

*(Note) This document has been translated from the Japanese original for reference purposes only. If there is any discrepancy between the Japanese original and the translated document, the original Japanese document shall prevail.*

**(Translation)**

## **Notice of the 76th Ordinary General Meeting of Shareholders**

May 28, 2018

Dear Shareholders with Voting Rights,

We are pleased to send you this convocation notice for the 76th Ordinary General Meeting of Shareholders. We have sent shareholders residing in Japan the convocation notice and attached documents in Japanese, which were compiled according to the Japanese Companies Act. Under this Act, there is no obligation to provide materials in languages other than Japanese. However, we have enclosed an English translation for the reference of non-Japanese shareholders. It is not intended to influence shareholders in exercising their voting rights. Unfortunately, we are only able to provide official documents in Japanese. We ask for your understanding in this matter and thank you for your continued support of the Seiko Epson Corporation (hereinafter the “Company”).

**If you are unable to attend the meeting, please vote by using one of the following methods no later than 5:00 p.m., Tuesday, June 26, 2018 (Japan time). Prior to voting, you may wish to review the “Reference Materials for the Ordinary General Meeting of Shareholders” document, provided herein.**

### ***Voting by Mail***

To vote by mail, please indicate on the enclosed voting form whether you approve or disapprove of each of the proposals and return the completed form to us. The completed form must be received no later than 5:00 p.m., Tuesday, June 26, 2018 (Japan time).

### ***Voting by Internet***

To vote by Internet, please log into the shareholders’ voting websites at <https://evote.tr.mufg.jp/> to register your approval or disapproval (Japanese only). Voting by Internet must be completed no later than 5:00 p.m., Tuesday, June 26, 2018 (Japan time).

Sincerely yours,

Minoru Usui  
President and Representative Director

Seiko Epson Corporation  
4-1-6 Shinjuku, Shinjuku-ku, Tokyo

## **Description**

**1. Date and Time** 10:00 a.m., Wednesday, June 27, 2018 (Japan time)

**2. Place** “Daigo” 2<sup>nd</sup> Basement Floor, Sheraton Miyako Hotel Tokyo,  
1-1-50, Shirokanedai, Minato-ku, Tokyo

## **3. Meeting Agenda**

Reporting:

1. Report on the business reports, the consolidated financial statements and the reports of the Financial Auditors and of the Audit & Supervisory Committee regarding the consolidated financial statements for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018).
2. Report on the non-consolidated financial statements for the fiscal year ended March 31, 2018 (from April 1, 2017 to March 31, 2018).

Proposals:

1. Appropriation of Surplus
2. Election of Eight Directors Who Are Not Audit & Supervisory Committee Members
3. Election of Four Directors Who Are Audit & Supervisory Committee Members
4. Bonus to Directors Who Are Not Audit & Supervisory Committee Members

## **4. Convocation rules**

- (1) If you exercise your voting rights by both mail and Internet, we will treat the vote by Internet as valid.
- (2) If you exercise your voting rights by Internet on multiple occasions, we will treat the last vote as valid.

## **5. Notes**

- (1) Any revisions to the reference materials for the Ordinary General Meeting of Shareholders, the business reports, the consolidated financial statements, and the non-consolidated financial statements shall be posted on the Company’s website at <https://www.epson.jp/IR/> (Japanese) and <https://global.epson.com/IR/> (English).
- (2) If attending the meeting in person, please remember to bring the ballot enclosed within these materials and to hand it to a receptionist.
- (3) If you exercise your voting rights by proxy, you should appoint as proxy another shareholder with voting rights in the Company. A written letter of proxy should be brought to the meeting and handed to the receptionist.

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\*The Company offers institutional investors access to ICJ Inc.’s electronic voting platform.

## Reference Materials for the Ordinary General Meeting of Shareholders

Proposals and related items

### Proposal 1: Appropriation of Surplus

#### Items Relating to the Year-End Dividend

With respect to the year-end cash dividends on common stock shares for this fiscal year, the Company proposes to pay 32 yen per share, which is an increase of 2 yen compared with the previous fiscal year. Moreover, 30 yen was paid out as an interim dividend; hence, the annual dividend will be 62 yen per share.

(1) Type of Dividend Property

Cash

(2) Distribution of Dividend

32 yen per share of common stock, total amount 11,276,869,344 yen

(3) Effective Date of Distribution

June 28, 2018

#### (Reference)

#### The Company's 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 mid-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. The Company intends to be more active in giving back to shareholders by agilely repurchasing the Company's shares as warranted by share price, the capital situation, and other factors.

*Note:* Business profit is a profit indicator that Epson voluntarily discloses in applying International Financial Reporting Standards (IFRS), and is very similar in principle to operating income under Japanese Generally Accepted Accounting Principles (JGAAP).


**Proposal 2: Election of Eight Directors Who Are Not Audit & Supervisory Committee Members**

The terms of office of all seven (7) Directors who are not Audit & Supervisory Committee Members will expire at the conclusion of this Meeting. Accordingly, by increasing one (1) Director who is not Audit & Supervisory Committee Member, with an aim to strengthen and improve corporate governance and achieve sustainable growth in corporate value, we propose to appoint eight (8) Directors who are not Audit & Supervisory Committee Members.

The candidates for Directors who are not Audit & Supervisory Committee Members have been nominated after consideration by the Director Nomination Committee in which Outside Directors make significant contributions in accordance with screening criteria predetermined by the Board of Directors. The candidates for Outside Directors are compliant with the “Criteria for Independence of Outside Directors” (please refer to page 21).

The candidates for Directors who are not Audit & Supervisory Committee Members are as follows:

Candidate No.	Name		Titles and responsibilities at the Company	Attendance at meetings of the Board of Directors
1	Minoru Usui	Reappointment	President and Representative Director	13 / 13 meetings (100%)
2	Shigeki Inoue	Reappointment	Representative Director Senior Managing Executive Officer Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment, and Wearable Products Operations Division, General Administrative Manager, Corporate Planning Division	13 / 13 meetings (100%)
3	Koichi Kubota	Reappointment	Director, Senior Managing Executive Officer Chief Operating Officer, Printing Solutions Operations Division	13 / 13 meetings (100%)
4	Masayuki Kawana	Reappointment	Director, Executive Officer General Administrative Manager, Human Resources Division and CSR Management Office	13 / 13 meetings (100%)
5	Tatsuaki Seki	Reappointment	Director, Executive Officer Chief Compliance Officer General Administrative Manager, Management Control Division	13 / 13 meetings (100%)
6	Yasunori Ogawa	New appointment	Executive Officer Chief Operating Officer, Visual Products Operations Division	—
7	Hideaki Omiya	Reappointment Outside Director Independent Director	Outside Director	12 / 13 meetings (92.3%)
8	Mari Matsunaga	Reappointment Outside Director Independent Director	Outside Director	13 / 13 meetings (100%)


Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
1	 Minoru Usui (April 22, 1955) Reappointment	Nov. 1979	Joined Shinshu Seiki Co., Ltd. (now the Company)	161,500
		Jun. 2002	Director of the Company	
		Oct. 2007	Managing Director of the Company	<b>Attendance at meetings of the Board of Directors</b>  13 / 13 meetings (100%)
		Jun. 2008	President and Representative Director of the Company (current position)	

**Reason for nominating Minoru Usui as a Director**

As the Chairman of the Board of Directors, Mr. Usui has managed the Board of Directors in an appropriate manner, made important decisions on management and monitored business affairs. Also, as a President and Representative Director, he has established the Epson 25 Corporate Vision and led the reinforcement of management and operational foundations toward achieving the Vision, etc., aiming to embody the Management Philosophy, etc.

We have nominated him as a candidate for Director with the expectation that he will continue to show strong leadership aimed at sustainable growth and improvement in the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*


Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
2	 Shigeki Inoue (October 10, 1955) Reappointment	Apr. 1979	Joined the Company	20,200
		Jun. 2012	Director of the Company	
		Jun. 2014	Managing Director of the Company	<b>Attendance at meetings            of the Board of            Directors</b>  13 / 13 meetings (100%)
		Dec. 2015	Chief Operating Officer, Wearable Products Operations Division of the Company (current position)	
		Apr. 2016	General Administrative Manager, Corporate Planning Division of the Company (current position)	
		Jun. 2016	Representative Director and Senior Managing Executive Officer of the Company (current position)	
Apr. 2017	Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment of the Company (current position)			

**Reason for nominating Shigeki Inoue as a Director**

Mr. Inoue has determined important management matters and monitored business affairs as a Director. Also, he has led the formulation of companywide management strategies and contributed to the strengthening of Group management through formulating management plans and management cycle toward achieving such plans.

We have nominated him as a candidate for Director with the expectation that he will make appropriate managerial decisions from a companywide perspective and monitor business affairs aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
3	 Koichi Kubota (April 3, 1959) Reappointment	Apr. 1983	Joined Epson Corporation (now the Company)	27,200
		Jun. 2012	Director of the Company (current position)	
		Jun. 2013	Chief Operating Officer, Printer Operations Division of the Company	<b>Attendance at meetings of the Board of Directors</b>  13 / 13 meetings (100%)
		Jun. 2015	Managing Director of the Company	
		Apr. 2016	Deputy General Administrative Manager, Corporate Planning Division of the Company (in charge of sales planning and brand communication)	
		Jun. 2016	Managing Executive Officer of the Company	
		Apr. 2017	Chief Operating Officer, Printing Solutions Operations Division of the Company (current position)	
Jun. 2017	Senior Managing Executive Officer of the Company (current position)			


**Reason for nominating Koichi Kubota as a Director**

Mr. Kubota has determined important management matters and monitored business affairs as a Director. Based on his wealth of experience and achievements in particular, in overseas sales operations in the information-related equipment business, he has led the reform of the Company's business models and initiatives to strengthen internal control as a Chief Operating Officer of the Printer Operations Division.

We have nominated him as a candidate for Director with the expectation that he will make appropriate managerial decisions from a companywide perspective and monitor business affairs aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*




Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
4	 Masayuki Kawana (July 27, 1964) Reappointment	Apr. 1988	Joined Seiko Epson Cooperative Union	8,300
		Mar. 1999	Joined the Company	
		Oct. 2008	General Manager, Human Resources Department of the Company	<b>Attendance at meetings of the Board of Directors</b>  13 / 13 meetings (100%)
		Jun. 2014	Director of the Company (current position)	
			General Administrative Manager, Human Resources Division of the Company (current position)	
		Jun. 2015	President, Orient Watch Co., Ltd.	
		Jun. 2016	Executive Officer of the Company (current position)	
Oct. 2016	General Administrative Manager, CSR Management Office of the Company (current position)			

**Reason for nominating Masayuki Kawana as a Director**

Mr. Kawana has determined important management matters and monitored business affairs as a Director. He has a wealth of experience and achievements primarily in human resource management, and has made significant contributions to the strengthening of corporate competitiveness through personnel system reform, etc.

We have nominated him as a candidate for Director with the expectation that he will make appropriate managerial decisions from a companywide perspective and monitor business affairs aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*


Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
5	 Tatsuaki Seki (December 26, 1960) Reappointment	Apr. 1983	Joined Epson Corporation (now the Company)	3,000
		Nov. 2005	General Manager, BS Business Management Department of the Company	
		Oct. 2014	General Manager, Finance & General Accounting Department of the Company	<b>Attendance at meetings of the Board of Directors</b> 13 / 13 meetings (100%)
		Oct. 2015	Deputy General Administrative Manager, Management Control Division of the Company (in charge of Finance & General Accounting)	
		Jun. 2016	Director of the Company (current position), Executive Officer of the Company (current position), Chief Compliance Officer of the Company (current position), General Administrative Manager of the Management Control Division of the Company (current position)	

**Reason for nominating Tatsuaki Seki as a Director**

Mr. Seki has determined important management matters and monitored business affairs as a Director. He has a wealth of experience and achievements in financing & accounting and business management. As a General Administrative Manager of the Management Control Division, he has led the new initiatives aggressively from a broad insight and worked on a change in the structure of the management control of the Company.

We have nominated him as a candidate for Director with the expectation that he will make appropriate managerial decisions from a companywide perspective and monitor business affairs aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned
		Apr. 1988 Joined the Company	
		Apr. 2008 General Manager, VI Business Management Department of the Company	10,400
		Oct. 2008 General Manager, VI Planning & Design Department of the Company	
		Apr. 2016 Deputy Chief Operating Officer, Visual Products Operations Division of the Company	
	Yasunori Ogawa (April 11, 1962) New appointment	Apr. 2017 Chief Operating Officer, Visual Products Operations Division of the Company (current position)	
	Jun. 2017 Executive Officer of the Company (current position)		


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**Reason for nominating Yasunori Ogawa as a Director**

Mr. Ogawa has been engaged in optical design of projectors over the years and has a high degree of expertise as well as a wealth of experience and achievements. In recent years, as a Chief Operating Officer of the Visual Products Operations Division, he made significant contribution to the business development through leading the organization by specifying vision and policies that captured the environment surrounding the business, while participating in the technological development strategies from a companywide perspective and reinforcing that function.

We have nominated him as a candidate for Director with the expectation that he will make appropriate managerial decisions from a companywide perspective and monitor business affairs by drawing on these experiences and achievements, aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note: There are no special interests between the candidate and the Company.*

Candidate No.	Name (Date of Birth)	Shares of the Company's stock owned	Shares of the Company's stock owned
		Apr. 2007 Director, Senior Executive Vice President of Mitsubishi Heavy Industries, Ltd.	
		Apr. 2008 President and CEO of Mitsubishi Heavy Industries, Ltd.	5,300
		Apr. 2013 Chairman of the Board of Mitsubishi Heavy Industries, Ltd. (current position)	
		Jun. 2014 Outside Director of the Company (current position)	
	Hideaki Omiya	Jun. 2016 Outside Director of Mitsubishi Corporation (current position)	
	(July 25, 1946)	<b>Important concurrent positions held at other companies</b>	Attendance at meetings of the Board of Directors
Outside Director	Chairman of the Board of Mitsubishi Heavy Industries, Ltd.	12 / 13 meetings (92.3%)	
Independent Director	Outside Director of Mitsubishi Corporation		
	Reappointment		

7 **Reason for nominating Hideaki Omiya as an Outside Director**

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

He has monitored corporate management 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.

We have nominated him as a candidate for independent Outside Director with the expectation that he will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

**Independence of duties**

Mr. Omiya was involved in business affairs at Mitsubishi Heavy Industries, Ltd. The Company has had no transactions with Mitsubishi Heavy Industries, Ltd. in the past three years.

The Company has registered Mr. Omiya as an Independent Director with the Tokyo Stock Exchange. If this proposal is approved as proposed, he will continue to serve as an Independent Director.

**The term of office as an Outside Director**

At the conclusion of this Meeting, four years will have passed since his initial appointment.

