

EPSON



Epson will contribute to society as an indispensable company by maintaining high aspirations and creating customer value.

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President
Seiko Epson Corporation

Aims of Management Philosophy Amendments

Creating new customer value as an indispensable company

In April 2017, Epson partially amended its Management Philosophy and added the phrase “Epson aspires to be an indispensable company.” This is a declaration of our commitment to use our technology to provide new customer value in order to play a central role in realizing a better world.

Epson’s reason for being is to enrich lives and make society happier. As a company, we have to make a profit, but that profit has to be the result of earning the trust and appreciation of our customers. We revised the Management Philosophy to articulate our goal of sustaining growth and being indispensable to our customers, business partners, employees, and to society by generating profit, a sign that we have earned trust.

A company does not make itself indispensable by becoming absorbed in what its competitors are doing or in market competition. Just because a company has defeated a rival does not mean that it has created new value. What it should always emphasize is the importance of tackling the needs of customers and society head-on, and of exceeding their expectations. At Epson, we foster creativity by encouraging our employees to draw on their strengths and take the initiative to identify products and services that would increase customer convenience and delight, and to identify what is needed to enrich lives and increase happiness.

The technology shift we are bringing about in the office printer market is an example of a need we have identified and are addressing. While laser printing systems have long dominated the office landscape, we are driving advances in inkjet technology originally developed for consumer printers to better meet the needs of business users. I am convinced that we can help to make the world a better place by disregarding conventional market wisdom and, instead, refining and applying our strong technologies to create new value.

We have reorganized in line with our history and our strengths, and we are already seeing promising developments that will make Epson an indispensable company. We are aligning our people toward this big-picture goal by articulating in the Management Philosophy the ideas behind the actions we have been taking.

In conjunction with amendments to the Management Philosophy, we also revised Principles of Corporate Behavior, our corporate code of conduct. We will use this as an opportunity to build greater recognition of the Management Philosophy and to foster the trust of our stakeholders.

Strategies for Achieving the Management Philosophy

The Epson 25 Corporate Vision, creating the value from our efficient, compact, and precision technologies

The Epson 25 Corporate Vision serves as a guide for achieving the Management Philosophy by mapping out Epson’s path from the 2016 to the 2025 fiscal year. The vision statement reads: “Creating a new connected age of people, things and information with efficient, compact and precision technologies.”

Efficient, compact, and precision technologies are in our DNA and are the source of Epson’s technological strength. We have a history of improving product energy efficiency, reducing the size of parts and products without sacrificing performance, and achieving ever greater precision.

Among the key phrases characterizing megatrends for the next decade are “environmental impact mitigation” and “smart technologies,” both of which will be supported by advances in information and communications technology (ICT). Epson’s efficient, compact, and precision technologies can provide value in smart technologies, the environment, and performance—three areas that tie directly to these megatrends. We will use this technology to provide value in the form of convenience, peace of mind, enhanced productivity and creativity.

Recent advances in ICT will lead to data of all kinds being available on the Internet, fueling the expansion of cyberspace. As a result, people in the real world will become directly involved with the cyber world, and products at the junction of these two worlds will become increasingly important for customers.

As the ultimate real world manufacturer Epson will provide products and services whose value has been maximized using the ultimate in efficient, compact, and precision technologies. We will also collaborate with the IT companies that underpin cyberspace to connect people, things, and information, and thereby create even greater value.

As declared in Epson 25, we seek to drive inkjet innovation, visual innovation, wearables innovation, and robotics innovation. Microdevices, primarily crystal devices and semiconductors, will support innovation in these four areas.

We selected these four areas because only Epson is positioned to drive innovation in them because only Epson can fully tap into all the technologies and resources needed. These innovations are at the core of new value creation and our growth strategy. Epson, with a culture that values teamwork and continuous improvement in manufacturing, will make sure that the entire Group shares the same objectives and moves forward as one.

