounted for using the equity method	54	-	54	-	54
<b>Total</b>	<b>37,887</b>	<b>3,962</b>	<b>41,849</b>	<b>(4,026)</b>	<b>37,822</b>

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2020: Year ended March 31, 2021

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)	220,580	-	220,580	(37,900)	182,680
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	16,542	-	16,542	(2,936)	13,597
Exchange differences on translation of foreign operations	155,142	-	155,142	-	155,142
Net changes in fair value of cash flow hedges	(50,476)	35,795	(14,681)	4,463	(10,209)
Share of other comprehensive income of investments accounted for using the equity method	487	-	487	-	487
<b>Total</b>	<b>342,295</b>	<b>35,795</b>	<b>378,090</b>	<b>(36,373)</b>	<b>341,708</b>

(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.

**32. 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,	
	2020	2021	2021	
Profit for the period attributable to owners of the parent company	7,733	30,922	279,369	
Profit for the period not attributable to owners of the parent company	-	-	-	
Profit used for calculation of basic earnings per share	7,733	30,922	279,369	
Weighted-average number of ordinary shares outstanding (Thousands of Shares)	347,393	345,968	345,968	
Basic earnings per share	(Yen) 22.26	(Yen) 89.38	(\$)	0.81

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

	Millions of yen		Thousands of U.S. dollars	
	Year ended March 31,		Year ended March 31,	
	2020	2021	2021	
Profit used for calculation of basic earnings per share	7,733	30,922	279,369	
Adjustments	-	-	-	
Profit used for calculation of diluted earnings per share	7,733	30,922	279,369	
Weighted-average number of ordinary shares outstanding (Thousands of Shares)	347,393	345,968	345,968	
Effect of dilutive potential ordinary shares				
BIP trust for eligible officers (Thousands of Shares)	124	110	110	
Weighted-average number of ordinary shares diluted (Thousands of Shares)	347,518	346,078	346,078	
Diluted earnings per share	(Yen) 22.25	(Yen) 89.35	(\$)	0.81

(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.

### 33. 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 March 31,		Year ended March 31,
	2020	2021	2021
Number of granted points	47,351	46,430	46,430
Weighted average fair value at the grant date	¥1,535	¥1,023	\$9

#### (3) Stock Compensation Expenses

The total expenses recognised from the performance-linked stock compensation plan were ¥66 million and ¥63 million (\$569 thousand) for the years ended March 31, 2020 and 2021, respectively.

### 34. Financial Instruments

#### (1) Capital Management

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

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

	Millions of yen		Thousands of
	March 31,		U.S. dollars
	2020	2021	March 31, 2021
Interest-bearing debt	209,682	265,907	2,402,376
Cash and cash equivalents	(196,262)	(304,007)	(2,746,596)
Net interest-bearing debt	13,420	(38,099)	(344,211)
Capital (equity attributable to owners of the parent company)	503,746	550,924	4,977,404

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

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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 U.S. dollars
	March 31,		March 31,
	2020	2021	2021
Balance as of April 1	1,151	1,255	11,338
Addition	304	288	2,601
Decrease (utilised)	(85)	(203)	(1,834)
Decrease (reversal)	(16)	(230)	(2,077)
Other	(99)	55	496
Balance as of March 31	1,255	1,164	10,516

## (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:

FY2019: As of March 31, 2020

	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
<b>Non-derivative financial liabilities</b>								
Trade and other payables	125,069	125,069	125,069	-	-	-	-	-
Borrowings	81,679	81,831	15,331	500	18,000	-	9,000	39,000
Bonds issued	99,677	100,000	-	20,000	-	20,000	10,000	50,000
Lease liabilities	28,326	29,889	7,256	5,748	4,795	3,141	2,402	6,544
Other	1,888	1,888	10	57	67	19	326	1,406
<b>Total</b>	<b>336,640</b>	<b>338,678</b>	<b>147,668</b>	<b>26,306</b>	<b>22,862</b>	<b>23,160</b>	<b>21,729</b>	<b>96,951</b>
<b>Derivative financial liabilities</b>								
Foreign exchange forward contract	352	352	352	-	-	-	-	-
Currency option	-	-	-	-	-	-	-	-
<b>Total</b>	<b>352</b>	<b>352</b>	<b>352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