*Note 1: There are no special interests between the candidate and the Company.*

*Note 2: The Company has concluded a liability limitation contract with Mr. Hideaki Omiya, who is incumbent Outside Director of the Company, to limit his liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act. If he is reappointed as a Director, the Company intends to renew the aforementioned contract with him.*

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned
		Apr. 1977 Joined Japan Recruit Center Co., Ltd. (present Recruit Holdings Co., Ltd.)	2,500
		Jul. 1986 Editor in chief of Shushoku Journal published by Recruit Holdings Co., Ltd.	
		Jul. 1988 Editor in chief of Travaille published by Recruit Holdings Co., Ltd	<b>Attendance at meetings of the Board of Directors</b>
		Jul. 1997 Joined NTT Mobile Communications Network, Inc. (now NTT Docomo, Inc.), Head of Planning Office for Gateway Business Dept.	13 / 13 meetings (100%)
		Apr. 2000 Representative, Mari Matsunaga Office, Inc.	
		June 2012 Outside Director, MS&AD Insurance Group Holdings, Inc. (current position)	
		Outside Director of Terumo Corporation	
		Jun. 2014 Outside Director, Rohto Pharmaceutical Co., Ltd. (current position)	
8	Mari Matsunaga (November 13, 1954) Outside Director Independent Director Reappointment	Jun. 2016 Outside Director of the Company (current position)	



Mari Matsunaga  
(November 13, 1954)

Outside Director  
Independent Director

Reappointment

#### **Important concurrent positions held at other companies**

Outside Director of MS&AD Insurance Group Holdings, Inc.

Outside Director of Rohto Pharmaceutical Co., Ltd.

#### **Reason for nominating Mari Matsunaga as an Outside Director**

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 Outside Officers. She has monitored corporate management by expressing actively opinions including findings and proposals regarding managerial issues from the viewpoints of collaboration with external parties and human resources strategy, etc.

We have nominated her as a candidate for independent Outside Director with the expectation that she will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

#### **Independence of duties**

The Company has had no transactions with Ms. Matsunaga in the past three years.

The Company has registered Ms. Matsunaga as an Independent Director with the Tokyo Stock Exchange. If this proposal is approved as proposed, she will continue to serve as an Independent Director.

#### **The term of office as an Outside Director**

At the conclusion of this Meeting, two years will have passed since her initial appointment.

*Note 1: There are no special interests between the candidate and the Company.*

*Note 2: The Company has concluded a liability limitation contract with Ms. Mari Matsunaga, who is incumbent Outside Director of the Company, to limit her liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act. If she is reappointed as a Director, the Company intends to renew the aforementioned contract with her.*

*Note 3: Her name on the family register is Mari Aoki.*

**Audit & Supervisory Committee Opinion**

For the election of Directors who are not Audit & Supervisory Committee Members, fundamental framework and policies for the Company's Board of Directors and Directors, as well as candidate nominating policies and specific proposals were confirmed at the Director Nomination Committee. The committee consists of all the Outside Directors, including three Outside Directors who are Audit & Supervisory Committee Members, President and Representative Director, and Officer in charge of human resources, and majority of which are Outside Directors. Outside Directors who are Audit & Supervisory Committee Members attended the committee meeting, expressed opinions, and shared the results thereof for deliberation at the Audit & Supervisory Committee.

As a result, Audit & Supervisory Committee determined that the election of Directors who are not Audit & Supervisory Committee Members is reasonable and concluded that there were no special items to be stated at the General Meeting of Shareholders in accordance with the provision of the Companies Act.

### Proposal 3: Election of Four Directors Who Are Audit & Supervisory Committee Members


The terms of office of all four (4) Directors who are Audit & Supervisory Committee Members will expire at the conclusion of this Meeting. We propose to appoint four (4) Directors who are Audit & Supervisory Committee Members.

The candidates for Directors who are Audit & Supervisory Committee Members have been nominated after consideration by the Director Nomination Committee in which Outside Directors make significant contributions in accordance with screening criteria predetermined by the Board of Directors. The candidates for Outside Directors are compliant with the “Criteria for Independence of Outside Directors” (please refer to page 21).

This Proposal has obtained the consent of the Audit & Supervisory Committee.

The candidates for Directors who are Audit & Supervisory Committee Members are as follows:

Candidate No.	Name		Titles and responsibilities at the Company	Attendance at meetings of the Board of Directors	Attendance at meetings of the Audit & Supervisory Committee
1	Taro Shigemoto	New appointment	Special Audit & Supervisory Officer, General Administrative Manager, Audit & Supervisory Committee Office	—	—
2	Michihiro Nara	Reappointment Outside Director Independent Director	Outside Director Audit & Supervisory Committee Member	13 / 13 meetings (100%)	14 / 14 meetings (100%)
3	Chikami Tsubaki	Reappointment Outside Director Independent Director	Outside Director Audit & Supervisory Committee Member	13 / 13 meetings (100%)	14 / 14 meetings (100%)
4	Yoshio Shirai	Reappointment Outside Director Independent Director	Outside Director Audit & Supervisory Committee Member	13 / 13 meetings (100%)	14 / 14 meetings (100%)

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned
 Taro Shigemoto (June 4, 1962) New appointment	Apr. 1985	Joined the Company	7,200
	Apr. 2003	General Manager, TP Business Management Department of the Company	
	Oct. 2008	General Administrative Manager, Management Division, Epson Engineering (Shenzhen) Ltd.	
	Feb. 2014	President, Epson Engineering (Shenzhen) Ltd.	
	Jun. 2016	Special Audit & Supervisory Officer of the Company (current position), General Administrative Manager, Audit & Supervisory Committee Office of the Company (current position)	

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**Reason for nominating Taro Shigemoto as a Director**


Mr. Shigemoto has served as representative of an overseas subsidiary and has a wealth of experience and achievements in overall functions related to management control and business control. After the transition to a company with an Audit & Supervisory Committee, he has worked to enhance corporate governance of the Company as a Special Audit & Supervisory Officer, supporting the Audit & Supervisory Committee in a position that is independent from the executive team.

We have nominated him as a candidate for Director who is Audit & Supervisory Committee Member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

*Note 1: There are no special interests between the candidate and the Company.*

*Note 2: If the candidate is appointed as a Director, the Company intends to conclude a liability limitation contract with him to limit his liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act.*



Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned
		Apr. 1974 Registered as an attorney-at-law	
		Apr. 2006 Vice President of Japan Federation of Bar Associations Chairman of Daiichi Tokyo Bar Association	4,300
 Michihiro Nara (May 17, 1946) Outside Director Independent Director Reappointment		Mar. 2011 Member of Legislative Council of the Ministry of Justice	<b>Attendance at meetings of the Board of Directors</b>
		Jun. 2013 Audit & Supervisory Board Member of the Company	
		Jun. 2014 Outside Director of the Board, Oji Holdings Corporation (current position)	13 / 13 meetings (100%)
		Jun. 2015 Independent Auditor, Chori Co., Ltd. Outside Director of Nihon Tokushu Toryo Co., Ltd. (current position)	<b>Attendance at meetings of the Audit &amp; Supervisory Committee</b>
		Jun. 2016 Outside Director, Audit & Supervisory Committee Member of the Company (current position) Outside Director, Audit & Supervisory Committee Member, Chori Co., Ltd. (current position)	
		<b>Important concurrent positions held at other companies</b> Attorney-at-law Outside Director of the Board , Oji Holdings Corporation Outside Director of Nihon Tokushu Toryo Co., Ltd. Outside Director, Audit & Supervisory Committee Member of Chori Co., Ltd.	

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#### Reason for nominating Michihiro Nara as an Outside Director

Mr. Nara has a high level of expertise as an attorney. He has considerable insight and experiences through his involvement in the management of multiple companies as an independent outside officer and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. We have nominated him as a candidate for Outside Director who is Audit & Supervisory Committee Member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

Although he has never been involved in corporate management except as an outside officer, we believe that he will perform his duties as an Outside Director who is Audit & Supervisory Committee Member appropriately because of the above reasons.

#### Independence of duties

The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Mr. Nara who is an attorney-at-law, and the law office to which he belongs.

The Company has registered Mr. Nara as an Independent Director with the Tokyo Stock Exchange. If he is reappointed as proposed, he will continue to serve as an Independent Director.

#### The term of office as an Outside Director (Audit & Supervisory Committee Member)


At the conclusion of this Meeting, two years will have passed since his initial appointment.

Note 1: There are no special interests between the candidate and the Company.

Note 2: The Company has concluded a liability limitation contract with Mr. Nara, who is incumbent Outside Director of the Company, to limit his liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act. If he is reappointed as an Outside Director, the Company intends to renew the aforementioned contract with him.

Note 3: Matters regarding occurrence of illegal conduct, violation of the Articles of Incorporation and other fraudulent business execution which occurred at a company where a candidate for outside director is serving as officer during the past five years

Nihon Tokushu Toryo Co., Ltd., where Mr. Nara serves as Outside Director, announced in October 2015 that a former employee of said company had illegally obtained the fund for transfer payments to a business counterpart in August 2015. Mr. Nara had been unaware of the conduct until it was revealed; however, he had given various advice and warnings to the Board of Directors from the perspective of compliance. Even after he recognized such conducts, he has been appropriately performing his duties by providing recommendation on measures to prevent recurrence of such conduct such as sincere commitment to compliance and enhancement of management structure.

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned	
3	 Chikami Tsubaki (August 6, 1947) Outside Director Independent Director Reappointment	Apr. 1970	Joined EBARA-Infilco Co., Ltd. (now Ebara Corporation)	2,200  <b>Attendance at meetings of the Board of Directors</b>  13 / 13 meetings (100%)  <b>Attendance at meetings of the Audit &amp; Supervisory Committee</b>  14 / 14 meetings (100%)
		May 1975	Joined Asahi & Co. (now KPMG AZSA LLC)	
		Mar. 1979	Registered as Certified Public Accountant	
		Jul. 1999	Managing Director of Asahi & Co. (now KPMG AZSA LLC)	
		Jul. 2004	Chief Executive of the Japanese Institute of Certified Public Accountants	
		Jun. 2013	Outside Audit & Supervisory Board Member of NKSJ Holdings, Inc. (now Sompo Holdings, Inc.)	
		Jun. 2014	Outside Audit & Supervisory Board Member of Heiwa Real Estate Co., Ltd. (current position)	
		Jun. 2016	Outside Director and Audit & Supervisory Committee Member of the Company (current position)	
		<b>Important concurrent positions held at other companies</b>		
			Certified Public Accountant	
	Outside Audit & Supervisory Board Member of Heiwa Real Estate Co., Ltd.			

**Reason for nominating Chikami Tsubaki as an Outside Director**

Ms. Tsubaki has a high level of expertise as a certified public accountant. She has a considerable insight and experiences through her involvement in the management of multiple companies as an independent outside officer, and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. We have nominated her as a candidate for Outside Director who is Audit & Supervisory Committee Member with the expectation that she will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

Although she has never been involved in corporate management except as an outside officer, we believe that she will perform her duties as an Outside Director who is Audit & Supervisory Committee Member appropriately because of the above reasons.

**Independence of duties**

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

The Company has registered Ms. Tsubaki as an Independent Director with the Tokyo Stock Exchange. If she is reappointed as proposed, she will continue to serve as an Independent Director.

**The term of office as an Outside Director (Audit & Supervisory Committee Member)**

At the conclusion of this Meeting, two years will have passed since her initial appointment.

*Note 1: There are no special interests between the candidate and the Company.*

*Note 2: The Company has concluded a liability limitation contract with Ms. Tsubaki, who is incumbent Outside Director of the Company, to limit her liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act. If she is reappointed as an Outside Director, the Company intends to renew the aforementioned contract with her.*

Candidate No.	Name (Date of Birth)	Summary of career, title, and responsibilities	Shares of the Company's stock owned
		Jun. 2001 Member of the Board of Directors, Toyota Motor Corporation	
		Jun. 2003 Managing Officer, Toyota Motor Corporation	3,600
		Jun. 2005 Senior Executive Member of the Board of Directors, Toyota Motor Corporation	
	 Yoshio Shirai (May 1, 1948) Outside Director Independent Director Reappointment	Jun. 2007 Executive Vice President, Member of the Board, Hino Motors, Ltd.	<b>Attendance at meetings of the Board of Directors</b>
		Jun. 2008 President, Member of the Board, Hino Motors, Ltd.	13 / 13 meetings (100%)
		Jun. 2013 Councilor, Hino Motors, Ltd. Vice Chairman, Toyota Tsusho Corporation	<b>Attendance at meetings of the Audit &amp; Supervisory Committee</b>
		Jun. 2015 Advisor, Toyota Tsusho Corporation (current position)	
		Jun. 2016 Outside Director and Audit & Supervisory Committee Member of the Company (current position)	
		Jun. 2017 Advisor, Hino Motors, Ltd. (current position), Outside Director, Audit & Supervisory Committee Member, Fujikura Ltd. (current position)	14 / 14 meetings (100%)
4			

**Important concurrent positions held at other companies**

Advisor, Hino Motors, Ltd.

Advisor, Toyota Tsusho Corporation

Outside Director, Audit & Supervisory Committee Member, Fujikura Ltd.

**Reason for nominating Yoshio Shirai as an Outside Director**

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. We have nominated him as a candidate for Outside Director who is Audit & Supervisory Committee Member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.

**Independence of duties**

Mr. Shirai was involved in business affairs at Hino Motors, Ltd. and Toyota Tsusho Corporation in the past five years. The Company has had no transactions with Hino Motors, Ltd. and Toyota Tsusho Corporation in the past three years.

The Company has registered Mr. Shirai as an Independent Director with the Tokyo Stock Exchange. If he is reappointed as proposed, he will continue to serve as an Independent Director.

**The term of office as an Outside Director (Audit & Supervisory Committee Member)**

At the conclusion of this Meeting, two years will have passed since his initial appointment.

*Note 1: There are no special interests between the candidate and the Company.*

*Note 2: The Company has concluded a liability limitation contract with Mr. Shirai, who is incumbent Outside Director of the Company, to limit his liability for damages to the amount determined by relevant laws and regulations in accordance with Article 427, Paragraph 1 of the Companies Act. If he is reappointed as an Outside Director, the Company intends to renew the aforementioned contract with him.*

(Reference)

**Policies and Procedures for Nominating Director Candidates**

With an aim to ensure transparency and objectivity, Director candidates who are submitted for their appointments to the General Meeting of Shareholders are determined by the Board of Directors after going through a fair, transparent, and rigorous screening and reporting by the Director Nomination Committee in which Outside Directors make significant contributions.

Policies:

- 1) Officers must be impartial and possess high integrity and ethical standards.
- 2) Outside Directors must satisfy “Criteria for Independence of Outside Directors” (please refer to page 21) stipulated by the Board of Directors in order to guarantee their independence.

*Note: Regarding the nomination and compensation of Directors and Executive Officers, etc., the Company established a Director Nomination Committee and a Director Compensation Committee as advisory bodies of the Board of Directors. The committees are composed of Outside Directors who make significant contributions with an aim to ensure transparency and objectivity. Both committees are composed of President and Representative Director and Officer in charge of human resources, in addition to Outside Directors who account for the majority thereof. Directors who are Full-Time Audit & Supervisory Committee Members can attend meetings of both committees as observers.*

## 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 remuneration 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 that employs someone from the Company as an Outside Director; or
  - (11) A spouse or relative within the second degree of kinship of a person having the interests listed in (1) through (9) above.
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

- 1: 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.
- 2: "Executive" means an executive officer, executive director or operating officer, or an employee occupying a senior management position of department manager or higher.
- 3: 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.
- 4: "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.
- 5: "Major shareholder" means a shareholder who directly or indirectly holds 10% or more of the voting rights.
- 6: "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.
- 7: "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.

