Business Conditions

1. Overview of business results

(1) Operating results

On the whole, the global economy continued its gradual recovery during the year under review. Regionally, the U.S. economy continued to recover, fueled by an increase in consumer spending and an improved employment situation. The economic slowdown in Latin America, however, continued. In Europe the economy also gradually recovered, with a drop in the unemployment rate. Meanwhile, the Chinese economy showed signs of picking up. In Japan improved corporate earnings, an uptick in consumer spending, and an improvement in the employment situation signaled a continuation of a gradual economic recovery.

The situation in the main markets of Epson was as follows.
Total demand for inkjet printers was stagnant due to the continuing contraction of the Japanese consumer market and a shrinking of the North American and Western European markets. On the other hand, there was solid demand for high-capacity ink tank printers, as the entry of other companies had the effect of boosting recognition. Large-format inkjet printer demand was subdued in China and Latin America due to economic deceleration but remained firm in North America and Japan. Serial-impact dot-matrix (SIDM) printer demand in China in the first half of the year was driven by that country's change from a business tax to a value added tax (B2V tax reform). However, demand continued to contract in the Americas and Europe.
Projector demand increased in Europe ahead of major sporting events, but overall demand was subdued due to the effects of the economic slowdown in Latin America, a sluggish North American retail market, and weak demand for education projectors in some major European countries. However, signs of a slight recovery were seen throughout the second half of the year.
Demand was mixed in the main markets for Epson's electronic devices. In the mobile phone market, demand for feature phones continued to decline while demand for smart phones remained firm, owing primarily to growth of emerging market manufacturers in China and elsewhere. Demand in the digital camera market was subdued. Demand for watches fell sharply overall due to softening demand from tourists to Japan, declines in demand in China and North America, and a soft market for watch movements. Demand for industrial robots remained firm in the Americas and China, as well as in Japan, where sales to the automotive industry were firm.

Against this backdrop, Epson began the 2016 fiscal year under the Epson 25 Phase 1 Mid-Range Business Plan (FY2016-18). The Phase 1 Plan delineates the first phase of work toward achieving the Epson 25 Corporate Vision, which sets forth a goal of "Creating a new connected age of people, things and information with efficient, compact and precision technologies." During the three years of the Phase 1 Plan Epson will sustain the momentum it gained by strategically adopting new business models and developing new market segments under the previous corporate vision. At the same time, it will move forward on product development while aggressively investing as needed to provide a solid business foundation.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥108.38 and ¥118.79, respectively. This represents a 10% appreciation in the value of the yen against both the dollar and the euro compared to the previous fiscal year. The yen also continued to ride high against currencies other than the U.S. dollar and euro. The yen gained more against the Chinese yuan, British pound, and some Latin American currencies than it did against the U.S. dollar and euro due to the effects of an economic slowdown and other factors.
Epson's consolidated full-year financial results reflect the foregoing factors. Revenue was ¥1,024.8 billion, down 6.2% year on year. Business profit (Note) was ¥65.8 billion, down 22.5% year on year. Profit from operating activities was ¥67.8 billion, down 27.8% year on year. Profit before tax was ¥67.4 billion, down 26.3% year on year. Profit for the period was ¥48.4 billion, up 5.1% year on year.

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

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

Printing Solutions Segment
Printer business revenue decreased.
Total inkjet printer revenue declined. High-capacity ink tank printer revenue continued to expand, as the entry of other companies into the high-capacity ink tank printer market boosted market recognition and helped to fuel a sharp increase in unit shipments. However, given the contracting market, unit shipments of ink cartridge models declined mainly in the home market. Revenue was dragged down also by foreign exchange effects.
Although consumables unit volume decreased, the product mix is improving, with consumables for office printers, which have a higher unit price, accounting for a greater percentage of total consumables sales. However, revenue from consumables decreased due to foreign exchange effects.
Page printer sales decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of Epson's focus on selling high added value models.
In SIDM printers, foreign exchange effects caused revenue to decline despite extra first-half demand in the Chinese tax collection system market.
Revenue in the professional printing business decreased.
Large-format inkjet printer total revenue decreased, partly due to foreign exchange effects. Sales of Epson's new products in the growing signage market were strong, and sales expanded in the textile printing segment on heightened demand. However, a decrease in unit shipments in the existing photo and graphics markets resulted in a decline in total revenue in this category. Consumables sales also decreased on lower revenue, a result of a decline in printer unit sales and foreign exchange effects.
POS system product revenue decreased. Although demand for low-end models was firm in Europe, total unit shipments declined due to a lack of large orders such as those received in the previous fiscal year in Japan and North America. Unit volume also decreased in China. Revenue was also hurt by foreign exchange effects.