FY2020: As of March 31, 2021

	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
<b>Non-derivative financial liabilities</b>								
Trade and other payables	134,149	134,149	134,149	-	-	-	-	-
Borrowings	66,436	66,500	500	18,000	-	9,000	30,000	9,000
Bonds issued	169,463	170,000	20,000	-	30,000	10,000	40,000	70,000
Lease liabilities	30,007	31,420	7,811	6,797	4,346	3,101	2,215	7,147
Other	2,759	2,759	28	107	34	99	0	2,489
<b>Total</b>	<b>402,817</b>	<b>404,829</b>	<b>162,490</b>	<b>24,904</b>	<b>34,380</b>	<b>22,201</b>	<b>72,215</b>	<b>88,637</b>
<b>Derivative financial liabilities</b>								
Foreign exchange forward contract	1,890	1,890	1,890	-	-	-	-	-
Currency option	441	441	441	-	-	-	-	-
<b>Total</b>	<b>2,332</b>	<b>2,332</b>	<b>2,332</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

FY2020: As of March 31, 2021

	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
<b>Non-derivative financial liabilities</b>								
Trade and other payables	1,211,988	1,211,988	1,211,988	-	-	-	-	-
Borrowings	600,225	600,804	4,517	162,623	-	81,311	271,039	81,311
Bonds issued	1,531,038	1,535,890	180,692	-	271,039	90,346	361,385	632,425
Lease liabilities	271,102	283,868	70,569	61,408	39,264	28,016	20,011	64,570
Other	24,926	24,926	252	966	307	894	0	22,487
<b>Total</b>	<b>3,639,309</b>	<b>3,657,487</b>	<b>1,468,039</b>	<b>224,998</b>	<b>310,611</b>	<b>200,578</b>	<b>652,437</b>	<b>800,804</b>
<b>Derivative financial liabilities</b>								
Foreign exchange forward contract	17,075	17,075	17,075	-	-	-	-	-
Currency option	3,984	3,984	3,984	-	-	-	-	-
<b>Total</b>	<b>21,068</b>	<b>21,068</b>	<b>21,068</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



## (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

FY2019: As of March 31, 2020

	Millions of yen				Average rate
	Contract amount	Over one year	Carrying amount		
			Assets	Liabilities	
Foreign exchange forward contract					
Selling					
Euro (Yen buying)	15,206	-	-	2	119.50 JPY / EUR
Australian Dollar (Yen buying)	2,167	-	187	-	72.99 JPY / AUD
Yuan Renminbi (U.S. Dollar buying)	14,852	-	95	-	0.14 USD / CNY
Non-Deliverable Forward					
Selling					
Indian Rupee (U.S. Dollar buying)	3,578	-	165	-	0.01 USD / INR
New Taiwan Dollar (U.S. Dollar buying)	2,014	-	-	37	0.03 USD / TWD
Won (U.S. Dollar buying)	745	-	20	-	0.00 USD / KRW
Currency option (Note)					
Selling and Buying					
Euro (Yen buying)	-	-	-	-	- JPY / EUR
Total	38,564	-	469	40	

FY2020: As of March 31, 2021

	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)	9,769	-	-	350	125.27 JPY / EUR	88,259	-	3,162
Australian Dollar (Yen buying)	3,157	-	-	239	78.26 JPY / AUD	28,522	-	2,159
Yuan Renminbi (U.S. Dollar buying)	10,695	-	-	330	0.15 USD / CNY	96,625	-	2,981
Non-Deliverable Forward								
Selling								
Indian Rupee (U.S. Dollar buying)	1,752	-	-	43	0.01 USD / INR	15,828	-	388
New Taiwan Dollar (U.S. Dollar buying)	1,862	-	24	-	0.04 USD / TWD	16,822	216	-
Won (U.S. Dollar buying)	699	-	-	8	0.00 USD / KRW	6,315	-	72
Currency option (Note)								
Selling and Buying								
Euro (Yen buying)	3,730	-	-	101	124.35 JPY / EUR	33,699	-	912
Total	31,667	-	24	1,073		286,100	216	9,694

(Note) Currency option is the zero-cost option contract, and call option and put option are shown as a lump sum because they are included in integrated contract.