---End---

#### **Proposal 4: Bonus to Directors Who Are Not Audit & Supervisory Committee Members**

The Company proposes to pay bonuses of 89,290,000 yen in total to the five Directors who are not Audit & Supervisory Committee Members excluding Outside Directors as of March 31, 2018 based on the monthly compensation by taking business performance for the current fiscal year into consideration.

The total amount and beneficiaries of the bonus payment have been determined after consideration by the Director Compensation Committee in which Outside Directors make significant contributions.

The Company would like to provide the Board of Directors with discretion to determine compensation for each Director.

#### **Audit & Supervisory Committee Opinion**

Regarding compensation, etc. for Directors who are not Audit & Supervisory Committee Members, policies for compensation system for Directors, specific calculation methods for the amount of compensation and proposals for bonuses for Directors who are not Audit & Supervisory Committee Members were confirmed at the Director Compensation Committee. The committee consists of all the Outside Directors, including three Outside Directors who are Audit & Supervisory Committee Members, President and Representative Director, and Officer in charge of human resources, and majority of which are Outside Directors. Outside Directors who are Audit & Supervisory Committee Members attended the committee meeting, expressed opinions, and shared the results thereof for deliberation at the Audit & Supervisory Committee.

As a result, Audit & Supervisory Committee determined that the payment of bonuses to Directors who are not Audit & Supervisory Committee Members (excluding Outside Directors) is appropriate and concluded that there were no special items to be stated at the General Meeting of Shareholders in accordance with the provision of the Companies Act regarding the payment.

(Reference)

#### **Policies and Procedures for Determining Compensation of Officers**

With an aim to ensure transparency and objectivity, compensation of officers is determined by the General Meeting of Shareholders, the Board of Directors or Audit & Supervisory Committee after going through a fair, transparent, and rigorous reporting by the Director Compensation Committee in which Outside Directors make significant contributions.

Policies:

(Compensation for Officers who have executive duties)

- 1) Compensation shall be incentive to improve business performance in order to increase corporate value in both the near and long terms.
- 2) Compensation shall be sufficient to secure qualified persons both from within the Company and from outside.
- 3) Compensation shall be commensurate with the business performance so that they can demonstrate their management capabilities to the fullest during their terms of offices.

(Compensation for Officers who do not have executive duties)

- 1) The composition of compensation shall guarantee independence so that these Officers can suitably demonstrate their general management supervisory function, etc.
- 2) Compensation shall be sufficient to secure qualified persons both from within the Company and from outside.

---End---

(Appendix)

## **Business Report**

(from April 1, 2017 to March 31, 2018)

### **1. Matters related to the Current Status of the Epson Group**

#### **1.1 Business progress and results**

##### **(1) Overview**

Please refer to page 1 to 3 of CONSOLIDATED RESULTS FOR YEAR ENDED MARCH 31, 2018.

([https://global.epson.com/IR/financial\\_results/2017/pdf/results\\_2017\\_full\\_e.pdf](https://global.epson.com/IR/financial_results/2017/pdf/results_2017_full_e.pdf))



**(2) Overview by Segment**

Please refer to page 3 to 5 of CONSOLIDATED RESULTS FOR YEAR ENDED MARCH 31, 2018.

[https://global.epson.com/IR/financial\\_results/2017/pdf/results\\_2017\\_full\\_e.pdf](https://global.epson.com/IR/financial_results/2017/pdf/results_2017_full_e.pdf)

## 1.2 Overview of capital expenditures

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

As a result of these efforts, total capital expenditures (of property, plant and equipment, software and lease rights) for the consolidated fiscal year under review amounted to 79,430 million yen.

Overview of the major capital expenditures for the consolidated fiscal year under review is as follows.

- Construction of a new factory and additional production lines with an aim to enhance production capacity of inkjet printers and projectors at Epson Precision (Philippines), Inc.
- Construction of a new factory for manufacturing amorphous alloy powder at Epson Atmix Corporation
- Construction of a new building which will house a factory for producing prototypes and volume-producing large-format and industrial inkjet printers and a test laboratory function for digital textile printing at Hirooka Office (scheduled to commence operation at the end of FY2019)

Segment	Amount of capital expenditures (Millions of yen)	Year-on-year change (%)
Printing Solutions Business	46,352	5.5%
Visual Communications Business	14,338	40.6%
Wearable & Industrial Products Business	11,099	20.8%
Other and overall	7,640	(36.3%)
Total	79,430	5.5%

## 1.3 Overview of financing

The Company issued unsecured straight bonds totaling ¥20 billion, which will be allocated to the redemption of bonds and operating capital.

## 1.4 Shares and other equity holdings, or acquisition or disposal of subscription rights to shares of other companies

Not applicable.

## 1.5 Business transfers, absorption-type company splits or incorporation-type company splits

Not applicable.

## 1.6 Assignment of business from other companies

Not applicable.

## 1.7 Succession of rights and obligations due to absorption-type mergers or absorption-type company splits

The Company assumed the rights and obligations of the watch sales business (excluding sales business, etc. in Japan) of Orient Watch Co., Ltd., a consolidated subsidiary of the Company, by way of absorption-type company split with an effective date of April 1, 2017. Its Japan domestic sales business has been assumed by Epson Sales Japan Corporation, a consolidated subsidiary of the Company, by way of absorption-type company split as of the same date.

## 1.8 Issues to be addressed

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

The business environment in which Epson operates needs to be closely watched. Although the global economy is generally registering signs of gradual recovery, political uncertainty and the economic situation are fueling concerns over things such as foreign exchange volatility and geopolitical risks that could well impact national economies and product demand.

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

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

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

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

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

## **Vision in Each Business**

### Printing: inkjet innovation

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

### Visual communications: visual innovation

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

### Wearables: wearables innovation

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

### Robotics: robotics innovation

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

### Microdevices: Support the four innovations

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

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

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

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

## **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.

Under the foregoing basic policies, we executed policies during the business year to drive growth in our businesses through the development and sales of strategic products.

On the other hand, certain issues that need to be addressed became clear. Not only do we now recognize that it is going to take more time for these products to penetrate the market but we also clearly see that the world is changing at dizzying speed and that we need to respond by strategically realigning and restructuring some of our businesses.

In the realm of inkjet innovation, therefore, we will seek to strengthen the profit structure. On the one hand, we will capitalize on inkjet advantages such as superior environmental performance and lower printing costs to expand sales of high-capacity ink tank printers beyond emerging nations and into developed countries. On the other hand, we will revolutionize office printing by penetrating the office market with the line inkjet printers that we launched to market earlier in the fiscal year.

In the realm of visual innovation, we will seek further growth by developing and recommending lighting, signage, and other new applications that take advantage of the unique features of projection technology.

In our other businesses, we will execute strategies to achieve the corporate vision. For example, we began setting the stage for business growth in wearables by launching own-brand products. And in robotic systems, we are preparing to enter the collaborative robot market.

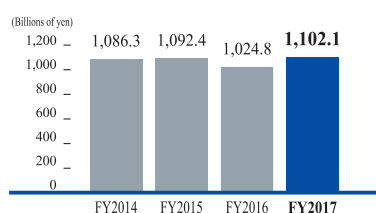
To respond to future changes in the market environment, we will strengthen the new technology and new business model research function for growth areas across the company.

## 1.9 Status of assets and income (loss)

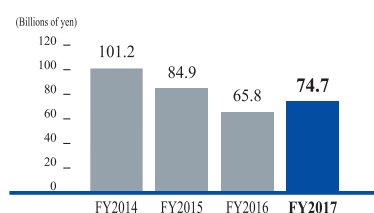
(Millions of yen unless otherwise stated)

Item	FY2014	FY2015	FY2016	FY2017
Revenue	1,086,341	1,092,481	1,024,856	1,102,116
Business profit	101,275	84,951	65,807	74,785
Profit from operating activities	131,380	94,026	67,892	65,003
Profit for the period attributable to owners of the parent company	112,560	45,772	48,320	41,836
Basic earnings per share (yen)	314.61	127.94	136.82	118.78
Total assets	1,006,282	941,340	974,387	1,033,350
Equity attributable to owners of the parent company	494,325	467,818	492,196	512,727
Equity attributable to owners of the parent company ratio (%)	49.1	49.7	50.5	49.6

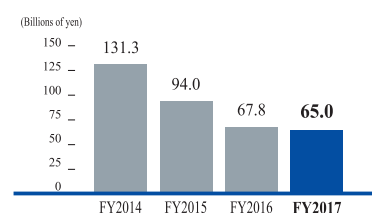
Revenue



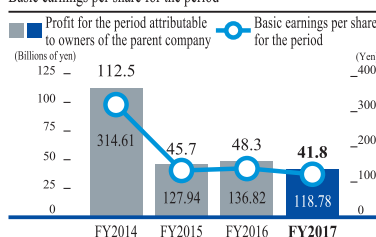
Business profit



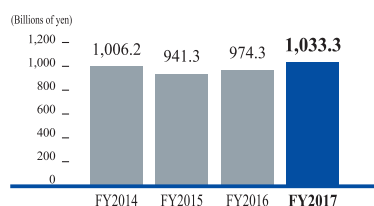
Profit from operating activities



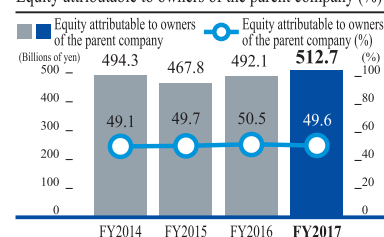
Profit for the period attributable to owners of the parent company / Basic earnings per share for the period



Total assets



Equity attributable to owners of the parent company / Equity attributable to owners of the parent company (%)



### Notes

1. The Company prepares the consolidated financial statements on the basis of International Financial Reporting Standards (IFRS), in accordance with Article 120, Paragraph 1 of the Company Accounting Ordinance.
2. Business profit is a profit indicator that Epson voluntarily discloses in applying International Financial Reporting Standards (IFRS), and is very similar in principle to operating income under Japanese Generally Accepted Accounting Principles (JGAAP).
3. The Company implemented common stock split in which each share was split into two shares with an effective date of April 1, 2015. Basic earnings per share are calculated on the assumption that the stock split was implemented at the beginning of FY2014.
4. In the calculation of basic 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.

### 1.10 Status of significant parent companies and subsidiaries (as of March 31, 2018)

(1) Relationship with the parent company

Not applicable.

(2) Status of Significant Subsidiaries

	Company name	Location	Paid-in capital	The Company's percentage of equity participation	Main business
Japan	Epson Sales Japan Corporation	Tokyo	JPY 4,000 million	100.0%	Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Direct Corporation	Nagano	JPY 150 million	100.0% (100.0%)	Printing Solutions
	Miyazaki Epson Corporation	Miyazaki	JPY 100 million	100.0%	Wearable & Industrial Products
	Tohoku Epson Corporation	Yamagata	JPY 100 million	100.0%	Printing Solutions Wearable & Industrial Products
	Akita Epson Corporation	Akita	JPY 80 million	100.0%	Printing Solutions Wearable & Industrial Products
	Epson Atmix Corporation	Aomori	JPY 450 million	100.0%	Wearable & Industrial Products
Americas	U.S. Epson, Inc.	U.S.A.	USD 126,941 thousand	100.0%	Holding company
	Epson America, Inc.	U.S.A.	USD 40,000 thousand	100.0% (100.0%)	Regional headquarters Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Electronics America, Inc.	U.S.A.	USD 10,000 thousand	100.0% (100.0%)	Wearable & Industrial Products
	Epson Portland Inc.	U.S.A.	USD 31,150 thousand	100.0% (100.0%)	Printing Solutions
Europe	Epson Europe B.V.	The Netherlands	EUR 95,000 thousand	100.0%	Regional headquarters Printing Solutions Visual Communications
	Epson (U.K.) Ltd.	U.K.	GBP 1,600 thousand	100.0% (100.0%)	Printing Solutions Visual Communications
	Epson Deutschland GmbH	Germany	EUR 5,200 thousand	100.0% (100.0%)	Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Europe Electronics GmbH	Germany	EUR 2,000 thousand	100.0% (100.0%)	Wearable & Industrial Products
	Epson France S.A.S.	France	EUR 4,000 thousand	100.0% (100.0%)	Printing Solutions Visual Communications

Company name	Location	Paid-in capital	The Company's percentage of equity participation	Main business	
Epson Italia S.p.A.	Italy	EUR 3,000 thousand	100.0% (100.0%)	Printing Solutions Visual Communications	
For.Tex S.r.l.	Italy	EUR 80 thousand	100.0% (100.0%)	Printing Solutions	
Epson Iberica, S.A.U.	Spain	EUR 1,900 thousand	100.0% (100.0%)	Printing Solutions Visual Communications	
Epson Telford Ltd.	U.K.	GBP 8,000 thousand	100.0% (100.0%)	Printing Solutions	
Fratelli Robustelli S.r.l.	Italy	EUR 90 thousand	100.0% (100.0%)	Printing Solutions	
Asia and Oceania	Epson (China) Co., Ltd.	China	CNY 1,211 million	100.0%	Regional headquarters Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Singapore Pte. Ltd.	Singapore	SGD 200 thousand	100.0%	Regional headquarters Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Korea Co., Ltd.	South Korea	KRW 1,466 million	100.0%	Printing Solutions Visual Communications
	Epson Hong Kong Ltd.	China	HKD 2,000 thousand	100.0%	Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Taiwan Technology & Trading Ltd.	Taiwan	TWD 25,000 thousand	100.0%	Printing Solutions Visual Communications Wearable & Industrial Products
	P.T. Epson Indonesia	Indonesia	IDR 918,000 thousand	100.0% (100.0%)	Printing Solutions Visual Communications
	Epson (Thailand) Co., Ltd.	Thailand	THB 103,000 thousand	100.0% (100.0%)	Printing Solutions Visual Communications
	Epson Philippines Corporation	Philippines	PHP 50,000 thousand	100.0% (100.0%)	Printing Solutions Visual Communications
	Epson Australia Pty. Ltd.	Australia	AUD 1,000 thousand	100.0%	Printing Solutions Visual Communications
	Epson India Pvt. Ltd.	India	INR 108,628 thousand	100.0% (100.0%)	Printing Solutions Visual Communications
	Epson Precision (Hong Kong) Ltd.	China	USD 81,602 thousand	100.0%	Printing Solutions Visual Communications
	Epson Engineering (Shenzhen) Ltd.	China	USD 56,641 thousand	100.0% (100.0%)	Printing Solutions Visual Communications Wearable & Industrial Products
	Epson Precision (Shenzhen) Ltd.	China	USD 25,000 thousand	100.0% (100.0%)	Wearable & Industrial Products
Orient Watch (Shenzhen) Ltd.	China	CNY 37,748 thousand	100.0% (100.0%)	Wearable & Industrial Products	



Company name	Location	Paid-in capital	The Company's percentage of equity participation	Main business
Tianjin Epson Co., Ltd.	China	CNY 172,083 thousand	80.0% (80.0%)	Printing Solutions
Singapore Epson Industrial Pte. Ltd.	Singapore	SGD 71,700 thousand	100.0%	Wearable & Industrial Products
P.T. Epson Batam	Indonesia	USD 7,000 thousand	100.0% (100.0%)	Printing Solutions
P.T. Indonesia Epson Industry	Indonesia	USD 23,000 thousand	100.0%	Printing Solutions
Epson Precision (Thailand) Ltd.	Thailand	THB 3,250,000 thousand	100.0%	Wearable & Industrial Products
Epson Precision (Philippines), Inc.	Philippines	USD 157,533 thousand	100.0%	Printing Solutions Visual Communications
Epson Precision Malaysia Sdn. Bhd.	Malaysia	MYR 16,000 thousand	100.0%	Wearable & Industrial Products
Epson Precision (Johor) Sdn. Bhd.	Malaysia	MYR 22,800 thousand	100.0% (100.0%)	Wearable & Industrial Products

Notes:

1. Percentage of equity participation indicated inside parentheses refers to indirect ownership percentage.
2. There are no specified wholly-owned subsidiaries.
3. Epson Electronics America, Inc. was merged into Epson America, Inc. on April 1, 2018.