Segment profit in the printing solutions segment decreased even though profit rose on increased sales of high-capacity ink tank inkjet printers. The decrease in segment profit was due to a combination of factors, including a decrease in large-format inkjet printer sales, strategic investment and spending on medium-term growth, and foreign exchange effects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥686.6 billion, down 6.8% year on year. Segment profit was ¥84.1 billion, down 19.7% year on year.

Visual Communications Segment
Visual communications revenue decreased.
Total 3LCD projector revenue decreased. The education market contracted in some of the main countries of Europe. The North American and Latin American markets also continued to shrink. However, unit shipments and sales increased owing to the release of new projectors in the high-brightness category, expanded sales in Asia, and an increase in demand for models in the volume zone in Europe in advance of major sporting events. Nevertheless, revenue was hurt by foreign exchange effects.

Segment profit in the visual communications segment increased. Although hurt by foreign exchange effects, segment profit increased thanks to unit shipment growth and the expansion of the high-brightness projector segment, which improved product mix.

As a result of the foregoing factors, revenue in the visual communications segment was ¥179.6 billion, down 2.4% year on year. Segment profit was ¥16.1 billion, up 3.5% year on year.

Wearable and Industrial Products Segment
Revenue in the wearable products business as a whole decreased. Average selling prices for watches in the Japanese market rose due to the release of new watch products, but unit volume fell because purchases by foreign visitors to Japan decelerated and demand in overseas markets was subdued. Revenue was also hurt by a weak watch movements market and foreign exchange effects.
Revenue in the robotics solutions business increased. Although hurt by foreign exchange effects, revenue increased primarily due to industrial robot unit shipment growth in China and because of a rise in IC handler revenue as a result of firm demand for smart phones in China.
Revenue in the microdevices business decreased. Revenue from crystal devices decreased due to a decline in unit

shipments to manufacturers of cell phones and other personal electronics and because of foreign exchange effects. Semiconductor revenue increased despite a decline in volume to a major automotive account and foreign exchange effects. The increase was due to a rise in sales volume linked to growth in silicon foundry demand. The surface finishing business, which developed new customers, and the metal powders business, which reported firm sales of high-performance material powders for mobile equipment, both saw revenue decline due to foreign exchange effects.

Segment profit in the wearable and industrial products segment decreased due to lower sales in the microdevices business and wearable products business.

As a result of the foregoing factors, revenue in the wearable and industrial products segment was ¥158.5 billion, down 7.0% year on year. Segment profit was ¥7.8 billion, down 20.4% year on year.

Other
Other revenue amounted to ¥1.5 billion, up 7.4% year on year. Segment loss was ¥0.4 billion, compared to a segment loss of ¥0.5 billion in the previous fiscal year.

Adjustments
Adjustments to the total profit of reporting segments amounted to negative ¥41.7 billion. (Adjustments in the previous fiscal year were negative ¥44.6 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 provided by operating activities during the year totaled ¥96.8 billion (compared to ¥113.0 billion in the previous fiscal year). This was due to factors including an increase in depreciation and amortization totaled ¥ 43.6 billion, in addition to profit for the year of ¥ 48.4 billion.
Net cash used in investing activities totaled ¥75.7 billion (compared to ¥51.5 billion in the previous fiscal year), mainly because Epson used ¥77.5 billion in the acquisition of property, plant, equipment and purchase of intangible assets.
Net cash used in financing activities totaled ¥26.6 billion (compared to ¥67.1 billion in the previous fiscal year). While it had ¥49.7 billion in proceeds from issuance of bond issued, Epson also recorded net decrease in current borrowings of ¥14.3 billion, redemption of bonds issued of ¥30.0 billion, dividends paid of ¥21.2 billion, and purchase of treasury shares of ¥10.3 billion.
As a result, cash and cash equivalents at the end of the fiscal year totaled ¥221.7 billion (compared to ¥230.4 billion at the end of the previous fiscal year).