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Derivative transactions to which hedge accounting is applied

FY2019: As of March 31, 2020

	Millions of yen				Average rate
	Contract amount	Over one year	Carrying amount (Note 1)		
			Assets	Liabilities	
Foreign exchange forward contract					
Selling					
Euro (Yen buying)	38,143	-	167	-	119.99 JPY / EUR
Australian Dollar (Yen buying)	3,213	-	268	-	72.38 JPY / AUD
Yuan Renminbi (U.S. Dollar buying)	16,733	-	133	-	0.14 USD / CNY
Non-Deliverable Forward					
Selling					
Indian Rupee (U.S. Dollar buying)	6,120	-	240	-	0.01 USD / INR
New Taiwan Dollar (U.S. Dollar buying)	2,494	-	-	17	0.03 USD / TWD
Won (U.S. Dollar buying)	3,116	-	56	-	0.00 USD / KRW
Currency option (Note 2)					
Selling and Buying					
Euro (Yen buying)	-	-	-	-	- JPY / EUR
<b>Total</b>	<b>69,822</b>	<b>-</b>	<b>866</b>	<b>17</b>	

FY2020: As of March 31, 2021

	Millions of yen				Average rate	Thousands of U.S. dollars		
	Contract amount	Over one year	Carrying amount (Note 1)			Contract amount	Carrying amount (Note 1)	
			Assets	Liabilities			Assets	Liabilities
Foreign exchange forward contract								
Selling								
Euro (Yen buying)	16,474	-	-	521	125.93 JPY / EUR	148,836	-	4,707
Australian Dollar (Yen buying)	3,932	-	-	191	80.19 JPY / AUD	35,524	-	1,725
Yuan Renminbi (U.S. Dollar buying)	22,592	-	30	-	0.15 USD / CNY	204,110	271	-
Non-Deliverable Forward								
Selling								
Indian Rupee (U.S. Dollar buying)	5,607	-	-	30	0.01 USD / INR	50,657	-	271
New Taiwan Dollar (U.S. Dollar buying)	3,006	-	79	-	0.04 USD / TWD	27,158	713	-
Won (U.S. Dollar buying)	3,135	-	46	-	0.00 USD / KRW	28,323	415	-
Currency option (Note 2)								
Selling and Buying								
Euro (Yen buying)	16,438	-	-	340	124.21 JPY / EUR	148,511	-	3,071
<b>Total</b>	<b>71,187</b>	<b>-</b>	<b>157</b>	<b>1,083</b>		<b>643,149</b>	<b>1,418</b>	<b>9,784</b>

(Note 1) 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.

(Note 2) Currency option is the zero-cost option contract, and call option and put option are shown as a lump sum because they are included in integrated contract.

## 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, 2021 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, 2021	March 31, 2021
Profit before tax	11,697	105,678

**(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, 2021 increases by 100bp, the impact on profit before tax in the consolidated statement of comprehensive income was as follows:

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

	Millions of yen	Thousands of U.S. dollars
	March 31, 2021	March 31, 2021
Profit before tax	510	4,607

**(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, 2021 was ¥658 million (\$5,944 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.

### **(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  
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.

FY2019: As of March 31, 2020	Millions of yen				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortised cost					
Borrowings	81,679	-	81,802	-	81,802
Bonds issued	99,677	-	99,767	-	99,767
<b>Total</b>	<b>181,356</b>	<b>-</b>	<b>181,569</b>	<b>-</b>	<b>181,569</b>

FY2020: As of March 31, 2021	Millions of yen				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortised cost					
Borrowings	66,436	-	66,742	-	66,742
Bonds issued	169,463	-	170,017	-	170,017
<b>Total</b>	<b>235,899</b>	<b>-</b>	<b>236,759</b>	<b>-</b>	<b>236,759</b>

FY2020: As of March 31, 2021	Thousands of U.S. dollars				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortised cost					
Borrowings	600,225	-	602,990	-	602,990
Bonds issued	1,531,038	-	1,536,043	-	1,536,043
<b>Total</b>	<b>2,131,264</b>	<b>-</b>	<b>2,139,034</b>	<b>-</b>	<b>2,139,034</b>

“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.