### 1.11 Principal business locations and plants (as of March 31, 2018)

Epson is organized into operations divisions 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.

#### The Company

Registered Head Office	4-1-6 Shinjuku, Shinjuku-ku, Tokyo
Head Office	3-3-5 Owa, Suwa-shi, Nagano
Offices	Hirooka Office (Shiojiri-shi, Nagano), Toyoshina Plant (Azumino-shi, Nagano), Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano), Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano), Shiojiri Plant (Shiojiri-shi, Nagano), Matsumoto Minami Plant (Matsumoto-shi, Nagano), Murai Plant (Matsumoto-shi, Nagano), Ina Plant (Minowa-machi, Kamiina-gun, Nagano), Matsumoto Plant (Matsumoto-shi, Nagano), Kanbayashi Plant (Matsumoto-shi, Nagano), Hino Office (Hino-shi, Tokyo), Sakata Plant (Sakata-shi, Yamagata), Chitose Plant (Chitose-shi, Hokkaido)

#### Subsidiaries

For detail, please refer to “1.10 Status of significant parent companies and subsidiaries.”

### 1.12 Status of employees (as of March 31, 2018)

Segment	Number of employees (Persons)	Year-on-year change (Persons)
Printing Solutions Business	48,331	3,542
Visual Communications Business	11,474	501
Wearable & Industrial Products Business	12,785	(307)
Other	348	11
Corporate	3,453	224
Total	76,391	3,971

Notes:

1. The number of employees represents the number of persons in employment.
2. The number of employees represented as Corporate represents administrative staff not assigned to any particular business segment.

### 1.13 Major lenders (as of March 31, 2018)

Lender	Borrowing amount (Millions of yen)
Mizuho Bank, Ltd.	41,478
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	21,730
The Hachijuni Bank, Ltd.	5,000
Mitsubishi UFJ Trust and Banking Corporation	4,972

Notes:

1. The borrowing amounts include some borrowings from the overseas subsidiaries, etc. of each bank.
2. The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its trade name to MUFG Bank, Ltd. on April 1, 2018.
3. Mitsubishi UFJ Trust and Banking Corporation has transferred its domestic corporate loan-related businesses to MUFG Bank, Ltd. by way of absorption-type corporate split with an effective date of April 16, 2018.

### 1.14 Other material facts concerning the current status

- (1) Allegations of involvement in a liquid crystal display price-fixing cartel  
Regarding allegations of involvement in a liquid crystal display price-fixing cartel, the Company is currently under investigation by certain anti-monopoly-related authorities.
- (2) Civil actions concerning copyright fees in Belgium  
In 2010, Epson Europe B.V. (“EEB”), a consolidated subsidiary of the Company, brought a civil suit against La SCRL Reprobel (“Reprobel”), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. With Reprobel subsequently filing a suit against EEB, the two lawsuits were adjointed. EEB’s claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.
- (3) Allegation by a consumer organization in France  
Regarding the inkjet printer products sold in France, authorities have initiated investigations following an allegation made by a consumer organization in the country, 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 financial performance and its future business development are not predictable at this time.

## 2. Matters related to Company Shares (as of March 31, 2018)

- 2.1 Total number of shares authorized to be issued 1,214,916,736 shares
- 2.2 Total number of shares outstanding 399,634,778 shares (including 47,232,611 shares of treasury stock)
- 2.3 Number of shareholders 44,571 persons
- 2.4 Major shareholders

Shareholder name	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	49,052,300	13.91
Japan Trustee Services Bank, Ltd. (Trust Account)	25,593,700	7.26
Sanko Kigyo Kabushiki Kaisha	20,000,000	5.67
Seiko Holdings Corporation	12,000,000	3.40
Yasuo Hattori	11,932,612	3.38
Noboru Hattori	11,199,936	3.17
The Dai-ichi Life Insurance Company, Limited	8,736,000	2.47
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account	8,153,800	2.31
Seiko Epson Corporation Employees' Shareholding Association	7,229,567	2.05
Trust & Custody Services Bank, Ltd. (Trust Account)	6,308,800	1.79

Note 1: Although the Company holds 47,232,611 shares of treasury shares, the Company is excluded from the above list of major shareholders. Shareholding ratio is calculated by deducting treasury shares. Treasury shares do not include the Company's shares (173,528 shares) owned by the officer compensation BIP Trust.

Note 2: Mr. Noboru Hattori passed away on August 10, 2017. As the name change procedure has not been completed as of March 31, 2018, the name on the shareholder register is presented.

## 3. Matters related to the Subscription Rights to Shares, etc. of the Company

Not applicable.

## 4. Matters related to Management

### 4.1 Names, etc. of Directors (as of March 31, 2018)

Name	Title	Areas of responsibility and significant concurrent positions
Minoru Usui	President and Representative Director	President of Japan Business Machine and Information System Industries Association
Shigeki Inoue	Representative Director Senior Managing Executive Officer	Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment, and Wearable Products Operations Division General Administrative Manager, Corporate Planning Division
Koichi Kubota	Director Senior Managing Executive Officer	Chief Operating Officer, Printing Solutions Operations Division
Masayuki Kawana	Director Executive Officer	General Administrative Manager, Human Resources Division and CSR Management Office
Tatsuaki Seki	Director Executive Officer Chief Compliance Officer	General Administrative Manager, Management Control Division
Hideaki Omiya	Outside Director	Chairman of the Board, Mitsubishi Heavy Industries, Ltd. Outside Director, Mitsubishi Corporation
Mari Matsunaga	Outside Director	Outside Director of MS&AD Insurance Group Holdings, Inc. Outside Director of Rohto Pharmaceutical Co., Ltd.
Noriyuki Hama	Director Full-Time Audit & Supervisory Committee Member	
Michihiro Nara	Outside Director Audit & Supervisory Committee Member	Attorney-at-law Outside Director of the Board, Oji Holdings Corporation Outside Director of Nihon Tokushu Toryo Co., Ltd. Outside Director, Audit & Supervisory Committee Member, Chori Co., Ltd.
Chikami Tsubaki	Outside Director Audit & Supervisory Committee Member	Certified Public Accountant Outside Audit & Supervisory Board Member of Heiwa Real Estate Co., Ltd.
Yoshio Shirai	Outside Director Audit & Supervisory Committee Member	Advisor, Hino Motors, Ltd. Advisor, Toyota Tsusho Corporation Outside Director, Audit & Supervisory Committee Member, Fujikura Ltd.

- Notes
1. The Company registered Mr. Hideaki Omiya, Ms. Mari Matsunaga, Mr. Michihiro Nara, Ms. Chikami Tsubaki and Mr. Yoshio Shirai as independent directors with the Tokyo Stock Exchange.
  2. Director and Full-Time Audit & Supervisory Committee Member Mr. Noriyuki Hama has years of experience in the financial and accounting department of the Company, and Director and Audit & Supervisory Committee Member Ms. Chikami Tsubaki has professional knowledge and experience as a Certified Public Accountant, thus both of them have considerable knowledge in finance and accounting.

3. Based on a belief that improving audit environment and smooth collection of in-house information through attending important internal meetings, as well as close coordination with an internal audit departments, etc. and daily oversight on the internal control system are necessary to ensure the effectiveness of the activities of the Audit & Supervisory Committee, the Company has appointed Mr. Noriyuki Hama as a Full-Time Audit & Supervisory Committee Member.
4. There are no special interests between the Company and the entities where each Outside Director holds significant concurrent positions.
5. List of Executive Officers (excluding Directors concurrently serving as Executive Officers) as of March 31, 2018 is as follows.

Name	Title	Areas of responsibility
Tadaaki Hagata	Managing Executive Officer	President, Epson Precision (Philippines), Inc.
Motonori Okumura	Managing Executive Officer	General Administrative Manager, Technology Development Division Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment (in charge of Technology Base)
Junichi Watanabe	Managing Executive Officer	General Administrative Manager, Production Planning Division Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment (in charge of Production Base)
Hideki Shimada	Managing Executive Officer	Deputy Chief Operating Officer, Printing Solutions Operations Division (in charge of Production Engineering, Quality Assurance and Production Control)
Yasumasa Kitamatsu	Executive Officer	Deputy General Administrative Manager, Technology Development Division (in charge of Robotics Innovation Development and Automation Technology Development)
Akihiro Fukaishi	Executive Officer	President, Epson (China) Co., Ltd.
Sunao Murata	Executive Officer	Deputy General Administrative Manager, Corporate Planning Division (in charge of Research for New Technology & Business Models)
Yoshiyuki Moriyama	Executive Officer	Chairman and President, Epson Engineering (Shenzhen) Ltd.
Toshiya Takahata	Executive Officer	General Administrative Manager, Intellectual Property Division
Tsuyoshi Kitahara	Executive Officer	In charge of Exploration for New Technology Development, Technology Development Division General Manager, Core Device Technology Development Department (in charge of New Domain Development)
Naoyuki Saeki	Executive Officer	President, Epson Sales Japan Corporation
Nobuyuki Shimotome	Executive Officer	Chief Operating Officer, Microdevices Operations Division
Kazuyoshi Yamamoto	Executive Officer	President, Epson Europe B.V.
Munenori Ando	Executive Officer	General Administrative Manager, Sales & Marketing Division
Hitoshi Igarashi	Executive Officer	Deputy Chief Operating Officer, Printing Solutions Operations Division (in charge of Planning and Design)
Keith Kratzberg	Executive Officer	President, Epson America, Inc.
Isamu Otsuka	Executive Officer	President, Epson Atmix Corporation
Yasunori Ogawa	Executive Officer	Chief Operating Officer, Visual Products Operations Division
Eiichi Abe	Executive Officer	President, P.T. Indonesia Epson Industry

Name	Title	Areas of responsibility
Kazuhiro Ichikawa	Executive Officer	Deputy General Administrative Manager, Technology Development Division (in charge of New Domain Component & Technology Development) General Manager, PL Business Management Department (in charge of PaperLab Business Promotion)
Keijiro Naito	Executive Officer	Deputy Chief Operating Officer, Visual Products Operations Division (in charge of Business Strategies, Production Control and HMD)

(1) Messrs. Yasunori Ogawa, Eiichi Abe, Kazuhiro Ichikawa and Keijiro Naito assumed their respective offices of Executive Officer as of June 28, 2017.

(2) Changes in the responsibilities of Executive Officers from the day following the conclusion date of the Ordinary General Meeting of Shareholders held on June 28, 2017 to the end of the fiscal year under review are as follows.

Name	After change	Before change	Date of change
Sunao Murata	Deputy General Administrative Manager, Corporate Planning Division (in charge of Research for New Technology & Business Models)	Deputy Chief Operating Officer, Printing Solutions Operations Division (in charge of IJJ and LW)	October 1, 2017
Kazuhiro Ichikawa	Deputy General Administrative Manager, Technology Development Division (in charge of New Domain Component & Technology Development) General Manager, PL Business Management Department (in charge of PaperLab Business Promotion)	Deputy General Administrative Manager, Technology Development Division (in charge of New Domain Component & Technology Development)	November 1, 2017

(3) Changes in the responsibilities of Executive Officers after the end of the fiscal year under review are as follows.

Name	After change	Before change	Date of change
Junichi Watanabe	General Administrative Manager, Production Planning Division Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment (in charge of Production Base) Deputy Chief Operating Officer, Wearable Products Operations Division (in charge of Quality Assurance, Production Engineering, Production Control and Manufacturing)	General Administrative Manager, Production Planning Division Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment (in charge of Production Base)	April 1, 2018

Name	After change	Before change	Date of change
Yasumasa Kitamatsu	In charge of Manufacturing Innovation, Technology Development Division General Manager, Automation Technology Development Department (in charge of Manufacturing Innovation, Environmental Affairs & CO2 Reduction, and Manufacturing Efficiency)	Deputy General Administrative Manager, Technology Development Division (in charge of Robotics Innovation Development and Automation Technology Development)	April 1, 2018

6. The Company has elected Special Audit & Supervisory Officer, a post to support the Audit & Supervisory Committee. The list of Special Audit & Supervisory Officer as of March 31, 2018 is as follows.

Name	Title	Areas of responsibility
Taro Shigemoto	Special Audit & Supervisory Officer	General Administrative Manager of the Audit & Supervisory Committee Office

#### 4.2 Outline of liability limitation contracts

The Company has entered into contracts with its non-executive Directors, namely, Mr. Hideaki Omiya, Ms. Mari Matsunaga, Mr. Noriyuki Hama, Mr. Michihiro Nara, Ms. Chikami Tsubaki and Mr. Yoshio Shirai, which limit their liabilities to the damages pursuant to Article 423, Paragraph 1 of the Companies Act. The maximum liability amount under the contracts shall be the minimum liability amount stipulated in laws and regulations.

### 4.3 Compensation to Directors

(Millions of yen)

Category	Number of individuals (Persons)	Fixed compensation	Variable compensation			Total
		Base compensation	Bonuses	Stock compensation		
Directors who are not Audit & Supervisory Committee Members (of which, Outside Directors)	8 (2)	239 (28)	9 (-)	89 (-)	35 (-)	373 (28)
Directors who are Audit & Supervisory Committee Members (of which, Outside Directors)	4 (3)	81 (48)				81 (48)
Total	12	321	9	89	35	454

- Notes
1. The base compensation for Directors who are not Audit & Supervisory Committee Members (excluding Outside Directors) consists of fixed compensation and variable compensation. Of which, variable compensation refers to the monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
  2. The Company has introduced an officers' shareholding association system 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.
  3. Upon the resolution at the Ordinary General Meeting of Shareholders of June 28, 2016, the maximum base compensation was set to at 62 million yen per month for Directors who are not Audit & Supervisory Committee Members (including 10 million yen per month for Outside Directors) and at 20 million yen for Directors who are Audit & Supervisory Committee Members.
  4. The amount above includes bonuses to be paid to Directors in the amount of 89 million yen (amount to be paid to five Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee Members), subject to the approval of the proposal concerning the payment of bonus to Directors to be proposed at the General Meeting of Shareholders scheduled on June 27, 2018.
  5. The Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the officer compensation BIP (Board Incentive Plan) trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).
  6. The number of individuals above includes one Director who is not Audit & Supervisory Committee Member who retired at the conclusion of the Ordinary General Meeting of Shareholders held on June 28, 2017.
  7. Stock options are not granted.