(3) Parallel disclosure
Differences between the main items on IFRS consolidated financial statements and those on consolidated financial statements prepared based on Japanese accounting standards
(Expenses associated with post-employment benefits)
Under Japanese accounting standards, Epson wrote off actuarial gains and losses and past service costs over a certain period of time. Under IFRS, remeasurements of net defined benefit liabilities (assets) are recognized in full as other comprehensive income in the period in which they are incurred and transferred to retained earnings immediately. Past service costs are recognized in profit and loss either in the period when the plan is amended or curtailed, or in the period when associated restructuring costs or termination benefits are recognized, whichever is earlier.
Due to these effects, the cost of sales and selling, general and administrative expenses, and finance costs in the previous fiscal year increased by ¥3.8 billion when calculated based on IFRS rather than Japanese standards. The cost of sales, selling, general and administrative expenses, and finance costs in the fiscal year increased by ¥0.4 billion.

*Please refer to the following for Epson’s financial results for previous fiscal years:
http://global.epson.com/IR/

2. Manufacturing, orders received and sales

(1) Actual manufacturing

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

Business segment	Year ended March 31, 2017 (From April 1, 2016, to March 31, 2017) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	679,644	96.4
Visual communications	175,504	105.3
Wearable & Industrial products	147,542	90.0
Total for the reporting segments	1,002,692	96.8
Other	595	117.8
Total	1,003,287	96.8

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, 2017 (From April 1, 2016, to March 31, 2017) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	686,353	93.3
Visual communications	179,642	97.6
Wearable & Industrial products	150,674	91.7
Total for the reporting segments	1,016,671	93.8
Other	787	104.5
Total	1,017,458	93.8

Notes

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

3. Analysis of financial condition, results of operations and cash flows

(1) Analysis of operating results

Revenue

Consolidated revenue was ¥1,024.8 billion, a year-over-year decrease of ¥67.6 billion (6.2%).
Revenue for each reporting segment is discussed below.

Revenue in the printing solutions segment was ¥686.6 billion, a year-over-year decrease of ¥49.7 billion (6.8%). The most significant factors that contributed to this change are as follows.
Total inkjet printer revenue declined. High-capacity ink tank printer revenue continued to expand, as the entry of other companies into the high-capacity ink tank printer market boosted market recognition and helped to fuel a sharp increase in unit shipments. However, unit shipments in the contracting ink cartridge printer market declined mainly in the home segment. Revenue was also dragged down by foreign exchange effects. Although consumables unit volume decreased, the product mix is improving, with consumables for office printers, which have a higher unit price, accounting for a greater percentage of total consumables sales. However, revenue from consumables decreased due to the negative effects of foreign exchange. Page printer sales decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of Epson's focus on selling high added value models. In SIDM printers, foreign exchange effects caused revenue to decline despite extra first-half demand in the Chinese tax collection system market. Large-format inkjet printer total revenue decreased, partly due to foreign exchange effects. Sales of Epson’s new products in the growing signage market were strong, and sales expanded in the textile printing segment on heightened demand. However, a decrease in unit shipments in the existing photo and graphics markets resulted in a decline in total revenue in this category. Revenue from consumables also decreased due to a decline in printer unit sales and foreign exchange effects.
POS system product revenue decreased. Although demand for low-end models was firm in Europe, unit shipments declined in China, as well as in Japan and North America due to a lack of large orders such as those received in the same period last year. Revenue was also hurt by foreign exchange effects.

Revenue in the visual communications segment was ¥179.6 billion, a year-over-year decrease of ¥4.3 billion (2.4%). The most significant factors that contributed to this change are as follows.
3LCD projector revenue decreased. The education market contracted in some of the main countries of Europe. The North American and Latin American markets also continued to shrink. However, unit shipments and sales increased owing to the release of new projectors in the high-brightness category, expanded sales in Asia, and an increase in demand for models in the volume zone in Europe in advance of major sporting events. Nevertheless, revenue was hurt by foreign exchange effects.