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## (ii) Financial instruments measured at fair value

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

FY2019: As of March 31, 2020	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	1,631	-	1,631
Equity securities	8,036	-	2,927	10,964
Bonds receivable	-	-	690	690
<b>Total</b>	<b>8,036</b>	<b>1,631</b>	<b>3,617</b>	<b>13,285</b>
Financial liabilities measured at fair value				
Derivative financial liabilities	-	352	-	352
<b>Total</b>	<b>-</b>	<b>352</b>	<b>-</b>	<b>352</b>

FY2020: As of March 31, 2021	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	356	-	356
Equity securities	9,782	-	3,388	13,171
Bonds receivable	-	-	586	586
<b>Total</b>	<b>9,782</b>	<b>356</b>	<b>3,974</b>	<b>14,114</b>
Financial liabilities measured at fair value				
Derivative financial liabilities	-	2,332	-	2,332
<b>Total</b>	<b>-</b>	<b>2,332</b>	<b>-</b>	<b>2,332</b>

FY2020: As of March 31, 2021	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	3,216	-	3,216
Equity securities	88,376	-	30,609	118,995
Bonds receivable	-	-	5,294	5,294
<b>Total</b>	<b>88,376</b>	<b>3,216</b>	<b>35,903</b>	<b>127,515</b>
Financial liabilities measured at fair value				
Derivative financial liabilities	-	21,068	-	21,068
<b>Total</b>	<b>-</b>	<b>21,068</b>	<b>-</b>	<b>21,068</b>

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
	2020	2021	March 31, 2021
Balance as of April 1	3,100	3,617	32,678
Gains and losses			
Other comprehensive income	(514)	79	713
Purchase	1,041	297	2,683
Sales	(3)	(20)	(180)
Other	(5)	-	-
Balance as of March 31	3,617	3,974	35,903

## 35. Principal Subsidiaries

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

## 36. 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
	2020	2021	March 31, 2021
Short-term remuneration	434	458	4,137
Stock compensation	30	34	307
Total	465	493	4,454

(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.

## 37. 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
	2020	2021	March 31, 2021
Acquisition of property, plant and equipment	12,428	6,424	58,038
Acquisition of intangible assets	1,631	737	6,658
Total	14,060	7,161	64,697

## *38. Contingencies*

### Material litigation

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

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

Epson had the following material action.

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

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

## *39. Subsequent Events*

No material subsequent events were identified.

## *40. Approval of Consolidated Financial Statements*

The consolidated financial statements were approved by Yasunori Ogawa (President and Representative Director) and Tatsuaki Seki (Director, Managing Executive Officer and General Administrative Manager, Corporate Strategy and Management Control Division) on June 25, 2021.



## Report of Independent Auditors



Ernst & Young ShinNihon LLC  
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### Independent Auditor's Report

The Board of Directors  
Seiko Epson Corporation

#### Opinion

We have audited the accompanying consolidated financial statements of Seiko Epson Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.