(Reference)

**Officer compensation system**

The Company's officer compensation shall consist of base compensation, bonuses and stock 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 Officers who do not have executive duties and therefore does not pay bonuses and stock compensation that are linked with performance and share price.

**Base compensation (fixed/variable)**

A monthly-paid monetary compensation which is determined comprehensively based on factors such as responsibilities and position of each officer. For officers with executive duties, it reflects the annual performance results based on the evaluation criteria set for each role.

**Bonuses (variable)**

An annually-paid monetary compensation for officers with executive duties, which is determined by the achievement level of the annual operating performance targets. It reflects the annual performance results based on the evaluation criteria set for each role.

**Stock compensation (variable)**

Stock-based compensation system for officers with executive duties wherein Company's shares are delivered using a trust scheme. It is awarded in accordance with the achievement level with respect to the medium term operating performance targets such as business profit, return on sales and return on equity.

#### 4.4 Main activities of Outside Directors

##### (1) Outside Directors

Name	Main activities at meetings of the Board of Directors	Attendance at meetings of the Board of Directors (Attendance rate)
Hideaki Omiya	Based on a wealth of experience and insight as a corporate manager and engineer, he actively expresses opinions 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.	Meetings of the Board of Directors: 12 / 13 meetings (92.3%)
Mari Matsunaga	Based on a track record of creating new business models and considerable insight and experiences through her involvement in the management of multiple companies as outside officers, she actively expresses opinions including findings and proposals regarding managerial issues from the viewpoints of collaboration with external parties and human resources strategy, etc.	Meetings of the Board of Directors: 13 / 13 meetings (100%)

##### (2) Outside Directors, Audit & Supervisory Committee Members

Name	Main activities at meetings of the Board of Directors and Audit & Supervisory Committee, etc.	Attendance at meetings of the Board of Directors and Audit & Supervisory Committee (Attendance rate)
Michihiro Nara	Based on a high level of expertise as an attorney-of-law and a considerable insight and experiences through his involvement in the management of multiple companies as an outside officer, he actively expresses opinions including findings and proposals regarding managerial issues from a perspective of a legal professional.	Meetings of the Board of Directors: 13 / 13 meetings (100%) Meetings of the Audit & Supervisory Committee: 14 / 14 meetings (100%)
Chikami Tsubaki	Based on a high level of expertise as a certified public accountant and a considerable insight and experiences through her involvement in the management of multiple companies as outside officer, she actively expresses opinions including findings and proposals regarding managerial issues from a perspective of finance and accounting professional.	Meetings of the Board of Directors: 13 / 13 meetings (100%) Meetings of the Audit & Supervisory Committee: 14 / 14 meetings (100%)
Yoshio Shirai	Based on considerable experience and insight as a corporate manager and engineer, he actively expresses opinions including findings and proposals regarding overall managerial issues from a perspective of a corporate manager well-versed in the global corporate management in the automotive industry and at a trading firm, different business fields.	Meetings of the Board of Directors: 13 / 13 meetings (100%) Meetings of the Audit & Supervisory Committee: 14 / 14 meetings (100%)

## 5. Financial Auditor

### 5.1 Financial auditor's name

Ernst & Young ShinNihon LLC

### 5.2 Financial auditor's compensation, etc. for the fiscal year under review

Category	Compensation for audit certificate service (Millions of yen)	Compensation for non-audit service (Millions of yen)
The Company	162	2
Consolidated subsidiaries	48	—
Total	211	2

- Notes
1. 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.
  2. Under the audit agreement between the Company and its financial auditor, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not strictly separated, and otherwise cannot be separated. Consequently, the financial auditor's compensation, etc. for this fiscal year under review reflects the total compensation.
  3. The Company entrusts advisory services which are services other than the services set forth in Article 2, Paragraph 1 of the Certified Public Accountants Act, and pays fees to the financial auditor in relation to such services.
  4. Of the significant subsidiaries of the Company, 36 overseas subsidiaries undergo audits (limited to those specified by Japan's Companies Act or the Financial Instruments and Exchange Act, or foreign laws and regulations equivalent to such laws) by certified public accountants or audit firms other than the financial auditor of the Company (including those with comparable qualifications abroad).

### 5.3 Policy regarding determination of dismissal or non-reappointment of financial auditor

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 Company 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, should (i) disciplinary measures for legal violation and other measures be imposed by regulatory authorities on the financial auditor, (ii) the quality of audit, quality control, independence and other aspects of the financial auditor be likely to hinder the execution of proper audits, and (iii) other issues occur, and where dismissal or nonrenewal of the financial auditor are deemed appropriate, 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.

## **6. Internal Control Systems (A system for ensuring that business is conducted suitably by the corporate group)**

### **6.1 Basic Policy regarding the Internal Control System**

The Company passed a resolution on October 26, 2017, at the meeting of the Board of Directors to partially amend Epson's basic policy regarding the internal control system. The content of the revised basic policy regarding the internal control system is described below.

Seiko Epson Corporation ("Epson" or "the Company") considers its Management Philosophy to be its most important management concept, and to realize it Epson has established "Principles of Corporate Behavior," a code of conduct that is shared across the Group, including at subsidiaries. The Company shall 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.

#### **1. Compliance**

- (1) The Company has established "Principles of Corporate Behavior" as a guide for putting the Management Philosophy into practice. The Company shall also establish regulations that spell out things such as basic compliance requirements and the organizational framework.
- (2) The Company shall also create a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee shall be chaired by a Full-Time Audit & Supervisory Committee Member and shall be made up as members the outside directors and Audit & Supervisory Committee members. The Compliance Committee will meet to hear and discuss important matters concerning the Company's compliance program. It will report its findings and offers opinions to the board of directors. Financial Auditors shall be able to attend meetings of the Compliance Committee as observers.
- (3) A Chief Compliance Officer ("CCO") shall be chosen to oversee and monitor the execution of all compliance operations. The CCO shall periodically report the state of compliance affairs to the Compliance Committee.
- (4) Compliance promotion and enforcement shall be supervised by the President of the Company. Group-wide compliance programs shall 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 shall be promoted by the respective Chief Operating Officers of the divisions.  
A compliance control department shall help 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 the Directors and others, addresses important matters with respect to compliance promotion and enforcement of the Epson Group as a whole, including subsidiaries. The Council strives to ensure the effectiveness of compliance by exhaustively discussing and analyzing the state of programs for assuring observance of statutes, internal regulations, business ethics and initiatives in key areas.
- (6) The Company, including its subsidiaries, shall strive to provide an effective whistleblowing system. Employees shall be encouraged and shall be able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls shall be in place to protect whistleblowers from reprisal, and allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
- (7) The Company shall strive to enhance legal consciousness by providing Epson Group employees with web-based training and other educational opportunities.
- (8) The President of the Company shall periodically report important compliance-related matters to the Board of Directors and shall take measures as needed to respond to issues.
- (9) "Principles of Corporate Behavior" shall state that the Company shall have no association whatsoever with organized crime. The Company shall take a firm stance in rejecting any and all contact with organized crime that threatens social order and security.

## **2. 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.

## **3. Business execution system**

- (1) The Company shall formulate long-term vision statements and mid-range business plans, and it shall set clear med-to long-term goals for the Epson Group as a whole.
- (2) The Company shall institute a system that shall ensure the appropriate and efficient execution of business. To that end, the Company shall establish regulations governing organization management, job authorities, 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 shall report the matters below to the Board of Directors at least once every three months.
  - 1) Current business performance and performance outlook
  - 2) Risk management responses
  - 3) Status of key business operations

## **4. Risk management**

- (1) The Company shall establish 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, shall belong to the President of the Company. Group-wide risk management shall be carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business shall be managed by the Chief Operating Officer of that business, including at subsidiaries consolidated under them. The Company shall also set up a risk management control department, monitor overall risk management Group-wide, make corrections and adjustments thereto, and ensure the effectiveness of risk management programs.
- (3) The Corporate Strategy Council shall strive to ensure effective management of serious risks that could have an egregious effect on the Company by dynamically and exhaustively discussing and analyzing action to identify and control risks. Also, when major risks become apparent, the President shall lead the entire company in mounting a swift initial response in line with the Company's prescribed crisis management program.
- (4) The President of the Company shall periodically report to the Board of Directors on critical risk management issues and formulate appropriate measures to respond to these issues.

## **5. Ensuring the appropriateness of operations in the corporate group**

- (1) The Group's management structure shall help to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company shall be organized into product-based divisions. Each division shall be headed by a Chief Operating Officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office shall own global responsibility. Responsibility for providing the framework for business operations at subsidiaries shall be owned by the head of each business. Group-wide corporate functions shall be the responsibility of the heads of Head Office supervisory departments.
- (2) The Company shall have business processes that enable business to be controlled on a Group level. This shall be accomplished by internal regulations that require subsidiaries to report or acquire pre-approval for certain business operations from the parent company, Epson, and by requiring issues that meet certain criteria to be submitted to Epson's Board of Directors for resolution. In certain regions, moreover, the Company shall seek to ensure the suitability and efficiency of Group-wide business operations by establishing a company that acts as a regional head office that supervises subsidiaries.

- (3) Based on the basic regulation for Internal Audits, the internal audit departments shall serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. The internal audit departments shall audit internal controls and the state of operations in all Epson Group companies, including subsidiaries. The findings of the internal audit departments shall be presented to the head of the audited organization along with requests for corrective action. This information shall also be regularly reported to the President of the Company and to the Audit & Supervisory Committee. In this way, Epson shall strive to optimize operations across the entire Group.

#### **6. Safeguarding and management of information on performance of duties**

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

#### **7. Audit system**

- (1) The Audit & Supervisory Committee can interview Directors who are not Audit & Supervisory Committee Members, 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 shall enable them to conduct audits based on the same information as that available to Directors who are not Audit & Supervisory Committee Members. Audit & Supervisory Committee shall also routinely review important documents related to management decision-making.
- (3) An Audit & Supervisory Committee Office shall be set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office shall serve as a Special Audit & Supervisory Officer and shall assign full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office shall 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 Audit & Supervisory Committee Members. 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 shall be created to secure close cooperation between the internal audit department and others and the Audit & Supervisory Committee.
- (5) The Audit & Supervisory Committee can ask the Representative Director or the Board of Directors to take corrective action if the Audit & Supervisory Committee recognizes that the structure of the Audit & Supervisory Committee Office and the system of cooperation between the Audit & Supervisory Committee and the internal audit departments and others interfere with the efficacy of audits.
- (6) The Audit & Supervisory Committee shall receive audit reports from the internal audit departments and can issue specific instructions to the internal audit departments as needed. If the instructions issued to the internal audit departments by the Audit & Supervisory Committee and the President are in conflict, the President shall have the internal audit departments respect the instructions of the Audit & Supervisory Committee.
- (7) Based on the Audit & Supervisory Committee audit regulation, the Audit & Supervisory Committee can ask Directors who are not Audit & Supervisory Committee Members, the compliance control department, and the risk management control department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also inspect supporting materials. The Audit & Supervisory Committee shall, where necessary, be able to ask subsidiary company Directors, Audit & Supervisory Board Members, the internal audit departments, and others to report the state of management within their respective companies. 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 President or a Board Member, 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 Representative Director shall regularly meet to enable the committee to directly assess business operations.

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

## **6.2. Summary of Implementation Status of the Internal Control System**

The Company resolved to partially amend the basic policy regarding the internal control system at the meeting of the Board of Directors held on October 26, 2017 and made an announcement to that effect and its detail to the entire Group including subsidiaries.

The implementation status for this fiscal year under review based on the basic policy regarding the internal control system is described below.

### **(1) Compliance**

- 1) The Compliance Committee, a body that supervises the execution of compliance in business affairs, was held twice during the fiscal year to discuss important matters concerning the Company's compliance programs. It reported its findings and offered opinions to the Board of Directors. Specifically, as important matters, it discussed monitoring results on compliance and individual compliance issues. In addition, as to the whistleblowing system, it confirmed the reporting status by way of Epson Hotline, and the operation status of the whistleblowing systems at each Group company. Furthermore, it received reports on the financial audit status by the financial auditor.
- 2) The Corporate Strategy Council was held in principal once a week to discuss the Company-wide important policies, corporate strategy and other important management issues. As one of the important management issues, it reported and discussed the progress of the Company's compliance programs and risk management programs.
- 3) Principles of Corporate Behavior, a set of principles to realize the Management Philosophy indicating the ideal direction of the Group, were revised. The revised Principles of Corporate Behavior were translated into 17 languages and informed to the Group employees.
- 4) To raise compliance awareness of Group employees, the Company set October as "Compliance Month." During that month, the CCO as well as representatives of operations divisions and each Group company transmitted a message saying that reflection on one's duties is required in light of Principles of Corporate Behavior, a feature article related to compliance was posted on its company newsletter, and other activities were held. In addition, to promote the Group's compliance programs, regional CCO (R-CCO) was established.
- 5) With an aim to raise compliance awareness and promote specific operations, e-learning and group trainings were held to raise compliance awareness of Group employees through Information Security Enhancement Month, CS & Quality Month, Environmental Awareness Month and other campaigns.

### **(2) System for ensuring proper financial reporting**

- 1) By adding System for ensuring proper financial reporting (internal control over financial reporting) to Basic Policy regarding the Internal Control System, implementation status of internal control is reported in an integrated fashion.
- 2) Internal control over financial reporting is evaluated in accordance with evaluation standards generally accepted.
- 3) The Company adopts an autonomous distributed assessment system in which operations divisions and subsidiaries subject to evaluations and reporting required by the Financial Instruments and Exchange Act conduct a self-assessment on the status of arrangement and implementation of internal control over financial reporting, while Group J-SOX supervisory department ensures the validity of the assessment results. Other operations divisions and subsidiaries in the scope deemed necessary by management also make a self-assessment on internal control over financial reporting every year. In this way, operations divisions and subsidiaries are proactively implementing plan-do-check-act (PDCA) cycle for internal control over financial reporting on an ongoing basis, thereby working to ensure proper financial reporting across the Group.

### **(3) Business execution system**

- 1) We are implementing the medium-term business plan and annual business plan based on the Epson 25 Corporate Vision indicating the ideal direction of the Group toward FY2025.
- 2) Meeting of the Board of Directors was held 13 times to report and discuss matters related to business performance, risk management measures and status of key business operations.
- 3) To ensure the compliance of laws and the Company's Articles of Incorporation in the execution of businesses, regulations governing organizational management, job authority, division of responsibilities, the management of affiliated companies, and other regulations and standards were prepared for organizational, efficient and sound corporate management. Particularly, important provisions including the basis for Group management are in Group-wide operation at each company.