Revenue in the wearable and industrial products segment was ¥158.5 billion, a year-over-year decrease of ¥11.8 billion (7.0%). The most significant factors that contributed to this change are as follows.
Watch and watch movement revenue decreased. Average selling prices for watches in the Japanese market rose due to the release of new watch products, but unit volume fell because purchases by foreign visitors to Japan decelerated and demand in overseas markets was subdued. Revenue was also hurt by a weak watch movements market and foreign exchange effects.
Revenue from crystal devices decreased due to a decline in unit shipments to manufacturers of cell phones and other personal electronics and because of foreign exchange effects.
Semiconductor revenue increased despite a decline in unit shipments to a major automotive account and foreign exchange effects. The increase was due to a rise in unit shipments linked to growth in silicon foundry demand.
Industrial robot and IC handler revenue increased. Although hurt by foreign exchange effects, revenue increased primarily due to industrial robot unit shipment growth in China and because of a rise in IC handler revenue as a result of firm demand for smart phones in China.
The surface finishing business developed new customers, and the metal powders business, which reported firm sales of high-performance material powders for mobile equipment, both saw revenue decline due to foreign exchange effects.

Revenue in the “other” segment was ¥1.5 billion, a 7.4% increase compared to the previous fiscal year.

Cost of sales and gross profit

Cost of sales was ¥658.8 billion, a year-over-year decrease of ¥35.9 billion (5.2%). The decrease in cost of sales

is primarily associated with foreign exchange effects.
As a result, gross profit was ¥365.9 billion, a year-over-year decrease of ¥31.6 billion (8.0%).

Selling, general and administrative expenses and business profit

Selling, general and administrative (SG&A) expenses were ¥300.1 billion, a year-over-year decrease of ¥12.5 billion (4.0%). The decrease in SG&A expenses was primarily associated with foreign exchange effects.
As a result, business profit was ¥65.8 billion, a year-over-year decrease of ¥19.1 billion (22.5%).

Segment profit (business profit) in each reporting segment was as follows.
Segment profit in the printing solutions segment was ¥84.1 billion, a year-over-year decrease of ¥20.6 billion (19.7%). The decrease in segment profit was due to a combination of factors, including but not limited to a decrease in large-format inkjet printer sales and strategic investment and spending on medium-term growth.
Segment profit in the visual communications segment was ¥16.1 billion, a year-over-year increase of ¥0.5 billion (3.5%). Although hurt by foreign exchange, segment profit increased mainly due to unit shipment growth and the expansion of the high-brightness projector segment, which improved the product mix.
Segment profit in the wearable and industrial products segment was ¥7.8 billion, a year-over-year decrease of ¥2.0 billion (20.4%). The decrease was primarily associated with foreign exchange effects.
Segment loss in the "other" segment was ¥0.4 billion, compared to a ¥0.5 billion loss in the previous fiscal year.
As for adjustments, segment loss decreased to ¥41.7 billion compared to the ¥44.6 billion loss incurred in the previous fiscal year. Adjustments consisted primarily of patent royalties and R&D expenses for basic research that do not belong to a reporting segment, and SG&A expenses, primarily comprising expenses associated with new businesses and Head Office functions.

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

Other operating income was ¥5.4 billion, a year-over-year decrease of ¥9.3 billion (63.4%). Other operating income decreased mainly because the figure from the previous fiscal year included income from the sale of land.
Other operating expenses totaled ¥3.3 billion, a year-over-year decrease of ¥2.3 billion (41.8%).

Finance income and finance costs

Finance income was ¥1.3 billion, a year-over-year decrease of ¥0.2 billion (16.3%). The decrease in finance income was primarily due to a decrease in interest income. Finance costs were ¥1.8 billion, a year-over-year decrease of ¥2.3 billion (56.3%). The decrease in finance costs was primarily due to a decrease in foreign exchange loss.

Profit before tax

The foregoing resulted in profit before tax of ¥67.4 billion, a year-over-year decrease of ¥24.0 billion (26.3%).

Income taxes

Income taxes were ¥18.4 billion, a year-over-year decrease of ¥26.9 billion (59.4%). The decrease is primarily because income taxes were higher in the previous fiscal year due to an increase in tax expenses resulting from the partial reversal of deferred tax assets arising from the carryforward of unused tax losses.

Profit for the period

Profit for the period was ¥48.4 billion, a year-over-year increase of ¥2.3 billion (5.1%).