Impairment Loss in the Wearable products business	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 12 Property, Plant and Equipment and in Note 15 Impairment of Non-financial Assets to the consolidated financial statements, the Company recorded property, plant and equipment of 344,637 million yen (30% of total assets) as of the current fiscal year end and recognized an impairment loss of 7,516 million yen in the wearable products business which is a part of the Wearable &amp; Industrial Products Segment, due to a decline in profitability of the business and related revision to its business strategy.</p> <p>When performing impairment testing, the Company measured the recoverable amount of cash-generating units based on value in use. Value in use was calculated using discounted future cash flows over 5 years, which were based on its business plan approved by management.</p> <p>Significant assumptions for estimation of value in use are net cash inflows from a disposal of the assets, which is included in the future cash flows and the discount rate, and significant assumptions for development of the business plan are primarily a projected growth in revenue and a feasibility of planned measures in cost controls and reductions.</p> <p>The impairment test is complex, as it involves significant assumptions and specialties in the model of calculating value in use and a discount rate. In addition, these assumptions involve uncertainty, as they largely depend on external environment such as market competitions in the same industry, uncertainty in the global economy, natural disasters, and fundamental changes in society caused by covid-19 pandemic. They are also affected by the subjectivity inherent in management forecast. Therefore, we determined it to be a key audit matter.</p>	<p>We mainly performed the following procedures to assess the impairment loss.</p> <ul style="list-style-type: none"> <li>• We understood and assessed processes of developing the business plan for a basis of the future cash flows and details of management's review of its business strategy at the end of the current fiscal year. We also assessed the precision level of the business plan by evaluating the consistency of the assumptions used in the business plan with those used in other accounting estimates and comparing the estimate of the business plan with actual results in the past fiscal years.</li> <li>• We compared the market trends embedded in the business plan with publicly available market related data to assess whether the projected growth in revenue, which is one of the significant assumptions included in the business plan, is reasonable. We inquired the specifics of the planned measures and inspected related documents to assess whether the feasibility of the planned measures in cost controls and reductions is reasonable.</li> <li>• We assessed management's judgement of uncertainties related to the business plan by performing a trend analysis considering actual results.</li> <li>• We assessed the measurement of net cash flows to be received from the disposal of the assets at the end of their useful life by inspecting related documents including net disposable value of lands, which are the main assets.</li> <li>• With an involvement of the valuation specialists of our network firm, we assessed the adequacy of the model of calculating value in use and the discount rate. We also assessed the discount rate by recalculating and agreeing to related documents, using publicly available data.</li> </ul>

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Recoverability of Deferred Tax Assets	
Description of Key Audit Matter	Auditor's Response
<p>The Company recorded deferred tax assets of 23,770 million yen (2% of total assets) in the consolidated statement of financial position as of the current fiscal year end. The related disclosure is provided in Note 16 Income Taxes to the consolidated financial statements.</p> <p>The Company takes account of all significant temporary differences, the expected future taxable income and the period in which carryforward of unused tax losses might expire, and recognizes deferred tax assets for all deductible temporary differences and the carryforward of unused tax losses to the extent that it is probable that future taxable income will be available against which they can be utilized.</p> <p>The recoverability of deferred tax assets is primarily based on the estimate of future taxable income by management, and significant assumptions thereof are primarily a projected growth in revenue and a feasibility of the planned measures in cost controls and reductions.</p> <p>These assumptions involve uncertainty, as they largely depend on external environment such as market competitions in the same industry, uncertainty in the global economy, natural disasters, and fundamental changes in society caused by covid-19 pandemic. They are also affected by the subjectivity inherent in management forecast. Therefore, we determined it to be a key audit matter.</p>	<p>We mainly performed the following procedures to assess the recoverability of deferred tax assets.</p> <ul style="list-style-type: none"> <li>• We understood and assessed processes of developing the business plan for a basis of the estimate of future taxable income. We also assessed the precision level of the business plan for the future taxable income by evaluating the consistency of the assumptions used in the business plan with those used in other accounting estimates and comparing the estimate of the taxable income with actual results in the past fiscal years.</li> <li>• We compared the market trends embedded in the business plan and the Company's market share with publicly available market related data to assess whether the projected growth in revenue, which is one of the significant assumptions included in the business plan, is reasonable. We inquired the specifics of the planned measures and inspected related documents to assess whether the feasibility of the planned measures in cost controls and reductions is reasonable.</li> <li>• We assessed management's judgement of uncertainties related to the business plan by performing a trend analysis considering actual results.</li> <li>• With an involvement of the tax specialists of our network firm, we evaluated the accuracy of the amount of the temporary differences and the carryforward of unused tax losses by recalculating. We also reviewed scheduling of the reversals of the existing temporary differences and the utilizations of the carryforward of unused tax losses by recalculating and agreeing to related documents.</li> </ul>

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### **Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.