### **(4) Risk management**

- 1) Risks that could have a significant impact on Group management were specified at the beginning of the fiscal year as Company-wide major risks, and plans and measures were implemented to control them. The progress status was reported to the Corporate Strategy Council and the Board of Directors on a quarterly basis.  
Risks that could have a significant impact on business were specified by each business as major business risks, and plans and measures were implemented to control them. The progress status was reported to the Corporate Strategy Council and the Board of Directors on a semi-annual basis.
- 2) As an initial response procedure in case of major risks, the Company developed a crisis management program. When major risks occur, the Company formed the Crisis Management Committee chaired by the President and took a swift initial response in line with the crisis management program. In addition, the actual cases addressed by the Crisis Management Committee were reported to the Corporate Strategy Council and the Board of Directors on a quarterly basis.

### **(5) Ensuring the appropriateness of operations in the corporate group**

- 1) Regarding the business execution by the subsidiaries, the Company confirmed that pre-approval from the Company were sought or report was made to the Company in line with regulations for the management of affiliated companies. The investments that meet certain criteria have been resolved after deliberation at the Board of Directors of the Company.
- 2) The internal audit departments of the Company conducted a follow-up audit to confirm the status of the improvement progress of issues from last year's audit, alongside conducting 33 audits on the Company's operations divisions, the departments of the Tokyo office, as well as the Company's domestic and overseas subsidiaries, in accordance with the Basic Regulation for Internal Audit. Its findings were reported to the President and Audit & Supervisory Committee Members of the Company and actions deemed necessary for control have been taken.

### **(6) Safeguarding and management of work-related information**

Information on business operations are being safeguarded and managed under Document Management Rules and Information Security Rules, with Directors inducing Audit & Supervisory Committee Members reviewing these and other relevant documents on an ongoing basis.

### **(7) Audit system**

- 1) Full-Time Audit & Supervisory Committee Member attended the meetings of the Corporate Strategy Council, Corporate Management Meetings, and other important business meetings and confirmed the status of the execution of duties.  
The Member also examined the important documents related to management decision-making upon receipt.
- 2) The Audit & Supervisory Committee Office, established following the transition to a company with an Audit & Supervisory Committee, is appropriately supporting the work of Audit & Supervisory Committee Members.
- 3) Audit & Supervisory Committee held regular meetings with representative directors, including Outside Directors who are not Audit & Supervisory Committee Members.
- 4) Audit & Supervisory Committee regularly discussed financial auditor's audit plan, audit progress and audit result reporting with the financial auditor. In addition, Full-Time Audit & Supervisory Committee Member and his assistants accompany the audits of the financial auditor as necessary to enhance the effectiveness of audits.



- 5) Audit & Supervisory Committee confirmed the audit plan of the internal audit departments at the beginning of the fiscal year and received regular reports from the internal audit departments on a quarterly basis. The reporting was made with the presence of the financial auditor for information sharing. Full-Time Audit & Supervisory Committee Member was regularly reported by the internal audit departments once a month to confirm the management status of the corporate group. In addition, Full-Time Audit & Supervisory Committee Member and his assistants accompany the internal audits as necessary to enhance the effectiveness of audits, thereby closely cooperating with the internal audit departments and Audit & Supervisory Committee.
- 6) Audit & Supervisory Committee interviewed Directors who are not Audit & Supervisory Committee Members, Executive Officers, Directors and Audit & Supervisory Board Members of major subsidiaries in Japan and overseas, as well as the internal audit departments and received an explanation on the state of management within the Epson Group, including subsidiaries. Furthermore, Full-Time Audit & Supervisory Committee Member received reports from responsible departments for compliance and for personnel affairs, etc. on a quarterly basis, and confirmed the management status.
- 7) The expenses required to execute the duties of Audit & Supervisory Committee were properly budgeted for in advance. The Company promptly paid such expenses.

## **7. Basic Policy regarding Company Control**

The Company has established a basic policy as follows regarding persons who control decision on its financial and business policies (hereinafter the “basic policy”).

### **7.1 Overview the basic policy**

The Company believes that its shareholders should be decided through free trade in the market, and the determination to accept to an acquisition proposal to purchase a portion of shares that would make it possible to control decisions on the Company’s financial and business policies should ultimately be referred to a decision by the shareholders.

The Company believes that it is essential for the Company to have executives and employees work together to create corporate value, to continue to create and take on challenges while embracing its established business culture, and to preserve and acquire the customers’ trust in order to ensure and enhance the Company’s corporate value and the common interests of its shareholders.

However, there are some forms of large-scale acquisitions of shares that benefit neither the target company’s corporate value nor the common interests of its shareholders to be ensured and enhanced.

The Company believes that any person who would make an inappropriate large-scale acquisition of shares in the Company in this manner would be unsuitable to become a person who would control decisions on the Company’s financial and business policies, and it is therefore necessary to ensure the corporate value of the Company and, in turn, the common interests of its shareholders by taking the necessary and reasonable countermeasures against a large-scale acquisition by such person.

### **7.2 Summary of measures in support of the basic policy**

#### **(1) Specific actions in support of the basic policy**

The Company established in March 2016 a new 10-year corporate vision and a new mid-range business plan. The Epson 25 Corporate Vision describes what the company would like to achieve by the start of the 2025 fiscal year. Meanwhile, the “Epson 25 Mid-Range Business Plan (FY2016 - 2018)” (hereinafter, “Mid-Range Plan (FY2016 - 2018)”) is a three-year plan for the first phase of work toward achieving the vision.

Under the Mid-Range Plan (FY2016 - 2018), the Company 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.

#### **(2) Measures to Prevent Decisions on the Company’s Financial and Business Policies from being Controlled by Persons Viewed as Inappropriate Under the Basic Policy.**

Aiming to ensure and enhance corporate value and the common interests of its shareholders, the Company introduced a series of measures to prevent large-scale acquisition of the Company shares. The measures were updated at the June 2014 General Meeting of Shareholders. The measures were then revised for further enhancing their appropriateness and objectivity, and shareholders approved their updating at the June 28, 2017 General Meeting of Shareholders. (The updated measures are hereinafter called “the Plan.”)

The purpose of the Plan is to prevent from large-scale acquisitions of shares that benefit neither the target company’s corporate value nor the common interests of its shareholders by providing the Company with a measure that ensures the necessary time and information for the shareholders to decide whether or not to accept such proposal or for the Company’s board of directors to present an alternative proposal while enabling the board of directors to discuss and negotiate with the acquirer on occasions when the Company receives a large-scale acquisition proposal for the shares in the Company from an acquirer.

Specifically, a party that intends to acquire 20% or more of stock certificates outstanding or to stage a takeover bid shall be required to submit in advance to the Board of Directors an expression of intent as well as list of essential and sufficient information for decision making on the part of shareholders and for evaluation and consideration by a special committee. The party shall also be required to comply with the procedures defined in the Plan. Furthermore, the Plan allows for the activation of provisions to halt the acquisition in question if, for example, it is not conducted in line with the Plan or it is deemed contrary to Epson's value as a company or the common interest of its shareholders.

To prevent the Board of Directors from making arbitrary decisions about using anti-takeover measures, the decision to invoke preventive measures is subject to the assessment of a special committee made up of highly independent Outside Directors. Actions of the special committee shall include examination of stock acquisition details, requesting information from the Board of Directors regarding alternative proposals, disclosing information to shareholders, and negotiating with parties intending to make acquisitions. The special committee shall advise the Board of Directors regarding the necessity of anti-takeover measures, and the Board of Directors shall promptly accept or reject a resolution to invoke preventive measures, by following that advice (except in cases where following such advice could be considered a violation of directors' obligation to exercise the duty of due care of a prudent manager).

### **7.3 Decisions made by the Board of Directors regarding specific actions and the justification for those decisions**

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

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

Specifically, the Plan guarantees appropriateness and objectivity, is reasonable, and supports Epson's corporate value and the common interests of its shareholders because among other things, a) it was updated after being approved by shareholders at the general shareholders' meeting;

b) it contains provisions for reasonable and objective implementation;

c) the special committee comprising Outside Directors with a high degree of independence from Epson management was established and activation of the Plan is subject to the assessment of that special committee;

d) the Board of Directors is required to follow the recommendations of the special committee regarding the necessity of anti-takeover measures (except in cases where following such advice could be considered a violation of directors' obligation to exercise the duty of due care of a prudent manager);

e) the special committee may solicit expert opinions from third parties at Epson's expense;

f) the period necessary for each process after an acquirer expressed the intention to purchase is specified;

g) in case of acquiring stock acquisition rights from non-qualified parties, it is clarified that any economic profit such as cash will not be delivered; and

h) the Plan was determined to be valid for approximately three years and may be abolished by the Board of Directors at any time. The Plan is not for keeping Epson executive officers in their posts.

## Consolidated Financial Statements

### Consolidated Statement of Financial Position (as of March 31, 2018)

(Millions of yen)

Item	As of March 31, 2018	(Reference) As of March 31, 2017	Item	As of March 31, 2018	(Reference) As of March 31, 2017
<b>Assets</b>			<b>Liabilities</b>		
<b>Current Assets</b>	<b>639,172</b>	<b>602,446</b>	<b>Current liabilities</b>	<b>322,387</b>	<b>351,389</b>
Cash and cash equivalents	229,678	221,782	Trade and other payables	154,759	141,633
Trade and other receivables	165,282	155,704	Income tax payables	7,296	7,263
Inventories	223,227	208,512	Bonds issued, borrowings and lease liabilities	36,082	76,200
Income tax receivables	2,942	2,476	Other financial liabilities	201	1,318
Other financial assets	1,513	754	Provisions	26,403	21,981
Other current assets	16,485	13,176	Other current liabilities	97,643	102,992
<b>Subtotal</b>	<b>639,129</b>	<b>602,406</b>	<b>Non-current liabilities</b>	<b>195,856</b>	<b>128,275</b>
Non-current assets held for sale	43	39	Bonds issued, borrowings and lease liabilities	130,483	70,371
<b>Non-current assets</b>	<b>394,178</b>	<b>371,940</b>	Other financial liabilities	1,613	1,586
Property, plant and equipment	297,927	275,195	Net defined benefit liabilities	42,321	45,281
Intangible assets	22,037	21,553	Provisions	8,954	6,209
Investment property	1,219	1,288	Other non-current liabilities	11,434	3,521
Investments accounted for using the equity method	1,546	1,438	Deferred tax liabilities	1,049	1,304
Net defined benefit assets	11	0	<b>Total liabilities</b>	<b>518,244</b>	<b>479,664</b>
Other financial assets	20,433	20,544	<b>Equity</b>		
Other non-current assets	5,299	5,486	<b>Equity attributable to owners of the parent company</b>	<b>512,727</b>	<b>492,196</b>
Deferred tax assets	45,701	46,433	Share capital	53,204	53,204
			Capital surplus	84,364	84,321
			Treasury shares	(30,803)	(30,812)
			Other components of equity	47,960	53,176
			Retained earnings	358,001	332,306
			<b>Non-controlling interests</b>	<b>2,378</b>	<b>2,526</b>
			<b>Total equity</b>	<b>515,106</b>	<b>494,722</b>
<b>Total assets</b>	<b>1,033,350</b>	<b>974,387</b>	<b>Total liabilities and equity</b>	<b>1,033,350</b>	<b>974,387</b>

Note: Figures less than one million yen are rounded down.

**Consolidated Statement of Comprehensive Income** (from April 1, 2017 to March 31, 2018)

(Millions of yen)

Item	Amount	(Reference) Amount in previous fiscal year
<b>Revenue</b>	<b>1,102,116</b>	<b>1,024,856</b>
<b>Cost of sales</b>	<b>(701,268)</b>	<b>(658,882)</b>
<b>Gross profit</b>	<b>400,848</b>	<b>365,974</b>
Selling, general and administrative expenses	(326,062)	(300,167)
Other operating income	4,860	5,421
Other operating expense	(14,643)	(3,335)
<b>Profit from operating activities</b>	<b>65,003</b>	<b>67,892</b>
Finance income	1,277	1,383
Finance costs	(3,691)	(1,858)
Share of profit of investments accounted for using the equity method	74	53
<b>Profit before tax</b>	<b>62,663</b>	<b>67,470</b>
Income taxes	(20,899)	(18,461)
<b>Profit from continuing operations</b>	<b>41,764</b>	<b>49,009</b>
Loss from discontinued operations	—	(582)
<b>Profit for the period</b>	<b>41,764</b>	<b>48,426</b>
Profit for the period attributable to owners of the parent company	41,836	48,320
Profit for the period attributable to non-controlling interests	(72)	106
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified subsequently to profit or loss, net of tax</b>	<b>4,626</b>	<b>13,005</b>
Remeasurement of net defined benefit liabilities (assets)	4,998	10,785
Net gain (loss) on revaluation of financial assets measured at FVTOCI	(371)	2,219
<b>Items that may be reclassified subsequently to profit or loss, net of tax</b>	<b>(4,809)</b>	<b>(5,450)</b>
Exchange differences on translation of foreign operations	(5,266)	(5,477)
Net changes in fair value of cash flow hedges	444	47
Share of other comprehensive income of investments accounted for using the equity method	13	(20)
<b>Total other comprehensive income, net of tax</b>	<b>(182)</b>	<b>7,555</b>
<b>Total comprehensive income for the period</b>	<b>41,581</b>	<b>55,982</b>
Total comprehensive income for the period attributable to owners of the parent company	41,612	56,028
Total comprehensive income for the period attributable to non-controlling interests	(30)	(46)

Note: Figures less than one million yen are rounded down.

**Consolidated Statement of Changes in Equity**  
(from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Equity attributable to owners of the parent company					
	Share capital	Capital surplus	Treasury shares	Other components of equity		
				Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI	Exchange differences on translation of foreign operations
Balance as of April 1, 2017	53,204	84,321	(30,812)	—	5,024	48,265
Profit for the period	—	—	—	—	—	—
Other comprehensive income	—	—	—	4,998	(371)	(5,294)
Total comprehensive income for the period	—	—	—	4,998	(371)	(5,294)
Acquisition of treasury shares	—	—	(2)	—	—	—
Dividends	—	—	—	—	—	—
Share-based payment transactions	—	43	11	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(4,998)	5	—
Total transactions with the owners	—	43	8	(4,998)	5	—
Balance as of March 31, 2018	53,204	84,364	(30,803)	—	4,658	42,970

	Equity attributable to owners of the parent company				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total equity attributable to owners of the parent company		
	Net changes in fair value of cash flow hedges	Total other components of equity				
Balance as of April 1, 2017	(112)	53,176	332,306	492,196	2,526	494,722
Profit for the period	—	—	41,836	41,836	(72)	41,764
Other comprehensive income	444	(223)	—	(223)	41	(182)
Total comprehensive income for the period	444	(223)	41,836	41,612	(30)	41,581
Acquisition of treasury shares	—	—	—	(2)	—	(2)
Dividends	—	—	(21,133)	(21,133)	(116)	(21,250)
Share-based payment transactions	—	—	—	54	—	54
Transfer from other components of equity to retained earnings	—	(4,992)	4,992	—	—	—
Total transactions with the owners	—	(4,992)	(16,141)	(21,081)	(116)	(21,197)
Balance as of March 31, 2018	331	47,960	358,001	512,727	2,378	515,106

Note: Figures less than one million yen are rounded down.