(2) Liquidity and capital resources

Cash flow

Net cash provided by operating activities was ¥96.8 billion, a year-over-year decrease of ¥16.1 billion. Although the increase in profit for the period and trade payables had a ¥2.3 billion and ¥19.8 billion positive impact, respectively, net cash provided by operating activities decreased mainly because of a ¥26.9 billion effect owing to lower income taxes, and a ¥17.3 billion effect resulting from an increase in inventories.
Net cash used in investing activities totaled ¥75.7 billion, a year-over-year increase of ¥24.2 billion. This was primarily due to an ¥11.0 billion increase in cash used to acquire property, plant and equipment and a ¥12.8

billion decrease in income due to the sale of investment properties.
Net cash used in financing activities totaled ¥26.6 billion, a year-over-year decrease of ¥40.4 billion. Although there was a ¥12.5 billion net decrease in short-term loans payable and a ¥10.3 billion increase in expenditure to purchase treasury shares, net cash used in financing activities decreased chiefly due to the effects of a ¥3.7 billion decrease in dividends paid, a ¥49.7 billion increase in proceeds from a bond issue, and a ¥10.0 billion decrease in payments due to redemption.
As a result of the foregoing factors, cash and cash equivalents at the end of the fiscal year stood at ¥221.7 billion, a decrease of ¥8.7 billion compared to the end of the previous fiscal year, giving Epson sufficient liquidity.
Interest-bearing liabilities totaled ¥146.5 billion, a year-over-year increase of ¥4.8 billion. Although the Company repaid short-term loans payable and redeemed bonds payable, interest-bearing liabilities increased because the Company issued bonds payable.
Long-term loans payable (excluding the current portion) at the end of the period totaled ¥0.4 billion, at a weighted average interest rate of 0.28% due in 2022. These borrowings were obtained as unsecured bank loans.

Financial condition
Total assets were ¥974.3 billion, an increase of ¥33.0 billion compared to the end of the previous fiscal year. This increase was mainly due to a ¥34.1 billion increase in property, plant and equipment and intangible assets.
Total liabilities were ¥479.6 billion, up ¥9.0 billion compared to the end of the last fiscal year. Although liabilities decreased due to a ¥30.0 billion redemption of bonds payable, a ¥14.9 billion reduction in short-term loans payable, and a ¥9.5 billion decrease in net defined benefit liabilities, total liabilities increased mainly because of an issue of ¥50.0 billion in bonds payable and an ¥11.0 billion increase in trade and other payables.
The equity attributable to owners of the parent company totaled ¥492.1 billion, a ¥24.3 billion increase compared to the previous fiscal year end. The Company paid ¥21.2 billion in dividends and ¥10.3 billion to purchase treasury shares, but the equity attributable to owners of the parent company increased because retained earnings increased due to the recognition of ¥48.3 billion in profit for the year attributable to owners of the parent company.
Working capital, defined as current assets less current liabilities, was ¥251.0 billion, a decrease of ¥25.3 billion compared to the end of the previous fiscal year.
The ratio of interest-bearing liabilities to total assets was 15.0%, remaining essentially the same as at the end of the previous fiscal year, when the ratio was 15.1%.

4. Research and development activities

Epson conducts research and development to create products and services that offer value that exceeds customer expectations. We seek to create value by driving advances in Micro Piezo printheads, microdisplays, sensors, and robotics, all of which are unique core technologies that evolved from the efficient, compact, and precision technologies that Epson has developed since its founding. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.
The corporate R&D division and the R&D units of the operations divisions are teaming up to develop core technologies and devices for the future and to strengthen manufacturing infrastructure. Together, they are laying a technological foundation to create new businesses, strengthen existing ones, and increase the competitiveness of all Epson products.
Total R&D spending during the fiscal year was ¥52.7 billion. The printing solutions segment accounted for ¥21.5 billion, the visual communications segment for ¥9.4 billion, and the wearable and industrial products segment for ¥6.4 billion. The "other" segment and corporate segment accounted for the remaining ¥15.3 billion. The main R&D accomplishments in each segment are described below.

Printing solutions segment
In the printer business, Epson announced its first corporate color inkjet printers equipped with high-speed lineheads (launched in Japan in June 2017). These multifunction units offer greater productivity and higher quality output than ordinary color laser printers while using far less power. Epson's unique inkjet systems employ piezoelectric actuators rather than heat to precisely deposit ink. The non-contact printing process and architecture are elegantly simple. And, since the printing process does not rely on heat, Epson's inkjet systems offer outstanding environmental performance. The new products offer all of the traditional advantages of inkjet systems, and much more. The top-of-the-line model, powered by Epson's latest PrecisionCore lineheads, delivers up to 100 A4 horizontal pages per minute.
Epson also announced its smallest multifunction home printers to date. These products are 96 mm narrower and have a 42% smaller footprint than Epson's comparable 2011 models. Outfitted with a newly developed six-color dye ink set that offers a wider green gamut, these printers reproduce scenes with even more lush and gorgeous greens.
In the professional printing business, Epson released new large-format inkjet printers that feature newly developed UltraChrome GS3 Ink and UltraChrome GS3 Ink with Red for the signage and display industry. The new ink delivers superb printing quality, including a wider color gamut, brighter colors, and a glossier finish. These inks also have improved drying performance, increasing productivity up to winding time after printing which is important in practice and fully demonstrating the performance of high speed printing.