See pages 19-32 for more in-depth commentary by the chief operating officers about Epson's growth strategies in the four areas of innovation.



Competitive Advantages Offered by Vertical Integration

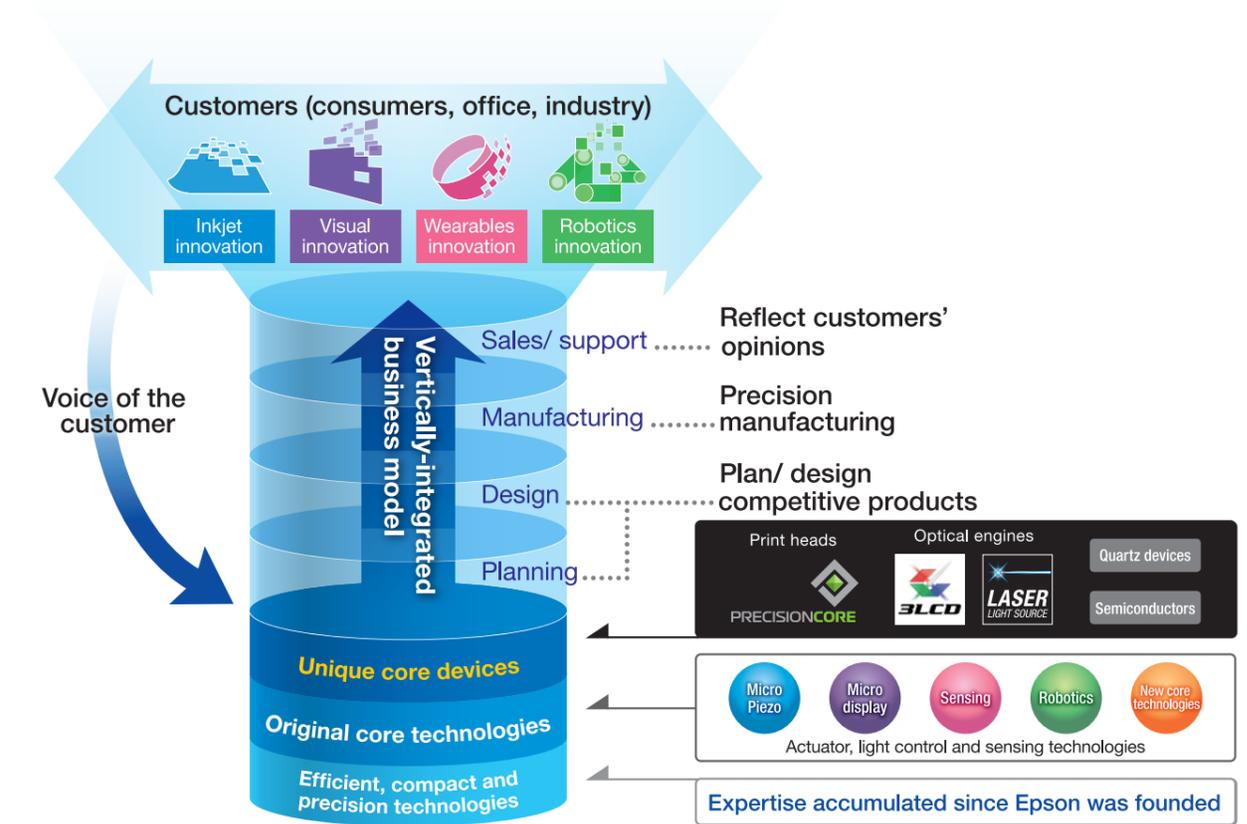
Perfecting core technologies and core devices to maximize customer value

Our vertically integrated business model is symbolic of Epson's creativity in product development and manufacturing. Core devices, which we develop by drawing on the ideas and skills of our people, determine the functions of our finished products.