**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

June 25, 2021

/s/ Makoto Usui  
Designated Engagement Partner  
Certified Public Accountant

/s/ Yoshiyuki Sakuma  
Designated Engagement Partner  
Certified Public Accountant

/s/ Ryuichi Minami  
Designated Engagement Partner  
Certified Public Accountant

## 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, Rental and borrowing 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
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Printing solutions, Wearable & Industrial products	100.0	Manufacture of printer components and watch movements, Interlocking directors, 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., Rental and borrowing of assets
Epson X Investment Corporation	Chiyoda-ku, Tokyo	100 (million JPY)	Other (Venture investment & development)	100.0	Venture investment company, Interlocking directors, Financial assistance
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. *	Amsterdam, the Netherlands	95,000 (thousand EUR)	Regional headquarters, Printing solutions, Visual communications	100.0	Regional headquarters in Europe, Sales of printers and 3LCD projectors, etc., Interlocking directors
Epson (U.K.) Ltd.	Hemel Hempstead, UK	1,600 (thousand GBP)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Guaranty of liabilities
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Sales of printers, 3LCD projectors and factory automation products, etc.
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Wearable & Industrial products	100.0 (100.0)	Sales of electronic devices
Epson France S.A.S.	Levallois-Perret, France	4,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Italia S.p.A.	Milan, Italy	3,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Como Printing Technologies S.r.l.	Como, Italy	170 (thousand EUR)	Printing solutions	100.0 (100.0)	Development, manufacture and sales of printers, etc.
Epson Iberica, S.A.U.	Cerdanyola, Spain	1,900 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Telford Ltd.	Telford, UK	8,000 (thousand GBP)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson (China) Co., Ltd. *	Beijing, China	1,211 (million CNY)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in China, Sales of printers, 3LCD projectors, factory automation products and electronic devices, etc., Interlocking directors
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in Southeast Asia, Sales of printers, 3LCD projectors and electronic devices, etc., Interlocking directors
Epson Korea Co., Ltd.	Seoul, Korea	1,466 (million KRW)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of printers, 3LCD projectors and factory automation products and electronic devices, 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 (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 (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 (thousand IDR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson (Thailand) Co., Ltd.	Bangkok, Thailand	215,308 (thousand THB)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Philippines Corporation	Pasig, Philippines	50,000 (thousand PHP)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (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 (thousand INR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Interlocking directors
Epson Precision (Hong Kong) Ltd. *	Hong Kong, China	81,602 (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. *	Shenzhen, China	56,641 (thousand USD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Manufacture of printers, 3LCD projectors and factory automation products, etc.
Orient Watch (Shenzhen) Ltd.	Shenzhen, China	37,748 (thousand CNY)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watches, etc.
Tianjin Epson Co., Ltd.	Tianjin, China	172,083 (thousand CNY)	Printing solutions	80.0 (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 (thousand SGD)	Wearable & Industrial products	100.0	Manufacture of semiconductors, and surface finishing, etc.
PT. Epson Batam	Batam, Indonesia	7,000 (thousand USD)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, etc., Guaranty of liabilities
PT. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD)	Printing solutions	100.0	Manufacture of printers, Interlocking directors
Epson Precision (Thailand) Ltd. *	Chachoengsao, Thailand	3,250,000 (thousand THB)	Wearable & Industrial products	100.0	Manufacture of watches and crystal devices, Interlocking directors, Financial assistance
Epson Precision (Philippines), Inc. *	Lipa, Philippines	157,533 (thousand USD)	Printing solutions, Visual communications	100.0	Manufacture of printers and 3LCD projectors
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,800 (thousand MYR)	Wearable & Industrial products	100.0	Manufacture of crystal devices, Interlocking directors
Epson Precision (Johor) Sdn. Bhd.	Johor, Malaysia	52,800 (thousand MYR)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watch components
40 other companies	—	—	—	—	—
(Equity method affiliates) 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.