Visual communications segment
Epson upgraded and expanded its lineup of 3LCD projectors for business by releasing new mobile, meeting room, and large venue projectors. The nimble mobile models are bright yet lightweight. In fact, weighing just 1.8 kg and measuring a mere 44 mm tall, they are not only the lightest LCD projectors in their class but also the world's slimmest projectors[1]. Despite their compact size and easy portability, they boast sharply higher basic performance than their predecessors, with every model offering 3,000 lumens of brightness or more and a 10,000:1 contrast ratio. The powerful meeting room models are loaded with features and shine bright even in large, well lit rooms. The lineup includes models that weigh less than 5 kg yet deliver up to 5,500 lumens of brightness, as well as models with WUXGA resolution and Full HD support. The new models come with a host of features. In addition to Epson's popular automatic picture correction features, some of the new models have screen mirroring, Screen Fit, and a new feature that enables a presenter to move forward or backward through a slide presentation with the touch of a hand on the image. The high-lumen large venue models are ideal for permanent installation in auditoriums and other large spaces. All models offer 5,500 lumens of brightness and a 15,000:1 contrast ratio[2], for bright, sharp images. All of these models are equipped with a wide range of lens shift capabilities in both the vertical and horizontal directions for installation flexibility.
For the home theater market, Epson also released new projectors that feature a laser light source, 4K Enhancement Technology[3], and high dynamic range (HDR) support[4]. By automatically detecting HDR signals and adjusting image brightness levels, these projectors render an unprecedented range of gradations, from the brightest highlights to the deepest shadows. They can deliver dynamic images with exquisite detail and more vivid color, without clipped whites and crushed blacks.

[1] Slimmest among 3LCD projectors per Epson research conducted in November 2016
[2] With Auto Iris turned on
[3] 4K Enhancement Technology shifts each pixel diagonally by 0.5 pixels to double the resolution to 3840 x 2160 and achieve ultra-high definition.
[4] HDR technology expands the range of both contrast and color in video and still images.

Wearable and industrial products segment

In the wearable products business, Epson released new products in the WristableGPS ("Runsense" in some markets) series of sports watches. The new products feature a revamped design and dedicated applications. New additions to the lineup include models in the WristableGPS for Women series. Epson's first monitors for female runners, these products have a clean, sporty design along with improved comfort and usability.

The robotics solutions business released force sensors as optional accessories for Epson robots. Force sensors endow robots with the ability to sense extremely slight pressure—forces as small as 0.1 newton[5]. This ability enables robots to perform tasks that were previously impossible to automate, such as the assembly of delicate parts and the fitting together or insertion of parts with small tolerances. Epson also developed industrial SCARA robots that run off AC100V power. These robots save space with a controller that is built into the base of the robot. Meanwhile, a batteryless motor helps to keep running costs low.

In the microdevices business, Epson developed a new, energy-efficient 32-bit microcontroller (MCU) that has an ARM® Cortex®-M0+ processor[6] and built-in Flash memory. This was the world's first[7] MCU to feature a memory LCD[8] controller and power supply IC integrated onto a single chip. This arrangement eliminates the need for external components and interface software development, so users are able to save time and effort while also reducing the size of their products.

[5] A force approximately equal to the gravity acting on a 10g object
[6] ARM and Cortex are registered trademarks of ARM Limited (or its subsidiaries) in the EU and other countries. All rights reserved.
[7] World's first among mass-produced general purpose microcontrollers per Epson research conducted in August 2016
[8] Liquid crystal that can hold a display even after power is turned off

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

All forward-looking statements hereunder were made at Epson's discretion at the end of the fiscal year.

(1) Fundamental management policy

Endowed with "efficient, compact, and precision technologies" that Epson has developed since its founding, Epson seeks to continuously create game-changing customer value and play a central role in creating a better world as an indispensable company by forging innovations through challenges that are bold, imaginative, and exceed our own vision.