**(Reference) Consolidated Statement of Cash Flows** (from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Amount	Amount in previous fiscal year
<b>Cash flows from operating activities</b>		
Profit for the period	41,764	48,426
Depreciation and amortisation	49,993	43,679
Impairment loss (reversal of impairment loss)	2,091	239
Finance (income) costs	2,414	475
Share of (profit) loss of investments accounted for using the equity method	(74)	(53)
Loss (gain) on sales and disposal of property, plant and equipment, intangible assets and investment property	797	96
Income taxes	20,899	18,461
Decrease (increase) in trade receivables	(9,528)	(3,691)
Decrease (increase) in inventories	(17,199)	(10,729)
Increase (decrease) in trade payables	3,087	10,892
Increase (decrease) in net defined benefit liabilities	1,612	156
Other	9,887	8,399
<b>Subtotal</b>	<b>105,745</b>	<b>116,352</b>
Interest and dividends income received	1,279	1,414
Interest expenses paid	(1,038)	(981)
Payment for loss on litigation	(564)	—
Income taxes paid	(21,142)	(19,910)
<b>Net cash from (used in) operating activities</b>	<b>84,279</b>	<b>96,873</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investment securities	16	3,103
Purchase of property, plant and equipment	(69,237)	(70,637)
Proceeds from sales of property, plant and equipment	858	746
Purchase of intangible assets	(4,368)	(6,899)
Proceeds from sale of intangible assets	1	24
Proceeds from sale of investment property	9	1,088
Purchase of investments in subsidiaries	—	(2,743)
Other	(1,942)	(441)
<b>Net cash from (used in) investing activities</b>	<b>(74,661)</b>	<b>(75,759)</b>
<b>Cash flows from financing activities</b>		
Net increase (decrease) in current borrowings	11,590	(14,374)
Proceeds from non-current borrowings	49,908	500
Repayment of non-current borrowings	(50,000)	(500)
Proceeds from issuance of bonds issued	19,896	49,759
Redemption of bonds issued	(10,000)	(30,000)
Payments of lease obligations	(106)	(101)
Dividends paid	(21,133)	(21,299)
Dividends paid to non-controlling interests	(116)	(236)
Payments for purchase of subsidiaries' equity from non-controlling interests	—	(97)
Purchase of treasury shares	(2)	(10,340)
<b>Net cash from (used in) financing activities</b>	<b>37</b>	<b>(26,691)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,759)</b>	<b>(3,139)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,895</b>	<b>(8,716)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>221,782</b>	<b>230,498</b>
<b>Cash and cash equivalents at end of period</b>	<b>229,678</b>	<b>221,782</b>

## Non-Consolidated Financial Statements

### Balance Sheet (as of March 31, 2018)

(Millions of yen)

Item	As of March 31, 2018	(Reference) As of March 31, 2017	Item	As of March 31, 2018	(Reference) As of March 31, 2017
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>	<b>388,346</b>	<b>359,215</b>	<b>Current liabilities</b>	<b>198,644</b>	<b>230,588</b>
Cash and deposits	14,726	9,156	Notes payable - trade	4,439	6,818
Notes receivable - trade	160	191	Accounts payable - trade	107,944	102,690
Accounts receivable - trade	148,956	136,818	Current portion of bonds issued	10,000	10,000
Securities	120,000	116,500	Current portion of non-current borrowings	-	50,000
Merchandise and finished goods	6,577	4,036	Lease liabilities	1	3
Work in process	14,121	14,437	Accounts payable - other	46,044	34,015
Raw materials and supplies	21,396	22,271	Accrued expenses	7,048	7,068
Deferred tax assets	13,684	13,487	Income taxes payable	2,248	162
Short-term loans receivable	12,981	7,835	Deposits received	4,506	4,743
Accounts receivable - other	25,787	28,804	Provision for bonuses	13,270	11,904
Other	9,953	5,678	Provision for directors' bonuses	89	97
Allowance account for credit losses	-	(4)	Provision for product warranties	2,182	1,323
<b>Non-current assets</b>	<b>348,649</b>	<b>328,672</b>	Asset retirement obligations	148	-
<b>(Property, plant and equipment)</b>	<b>(162,572)</b>	<b>(148,862)</b>	Other	720	1,760
Buildings	50,951	50,551	<b>Non-current liabilities</b>	<b>164,477</b>	<b>103,083</b>
Structures	2,291	2,341	Bonds issued	80,000	70,000
Machinery and equipment	49,299	45,384	Non-current borrowings	50,500	500
Vehicles	82	84	Lease liabilities	4	2
Tools, furniture and fixtures	7,741	7,964	Provision for retirement benefits	29,625	29,589
Land	33,879	33,860	Provision for product warranties	507	9
Construction in progress	18,326	8,670	Asset retirement obligations	2,864	2,027
Other	0	5	Other	974	953
<b>(Intangible assets)</b>	<b>(7,338)</b>	<b>(9,120)</b>	<b>Total liabilities</b>	<b>363,122</b>	<b>333,671</b>
Software	6,056	7,335	<b>Net assets</b>		
Other	1,282	1,784	<b>Shareholders' equity</b>	<b>369,373</b>	<b>349,288</b>
<b>(Investments and other assets)</b>	<b>(178,738)</b>	<b>(170,689)</b>	<b>Share capital</b>	<b>53,204</b>	<b>53,204</b>
Investment securities	11,176	12,278	<b>Capital surplus</b>	<b>84,321</b>	<b>84,321</b>
Shares of subsidiaries and affiliates	132,806	125,548	Legal capital surplus	84,321	84,321
Long-term prepaid expenses	2,530	1,756	<b>Retained earnings</b>	<b>262,612</b>	<b>242,535</b>
Deferred tax assets	30,689	29,672	Legal retained earnings	3,132	3,132
Other	1,555	1,457	Other retained earnings	259,479	239,402
Allowance account for credit losses	(21)	(23)	Retained earnings brought forward	259,479	239,402
			<b>Treasury shares</b>	<b>(30,763)</b>	<b>(30,772)</b>
			<b>Valuation and translation adjustments</b>	<b>4,500</b>	<b>4,928</b>
			<b>Valuation difference on available-for-sale securities</b>	<b>4,155</b>	<b>5,027</b>
			<b>Deferred gains or losses on hedges</b>	<b>344</b>	<b>(99)</b>
			<b>Total net assets</b>	<b>373,873</b>	<b>354,216</b>
<b>Total assets</b>	<b>736,995</b>	<b>687,887</b>	<b>Total liabilities and net assets</b>	<b>736,995</b>	<b>687,887</b>

Note: Figures less than one million yen are rounded down.



**Statement of Income** (from April 1, 2017 to March 31, 2018)

(Millions of yen)

Item	Amount	(Reference) Amount in previous fiscal year
<b>Net sales</b>	<b>816,898</b>	<b>737,916</b>
<b>Cost of sales</b>	<b>730,757</b>	<b>670,734</b>
<b>Gross profit</b>	<b>86,140</b>	<b>67,181</b>
<b>Selling, general and administrative expenses</b>	<b>70,516</b>	<b>58,512</b>
<b>Operating income</b>	<b>15,623</b>	<b>8,668</b>
<b>Non-operating income</b>	<b>35,460</b>	<b>20,853</b>
Interest and dividend income	31,472	17,336
Foreign exchange gains	-	554
Other	3,988	2,962
<b>Non-operating expenses</b>	<b>7,812</b>	<b>4,138</b>
Interest expenses	534	565
Foreign exchange losses	4,091	-
Other	3,186	3,572
<b>Ordinary income</b>	<b>43,272</b>	<b>25,384</b>
<b>Extraordinary income</b>	<b>1,123</b>	<b>13,080</b>
Gain on sales of property, plant and equipment and intangible assets	52	161
Gain on extinguishment of tie-in shares	1,071	9,837
Gain on sales of investment securities	-	2,237
Other	-	842
<b>Extraordinary losses</b>	<b>1,456</b>	<b>7,996</b>
Loss on sales of property, plant and equipment and intangible assets	5	16
Loss on disposal of property, plant and equipment and intangible assets	361	302
Impairment loss	979	202
Loss on debt waiver to subsidiaries and affiliates	-	5,008
Other	111	2,466
<b>Income before income taxes</b>	<b>42,938</b>	<b>30,468</b>
Income taxes - current	2,711	1,141
Income taxes - deferred	(993)	(2,399)
<b>Total income taxes</b>	<b>1,718</b>	<b>(1,257)</b>
<b>Net income</b>	<b>41,220</b>	<b>31,725</b>

Note: Figures less than one million yen are rounded down.

**Statement of Changes in Net Assets**  
(from April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus	Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance as of April 1, 2017	53,204	84,321	3,132	239,402	242,535	(30,772)	349,288
Changes of items during the period							
Dividends	—	—	—	(21,144)	(21,144)	—	(21,144)
Net income	—	—	—	41,220	41,220	—	41,220
Acquisition of treasury shares	—	—	—	—	—	(2)	(2)
Disposal of treasury shares	—	—	—	—	—	11	11
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—
Total changes of items during the period	—	—	—	20,076	20,076	8	20,085
Balance as of March 31, 2018	53,204	84,321	3,132	259,479	262,612	(30,763)	369,373

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2017	5,027	(99)	4,928	354,216
Changes of items during the period				
Dividends	—	—	—	(21,144)
Net income	—	—	—	41,220
Acquisition of treasury shares	—	—	—	(2)
Disposal of treasury shares	—	—	—	11
Net changes of items other than shareholders' equity	(872)	444	(428)	(428)
Total changes of items during the period	(872)	444	(428)	19,657
Balance as of March 31, 2018	4,155	344	4,500	373,873

Note: Figures less than one million yen are rounded down.

## **Audit Reports**

### **Transcript of financial auditor's audit report on consolidated financial statements**

#### **Independent Auditor's Report**

April 27, 2018

To the Board of Directors of  
Seiko Epson Corporation

Ernst & Young ShinNihon LLC		
Designated and Engagement Partner,	Certified Public Accountant	Seiji Yamamoto
Designated and Engagement Partner,	Certified Public Accountant	Yoshiyuki Sakuma
Designated and Engagement Partner,	Certified Public Accountant	Yoshitomo Matsuura

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely the consolidated statement of financial position, the consolidated statement of comprehensive income, and the consolidated statement of changes in equity of Seiko Epson Corporation for the consolidated fiscal year from April 1, 2017 to March 31, 2018, including notes to the consolidated financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of consolidated financial statements in conformity with the latter part of paragraph 1 Article 120 of the Company Accounting Ordinance that allows companies to prepare consolidated financial statements with the omission of a part of the disclosure items required under Designated International Accounting Standards. This includes the improvement and application of the internal control that management deemed necessary to prepare and fairly present consolidated financial statements that are free from material misstatements caused by fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express independent opinions on consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we draw up a plan and perform the audit pursuant to the plan to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. Audit procedures are selected and applied depending on auditor judgment on the basis of the assessment of the risks of material misstatements of the consolidated financial statements arising from fraud or error. The purpose of the audit of the consolidated financial statements is not to express an opinion on the validity of internal control, but in assessing the risks, the auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the accounting policies adopted by management, application methods therefor and estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the consolidated financial statements referred to the above present fairly, in all material respects, the assets as well as income and losses in the period pertaining to consolidated financial statements of the corporate group which consists of Seiko Epson Corporation and its consolidated subsidiaries in conformity with the latter part of paragraph 1 Article 120 of the Company Accounting Ordinance that allows companies to prepare consolidated financial statements with the omission of a part of the disclosure items required under Designated International Accounting Standards.

**Interests**

There are no interests between the Company and us or engagement partners, which should be stated in compliance with the Certified Public Accountants Act.

## Transcript of financial auditor's audit report

### Independent Auditor's Report

April 27, 2018

To the Board of Directors of  
Seiko Epson Corporation

Ernst & Young ShinNihon LLC		
Designated and Engagement Partner,	Certified Public Accountant	Seiji Yamamoto
Designated and Engagement Partner,	Certified Public Accountant	Yoshiyuki Sakuma
Designated and Engagement Partner,	Certified Public Accountant	Yoshitomo Matsuura

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the financial statements, namely the balance sheet, the statements of income, and the statements of changes in net assets of Seiko Epson Corporation for the 76th fiscal year from April 1, 2017 to March 31, 2018, including notes to non-consolidated financial statements and supplementary schedules thereto.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of financial statements and supplementary schedules thereto in conformity with corporate accounting principles generally accepted in Japan. This includes the improvement and application of the internal control that management deemed necessary to prepare and fairly present financial statements and supplementary schedules thereto that are free from material misstatements caused by fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express independent opinions on financial statements and supplementary schedules thereto based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we draw up a plan and perform the audit pursuant to the plan to obtain reasonable assurance about whether the financial statements and the supplementary schedules thereto are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules thereto. Audit procedures are selected and applied depending on auditors' judgment on the basis of the assessment of the risks of material misstatements of the financial statements and the supplementary schedules thereto arising from fraud or error. The purpose of the audit of the financial statements and the supplementary schedules thereto is not to express an opinion on the validity of internal control, but in assessing the risks, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements and the supplementary schedules thereto in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the accounting policies adopted by management, application methods therefor and estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the financial statements and the supplementary schedules thereto referred to the above present fairly, in all material respects, the assets as well as income and losses in the period pertaining to such financial statements and the supplementary schedules thereto in conformity with corporate accounting principles generally accepted in Japan.

**Interests**

There are no interests between the Company and us or engagement partners, which should be stated in compliance with the Certified Public Accountants Act.

## **Transcript of the Audit & Supervisory Committee's audit report**

### **Audit Report**

The Audit & Supervisory Committee audited the Directors' execution of their duties during the 76th fiscal year, from April 1, 2017 to March 31, 2018, and hereby reports on its method and results as follows.

#### **1. Auditing Method and Contents Thereof**

With respect to the resolution of the Board of Directors concerning the matters stipulated in Article 399-13, Paragraph 1, Item 1 (ii) and (iii) of the Companies Act, as well as the system (internal control system) developed based on such resolution of the Board of Directors, we received regular reports regarding the status of formulation and operation of such system from Directors and other employees, etc., sought explanations as necessary, expressed opinion thereon, and executed audits through the following methods.

In addition, with regard to the internal control concerning financial reporting under the Financial Instruments and Exchange Act, we received reports regarding the evaluation of such internal control and audit status thereof from Directors, etc. and Ernst & Young ShinNihon LLC, and sought explanations as necessary.