Company name	(Millions of yen)				
	Revenue	Profit before tax	Profit for the period	Total equity	Total assets
Epson Sales Japan Corporation	168,257	7,495	5,484	26,107	72,930
Epson America, Inc.	286,902	16,435	11,678	61,589	172,552

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

# SEIKO EPSON CORPORATION

## 2. Distribution of ownership among shareholders

As of March 31, 2021

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)	–	68	31	389	601	30	40,328	41,447	–
Number of shares owned (Units)	–	1,504,140	139,737	519,077	687,309	160	1,144,778	3,995,201	114,678
Percentage of shares owned (%)	–	37.65	3.50	12.99	17.20	0.00	28.66	100.00	–

### Notes

- 53,444,897 shares of treasury shares are included as 534,448 units under “Japanese individuals and others” and 97 shares under “Shares less than one unit.” Treasury shares do not include the Company’s shares (210,928 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, 2021

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	59,964,200	17.32
Custody Bank of Japan, Ltd. (Trust account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	26,254,100	7.58
Sanko Kigyo Kabushiki Kaisha	6-1, Ginza 5-chome, Chuo-ku, Tokyo	20,000,000	5.77
Seiko Holdings Corporation	5-11, Ginza 4-chome, Chuo-ku, Tokyo	12,000,000	3.46
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	8,736,000	2.52
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the re-trust, Custody Bank of Japan, Ltd.	8-12, Harumi 1-chome, Chuo-ku, Tokyo	8,153,800	2.35
Epson Group Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	7,569,979	2.18
Mikiko Kidosaki	Shibuya-ku, Tokyo	6,855,302	1.98
Minako Hattori	Chiyoda-ku, Tokyo	6,855,302	1.98
Custody Bank of Japan, Ltd. (Securities investment trust account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	6,771,500	1.95
Total	—	163,160,183	47.13

## Notes

1. Although the Company holds 53,444,897 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 13.37%.) Treasury shares do not include the Company's shares (210,928 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, Custody Bank of Japan, Ltd., were contributed by Mizuho Bank, Ltd. to the trust assets of the Retirement benefit trust.
3. 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 April 20, 2020, claiming that they hold the Company's shares as follows as of April 13, 2020. 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.

## SEIKO EPSON CORPORATION

Name	Address	Number of shares held (Shares)	Shareholding ratio (%)
Mitsubishi UFJ Trust and Banking Corporation	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	8,769,100	2.19
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	7,498,500	1.88
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,023,400	0.26
MU Investments Co., Ltd.	3-11, Kanda Surugadai 2-chome, Chiyoda-ku, Tokyo	872,000	0.22
Total	-	18,163,000	4.54

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 June 19, 2020, claiming that they hold the Company's shares as follows as of June 15, 2020. 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 (Shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1, Shibakoen 1-chome, Minato-ku, Tokyo	8,453,300	2.12
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo	14,075,200	3.52
Total	-	22,528,500	5.64

5. Nomura Securities Co., Ltd. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of July 20, 2020, claiming that they hold the Company's shares as follows as of July 15, 2020. 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 (Shares)	Shareholding ratio (%)
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	845,247	0.21
Nomura Asset Management Co., Ltd.	2-1, Toyosu 2-chome, Koto-ku, Tokyo	30,796,600	7.71
Total	-	31,641,847	7.92