Using the Epson Management Philosophy and the global tagline below as guides, we will strive to achieve our vision with employees who embrace a common set of values, demonstrate teamwork, and exercise initiative to create value that exceeds customer expectations.

Epson Management Philosophy

Epson aspires to be an indispensable company,
trusted throughout the world for our commitment to openness,
customer satisfaction and sustainability.
We respect individuality while promoting teamwork,
and are committed to delivering unique value
through innovative and creative solutions.

EXCEED YOUR VISION

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

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

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

Regarding the business environment surrounding Epson, although the global economy is on a gradual recovery trend in general, due to the occurrence of geopolitical risks and foreign exchange fluctuations, the impact on each country's economy, consumption and investment trends is expected to continue, so it is necessary to keep an eye on continued gaze.

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

① Epson 25 Corporate Vision

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

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

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

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

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

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

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

In line with this vision, Epson will provide value in the form of smart technologies, the environment, and performance in four areas of innovation: inkjet innovation, visual innovation, wearables innovation and robotics innovation. Epson will drive innovations in these areas by achieving the vision in each of its businesses. To support the realization of Epson 25, Epson will further strengthen its business infrastructure and company-wide information systems in the areas of human resources, technology, manufacturing, sales, and the environment.

Epson set out financial performance targets in Epson 25. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2025 fiscal year, ¥1,700 billion in revenue, ¥200 billion in business profit, a 12% return on sales (business profit*/revenue), and a 15% return on equity (profit for the period/equity attributable to owners of the parent company).

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

Vision in Each Business

Printing: inkjet innovation

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

Visual communications: visual innovation

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

Wearables: wearables innovation

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

Robotics: robotics innovation

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

Microdevices: Support the four innovations

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

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

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

solid business foundation.
The basic strategy for achieving this will be to continue to grow by further increasing its competitive edge in businesses where SE15 strategic initiatives were successful, and to quickly address issues and establish a path to growth in businesses where Epson was unable to fully advance. Epson will look to ensure growth by creating products and services that generate customer value in smart technologies, the environment, and performance, as the Epson 25 aims to achieve. While taking care to grow profit over the short term, Epson will also invest management resources as appropriate, quickly establish new business models, and strengthen its sales organizations to achieve the Epson 25 vision. Epson will also position itself for future growth by pursing the business strategies below and by building up its business infrastructure.
These moves will enable Epson to aim to achieve the following financial performance targets in FY2018, the final year of the phase 1 plan. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2018 fiscal year, ¥1,200 billion in revenue, ¥96 billion in business profit, an 8% return on sales, and a 10% or higher return on equity on a continuous basis.

Strategies in Each Business

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

Strengthening Business Infrastructure

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

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

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

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

These strategies enabled Epson to launch sales of the PaperLab, the world's first* office papermaking system to use a dry process, and announce the development of high-speed linehead inkjet multifunction and single-function printers during the fiscal year under review. PaperLab is designed to enhance security and reduce environmental impacts. It uses Epson's proprietary dry fiber technology to securely destroy confidential documents and produce new paper from the recycled fibers, all on-site. The new linehead inkjet products will revolutionize office printing with their high speeds, outstanding image quality, and low power consumption. Epson also released a new laser projector for the promising high-brightness segment of the market, began a reorganization to accelerate growth in the wearable products business, and launched new products that will lower the barriers currently discouraging manufacturers from introducing robots into their production operations.

In addition, to build the business infrastructure needed to achieve future growth, Epson moved steadily forward on projects to increase production line efficiency and automation. It also began construction on new factories and started up operations at others.

* PaperLab is the first office papermaking system to use a dry process, per Epson research conducted in November 2016.

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.

The Company's full-year financial performance was in line with the outlook primarily as a result of strategic progress in the Company's businesses and despite currency volatility. The Company therefore has paid an annual dividend of ¥60 per share, as forecast at the beginning of the fiscal year. In addition, between May and June 2016, the Company purchased ¥9.9 billion in treasury shares [the total acquisition price (maximum): ¥10 billion] as a way to optimize capital efficiency and further increase shareholder returns.

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 27, 2016, by resolution of the board of directors	10,572	30
June 28, 2017, by resolution of the general shareholders' meeting	10,572	30