Some finished product manufacturers buy their core devices from outside suppliers, presumably to capitalize on manufacturing efficiencies offered by horizontal specialization. Epson, however, owns all of its core devices and technology, because we believe this allows us to take full advantage of our strengths. Printheads are the core devices for printers. For projectors, it is microdisplays. For watches, it is precision processing technology. For robotics, it is sensors. All of these devices and technologies have been developed and refined over time by dedicated Epson engineers.

As a finished product manufacturer, we understand better than anyone what type of value customers need. This is what enables us to develop products and technologies that specifically address these needs and to drive advances in the core devices that buttress the performance of our finished products.

Epson's Vertically-Integrated Business Model



We have been able to expand the applications for inkjet printers, for example, by improving the core technology. Inkjet systems use comparatively little electricity and thus help users reduce their energy consumption. We have broadly expanded the potential applications of inkjet systems by advancing our proprietary Micro Piezo inkjet technology, achieving high durability, wide ink compatibility, and blazing print speeds. We now have inkjet printers not only for consumer use but for office, commercial and industrial applications. We were able to accomplish this only because of our vertically integrated business model, which allows us to efficiently leverage our technology resources.

However, vertical integration is not necessarily the most effective approach in every field. We are using this model only in the four areas where our finished products benefit from our strengths and where we have no equal. These are areas that we originally discovered when doing

business in both electronic devices and finished products. They are also areas where we can make the most use of the assets we have stockpiled. It is here that we can demonstrate the competitive advantages of our vertically integrated business model.

Signs Pointing to Progress in Achieving Epson 25 Objectives

Making steady progress toward creating a new age with emerging technologies

We were able to make steady progress in 2016, the first year under the Epson 25 Phase 1 Mid-Range Business Plan (FY2016-2018), because the actions we had taken up to 2015 under the previous long-term vision had started to bear fruit.

We released new products such as energy-efficient linehead inkjet multifunction and single-function printers that produce amazingly sharp prints at blazing speeds.

We also released projectors equipped with an extremely bright laser light source that boasts a long service life. Similarly, the PaperLab office papermaking system that we released in Japan in the 2016 fiscal year produces new paper from used paper in the office. The used paper is so completely destroyed in the process that the security of confidential documents is ensured.

On April 1, 2017, Seiko Epson made a major move by absorbing wholly owned subsidiary Orient Watch and merging its operations with those of Epson's watch business to maximize synergies. Specifically, the addition of Orient's sales functions will enable us to more effectively use its sales channels. In wearable products we will use our technology to deliver distinctive products that provide new value.

We have released robotics products such as compact six-axis robots and unique force sensors that have the potential to release people from manual and repetitive tasks to jobs in which they can exercise greater creativity. Now that we are through the first year, I feel that

stakeholders are beginning to understand that the future described in the Epson 25 vision is not just a pipe dream but is something we can actually achieve. We will continue to make developments aimed at creating new value and building a solid foundation for growth in order to meet our 2025 fiscal year targets of ¥1,700 billion in revenue, a 12% ROS, and a 15% ROE.

Challenges to Achieving Growth

New business processes for delivering the value yielded by our technologies

In addition to further refining our core technologies, we will have to carefully watch emerging developments in areas such as artificial intelligence (AI). We will be alert to global trends, improve the quality of our products, and build new operations and business processes. We will also foster a climate in which employees can freely and speedily take on new challenges.

We will position Epson to deliver value. We will expand

our customer contact points from B-to-C to B-to-B and accelerate solutions sales. With numerous early developments in innovative businesses, the challenge will be to find ways to deliver them to customers. We cannot create and expand new sales networks overnight. We have to take the time and effort to build relationships and collaborate with partners.

I firmly believe that the value our technologies provide is aligned with the needs of our global customers and that over time they will embrace our products. I am determined to create an organization dedicated to achieving these goals.