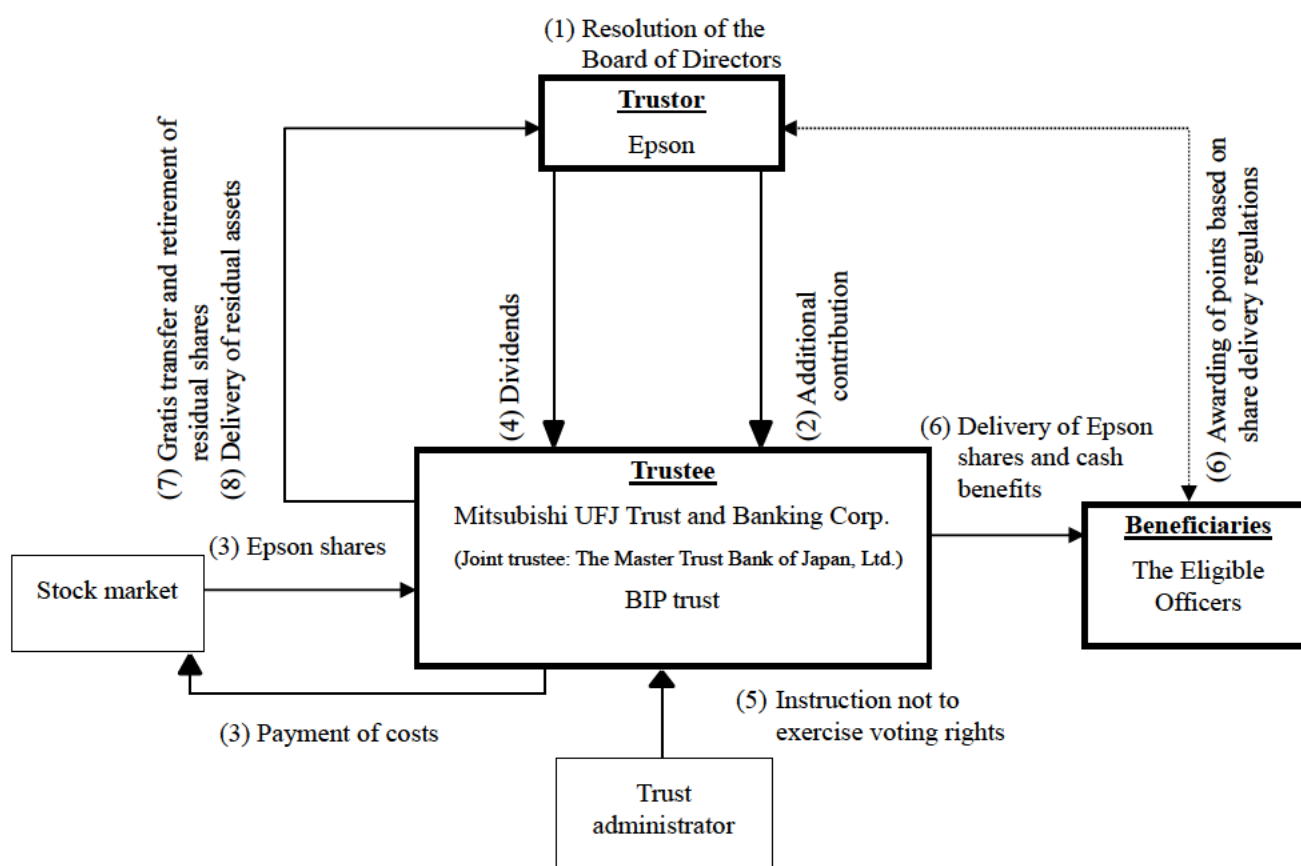
#### 4. Officer and employee stock ownership plans

##### <Performance-Linked Stock Compensation Plan>

From the fiscal year ended March 31, 2017, 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 & 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. 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 ended 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 resolved the continuation of the Plan at the meeting of its Board of Directors.
- 2) Epson additionally contributed funds within the scope of approval by resolution at the 2016 General Meeting of Shareholders and has extended 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

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 (Joint trustee: The Master Trust Bank of Japan, Ltd.)
5) Beneficiaries	The Eligible Officers who meet the beneficiary requirements * Persons who have conducted a certain illegal activity do not meet the beneficiary requirements.
6) Trust administrator	A third-party specialist without relationship with Epson
7) Date of trust agreement	August 2, 2016
8) Trust period	August 2, 2016 through August 31, 2019 (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) Maximum amount of trust money	500 million yen (including trust fees and expenses)
13) Method of acquiring shares	Acquisition in the stock market
14) Vested rightholder	Epson
15) 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. handle the trust-related business as trustees of the BIP Trust.
2) Stock-related business	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. handles 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

\* Persons who have conducted a certain illegal activity do not 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 Tel: +81-266-52-3131 (main)
<b>(4) Tokyo office</b>	JR Shinjuku Miraina Tower, 4-1-6 Shinjuku, Tokyo 160-8801, Japan 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 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
<b>Agent's business address</b>	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikkocho, Fuchu, Tokyo, Japan Tel: +81-42-204-0303 <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="https://kmasterplus.pronexus.co.jp/main/corp/6/7/6724/index.html">https://kmasterplus.pronexus.co.jp/main/corp/6/7/6724/index.html</a> (Japanese)





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