ESG Initiatives

CSR and governance activities

Epson and its products have contributed to solving social issues in the past. Our mission is to help to create a better world, and we consider all of the actions we take to achieve the Management Philosophy to be CSR activities. In addition to ensuring compliance, observing corporate ethics, and fulfilling our responsibilities at a level that exceeds what society requires, we will fully demonstrate Epson's unique creativity in CSR by creating value through the products we manufacture. In 2017, with this commitment in mind, we established "Key CSR Themes," a materiality matrix that broadly covers social challenges in areas such as the environment, professional development, and governance.

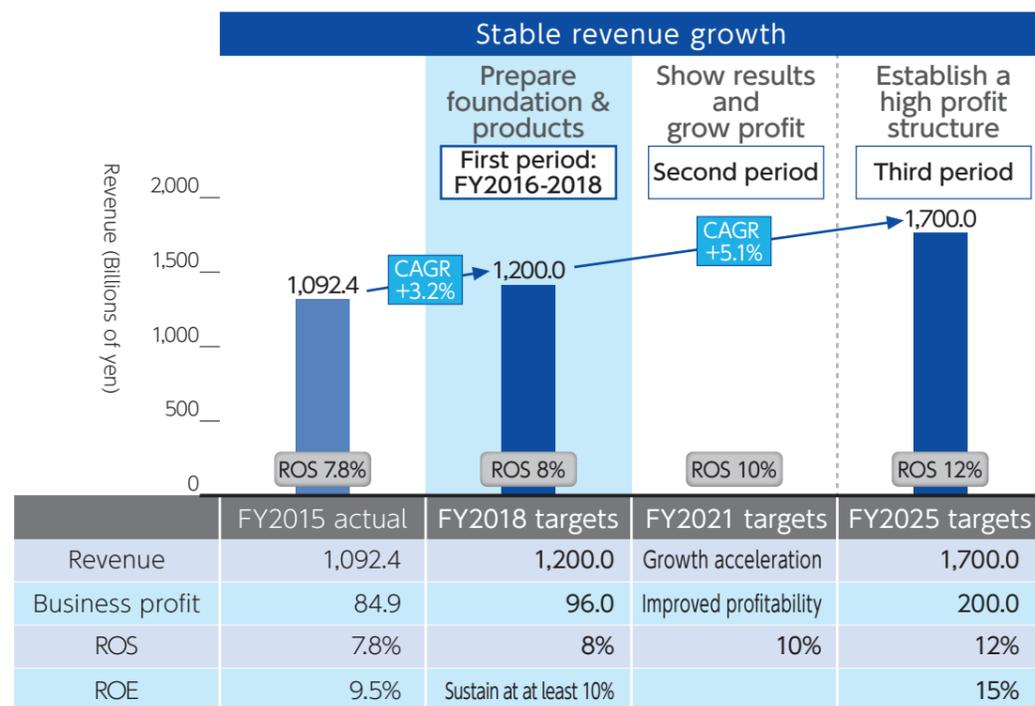
We also created a CSR Management Office, an organization that is dedicated to systematically and effectively meeting the needs of society. This has fostered a sense that CSR is a core part of our business, enabling us to more systematically and proactively carry out CSR activities.

Seiko Epson transitioned to a company with an audit and supervisory committee in June 2016 and is strengthening corporate governance to ensure transparent, fair, fast, and decisive decision-making. In June 2017 we increased the ratio of outside directors on Seiko Epson's board of directors (five of the 11 directors are outside directors) to further strengthen supervision over the board.

We will continue to aspire to be an indispensable company that plays a central role in realizing a better world. And we will strive to create new value by advancing our technologies and driving innovation to make the world a happier and easier place to live for all.



Objectives of the Epson 25 Mid-Range Business Plan (FY2016-2018)



ROS (Business profit) = Business profit / Revenue
 ROE = Profit for the period attributable to owners of the parent company / Beginning and ending balance average equity attributable to owners of the parent company
 Exchange rates: ¥120.14/ USD, ¥132.58/ EUR Assumed rates for targets: ¥115.00/ USD, ¥125.00/ EUR