- (1) In conformity with the principles of audits by the Audit & Supervisory Committee stipulated by the Audit & Supervisory Committee and in accordance with audit policies and the division of duties, etc., we, in coordination with the Internal Audit Department and other departments related to internal control, attended important meetings, received reports from Directors and other employees, etc., regarding the execution of their duties, sought explanations as necessary, inspected documents, etc., related to important decisions, and examined the operations and assets at the Company's Head Office and primary Business Offices. Furthermore, with regard to the Company's subsidiaries, the Audit & Supervisory Committee worked to communicate and exchange information with Directors, Audit & Supervisory Board Members, etc., of subsidiaries, and received reports from them as necessary.
- (2) With respect to the basic policy provided in Article 118, Item 3 (a) of the Ordinance for Enforcement of the Companies Act, and judgment and reasons for the initiatives provided in (b) of the same Item, in light of the status, etc., of deliberations in the Board of Directors and other meetings, further consideration of its content was given.
- (3) We monitored and verified whether the Financial Auditor had maintained its independence and conducted audits appropriately, received reports regarding the execution of their duties, and sought explanations as necessary. We received notification from the Financial Auditor that "Systems for Ensuring Appropriate Execution of Duties" (matters provided in each item of Article 131 of the Ordinance on Accounting of Companies) have been established in accordance with "Quality Control Standard for Auditing," (Business Accounting Council), etc., and sought explanations as necessary.

Based on the above, we examined the Business report and the supplementary schedules, the Consolidated Financial Statements (the Consolidated Statements of Financial Position, the Consolidated Statements of Comprehensive Income, the Consolidated Statements of Changes in Equity, and the Notes for the Consolidated Financial Statements, as well as the Non-Consolidated Financial Statements (the Non-Consolidated Balance Sheets, the Non-Consolidated Statements of Income, the Non-Consolidated Statements of Changes in Net Assets, and the Notes for the

Non-consolidated Financial Statements) and the supplementary schedules prepared in conformity with the latter part of paragraph 1 Article 120 of the Company Accounting Ordinance that allows companies to prepare consolidated financial statements with the omission of a part of the disclosure items required under Designated International Accounting Standards) for the fiscal year under review.

## 2. Audit Results

### (1) Results of Audit of Business Report, etc.

- 1) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.
- 2) No inappropriate conduct concerning the execution of duties by Directors or material facts in violation of laws, regulations or the Articles of Incorporation were found.
- 3) We found that the Board of Directors' resolutions concerning the internal control system are appropriate in content. We also found no matters requiring note on our part with respect to the execution of duties by Directors concerning the internal control system or the content of the Business Report concerning the internal control system, including the internal control concerning financial reporting.
- 4) We found no matters requiring note on our part with respect to the basic policy regarding persons who control decision on the Company's financial and business policies decisions, stated in the Business Report. The initiatives taken pursuant to Article 118, Item 3 (b) of the Ordinance for Enforcement of the Companies Act, stated in the Business Report, are in line with the said basic policy, and in our opinion, said basic policy is deemed not to harm the common interest of the Company's shareholders, nor is it for the purpose of maintaining the position of the Company's officers.

### (2) Results of Audit of Consolidated Financial Statements

We found that the methods and the results of the audit conducted by Financial Auditor, Ernst & Young ShinNihon LLC, are appropriate.

### (3) Results of Audit of Non-Consolidated Financial Statements and Supplementary Schedules

We found that the methods and the results of the audit conducted by Financial Auditor, Ernst & Young ShinNihon LLC, are appropriate.

May 14, 2018

Audit & Supervisory Committee, Seiko Epson Corporation

Full-Time Audit & Supervisory Committee Member: Noriyuki Hama

Outside Audit & Supervisory Committee Member: Michihiro Nara

Outside Audit & Supervisory Committee Member: Chikami Tsubaki

Outside Audit & Supervisory Committee Member: Yoshio Shirai

(Note) Audit & Supervisory Committee Members, namely, Mr. Michihiro Nara, Ms. Chikami Tsubaki and Mr. Yoshio Shirai are outside directors as prescribed in Article 2, Item (15) and Article 331, Paragraph 6 of the Companies Act.

End



Dear shareholders with Voting Rights

Internet Disclosure Information for  
the Notice of the 76th Ordinary General Meeting of Shareholders

**Notes to the Consolidated Financial Statements**

**Notes to the Non-consolidated Financial Statements**

(from April 1, 2017 to March 31, 2018)

**SEIKO EPSON CORPORATION**

In accordance with laws and regulations and Article 15 of the Articles of Incorporation,  
Notes to the Consolidated Financial Statements and Notes to the Non-consolidated  
Financial Statements are posted on the Company's website.

## **Notes to the Consolidated Financial Statements**

### **Significant Basis of Preparing Consolidated Financial Statements**

#### 1. Basis of Preparing Consolidated Financial Statements

The Company and its affiliates (“Epson”) prepares its consolidated financial statements on the basis of International Financial Reporting Standards (“IFRS”), in compliance with Paragraph 1 Article 120 of the Company Accounting Ordinance. In compliance with the second sentence of the Paragraph 1, certain disclosures and notes required by IFRS are omitted.

#### 2. Scope of Consolidation

Number of Subsidiaries: 84

The major subsidiaries of the Company are as follows:

Epson Sales Japan Corporation	Epson Direct Corporation
Miyazaki Epson Corporation	Tohoku Epson Corporation
Akita Epson Corporation	Epson Atmix Corporation
U.S. Epson, Inc.	Epson America, Inc.
Epson Electronics America, Inc.	Epson Portland Inc.
Epson Europe B.V.	Epson (U.K.) Ltd.
Epson Deutschland GmbH	Epson Europe Electronics GmbH
Epson France S.A.S.	Epson Italia S.p.A.
For. Tex S.r.l.	Epson Iberica, S.A.U.
Epson Telford Ltd.	Fratelli Robustelli S.r.l.
Epson (China) Co., Ltd.	Epson Singapore Pte. Ltd.
Epson Korea Co., Ltd.	Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.	P.T. Epson Indonesia
Epson (Thailand) Co., Ltd.	Epson Philippines Corporation
Epson Australia Pty. Ltd.	Epson India Pvt. Ltd.
Epson Precision (Hong Kong), Ltd.	Epson Engineering (Shenzhen) Ltd.
Epson Precision (Shenzhen) Ltd.	Orient Watch (Shenzhen) Ltd.
Tianjin Epson Co., Ltd.	Singapore Epson Industrial Pte. Ltd.
P.T. Epson Batam	P.T. Indonesia Epson Industry
Epson Precision (Thailand) Ltd.	Epson Precision (Philippines), Inc.
Epson Precision Malaysia Sdn. Bhd.	Epson Precision (Johor) Sdn. Bhd.

(Reason for the change in subsidiaries)

(Increase: 1 subsidiary)

One subsidiary has been added to the scope of consolidation for the new establishment.

Epson Vietnam Co., Ltd.

(Decrease: 2 subsidiaries)

Two subsidiaries have been excluded from the scope of consolidation due to mergers.

UTS Co., Ltd.

Epson El Paso, Inc.

3. Application of Equity Method

The affiliates accounted for using the equity method are as follows:

Epson & Nissin Travel Solutions Corporation

Shanghai Sanhuan Magnetics Co., Ltd.

4. Reporting Period of Subsidiaries

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

## 5. Accounting Policies

### (1) Basis and Methods of Valuation of Assets

#### 1) Financial Assets other than Derivatives

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

Financial assets are measured at their fair values and classified into financial assets measured subsequently at fair value and amortised cost at initial recognition.

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

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

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

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

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

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

##### (ii) Subsequent Measurement

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

##### (a) Financial Assets Measured at Amortised Cost

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

##### (b) Financial Assets Measured at Fair Value

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

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

##### (iii) Derecognition

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

##### (iv) Impairment

At the end of each fiscal year, Epson assesses whether there is any objective evidence that financial assets measured at amortised cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower.

Epson assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

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

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

## 2) Derivatives

Epson utilises a derivative, including forward foreign exchange contracts and non-deliverable forwards, to hedge foreign exchange and interest rate risks. Derivatives is 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 in the consolidated statement of comprehensive income. 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 in the consolidated statement of comprehensive income.

## 3) 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.

## (2) Methods of Depreciation/Amortisation of Assets

### 1) Property, Plant, and Equipment

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 12 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.

### 2) Intangible Assets

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.

### 3) Leased Assets

Leased asset is depreciated using the straight-line method over the shorter of the lease term and its estimated useful life.

### 4) Investment Property

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 property that is subject to depreciation is 35 years.

## (3) Accounting Basis for Provisions

Epson recognises provision when it has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits 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.

## (4) Accounting Method Regarding 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.

## (5) 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 rate 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 rate, while income and expenses of foreign operations are translated into Japanese yen at exchange rates at the dates of 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.

#### (6) 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.

##### 1) Fair Value Hedge

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

##### 2) Cash Flow Hedge

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

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

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

##### 3) Hedges of a Net Investment in Foreign Operations

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 instruments that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated statement of

comprehensive income, while the ineffective portion is recognised in profit or loss in the consolidated statement of comprehensive income. On the disposal of the foreign operation, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income is reclassified to profit or loss.

(7) Accounting Method Regarding 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 in the consolidated statement of comprehensive income and not reversed in a subsequent period.



## Consolidated Statement of Financial Position

1. Allowance account for credit losses directly subtracted from assets
 

Trade and other receivables	1,433 million yen
Other financial assets (non-current)	53 million yen
  
2. Accumulated Depreciation and Accumulated Impairment
 

Losses of Property, Plant and Equipment	888,685 million yen
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## Consolidated Statement of Changes in Equity

1. Total Number of Fully Paid Issued Shares as of the End of the Consolidated Fiscal Year Under Review
 

Common stock:	399,634,778 shares
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### 2. Cash Dividends

#### (1) Dividends Paid

Resolution	Class of shares	Total dividends	Dividends per share	Basis date	Effective date
Annual Shareholders Meeting held on June 28, 2017	Ordinary shares	10,572 million yen	30 yen	March 31, 2017	June 29, 2017
Board of Directors Meeting held on October 26, 2017	Ordinary shares	10,572 million yen	30 yen	September 30, 2017	November 30, 2017

- (2) Dividends whose basis date was during the consolidated fiscal year under review, but whose effective date is during the subsequent consolidated fiscal year

The Company presents the following proposal.

Resolution (scheduled)	Class of shares	Total dividends	Source of dividend funds	Dividends per share	Basis date	Effective date
Annual Shareholders Meeting to be held on June 27, 2018	Ordinary shares	11,276 million yen	Retained earnings	32 yen	March 31, 2018	June 28, 2018

## Financial Instruments

### 1. Status of 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 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 financial and general accounting department to the Executive Committee of the Company.

Epson's policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, Epson 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 mainly bonds receivable as investments of surplus funds and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuers' credit risks.

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

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

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

#### (4) Liquidity Risk

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

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

#### (5) Foreign Exchange Risk

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

1) 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.

2) 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.

3) 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 1) 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 2) and 3), in principle.

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

#### (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.

#### (7) Market Price Fluctuation Risk

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

Epson intends to hold equity instruments not for short-term trading but for long-term investment. Therefore, Epson does not sell the instruments actively.

## 2. Fair value of financial instruments

### (1) Fair value measurement

Fair values of financial assets and liabilities are measured as follows:

(Derivatives)

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

(Equity securities and bonds receivable)

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

(Borrowings)

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

(Bonds issued)

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

(Lease obligations)

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

(Other)

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

### (2) Fair value hierarchy

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

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

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

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

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

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

1) 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 table below approximate the carrying amounts.

(Millions of yen)

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

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

There were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during the fiscal year under review.

2) Financial instruments measured at fair value

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

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	—	1,080	—	1,080
Equity securities	12,713	—	2,528	15,242
Total	12,713	1,080	2,528	16,322
Financial liabilities measured at fair value				
Derivative financial liabilities	—	171	—	171
Total	—	171	—	171

There were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy during the fiscal year under review.

### Per Share Data

1. Equity attributable to owners of the parent company, per share      1,455.67 yen
2. Basic earnings per share      118.78 yen

Note: For the purpose of calculation of per share data, the shares of the Company held by BIP trust are accounted as treasury shares and the number of those shares are deducted from the number of ordinary shares at the end of the period and weighted-average number of ordinary shares outstanding during the period. The number of treasury shares owned by the Trust at the end of the fiscal year and the average number of shares for the period are 173,528 shares and 175,029 shares, respectively.

## Notes to the Non-consolidated Financial Statements

### **Significant Accounting Policies**

#### 1. Basis and Methods of Valuation of Assets

##### (1) Securities

Held-to-maturity debt securities

- Stated at amortised cost (straight-line method).

Shares of affiliates

- Stated at cost using the moving-average method.

Available-for-sale securities

Securities with market value

- Stated at market value based on market prices as of the closing date of the fiscal year under review. (Valuation gains or losses are directly included in a component of net assets. The cost of securities sold is calculated using the moving-average method.)

Securities with no market value

- Mainly stated at cost using the moving-average method.

##### (2) Derivatives

Stated at market value.

##### (3) Inventories

Mainly stated at cost based on the weighted-average method (balance sheet values are adjusted by writing down the book value where the profitability declines).

#### 2. Depreciation Method for Non-current Assets

##### (1) Property, Plant and Equipment (excluding leased assets)

Property, plant and equipment are depreciated using the straight-line method.

The estimated useful lives of major assets are as follows:

- Buildings: 10 to 35 years
- Machinery and equipment: 5 to 12 years

##### (2) Intangible Assets (excluding leased assets)

Intangible assets are amortised using the straight-line method.

The estimated useful life of major intangible assets is as follows:

- Software: 3 to 5 years

##### (3) Leased Assets

Leased assets relating to finance lease transactions without transfer of ownership are depreciated over the lease terms by the straight-line method, assuming the residual value is zero.

#### 3. Accounting Basis for Provisions

##### (1) Allowance account for credit losses

To provide a reserve for possible losses on receivables or loans, the Company records the allowance account for credit losses based on the historical default rates for ordinary receivables and on an estimate of collectability of specific doubtful receivables.

##### (2) Provision for bonuses

The provision for bonuses is recorded to accrue the bonuses to employees of the Company at an amount estimated to be incurred by the Company for the fiscal year under review.

##### (3) Provision for directors' bonuses

The provision for directors' bonuses is recorded to accrue the bonuses to Directors (excluding those who are not Audit & Supervisory Committee Members) of the Company at an estimated amount to be paid.



(4) Provision for product warranties

To provide for possible expenditures associated with product warranties, the Company records the provision for product warranties based on the rate of historical after-sales service contract expenses to sales in past fiscal years, as well as for other specific warranty provisions for specific businesses where future warranty expenses can be specifically estimated.

(5) Provision for loss on litigation

To provide for possible litigation-related expenditures, the Company records the provision 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 fiscal year under review.

(6) Provision for Retirement Benefits

To provide retirement benefits to employees of the Company, the provision for retirement benefits is recorded at an amount calculated based on the projected benefit obligations and plan assets at the end of the fiscal year under review.

Past service cost is amortised for the pro-rata amount computed by the straight-line method over a certain period (five years), which is within the average remaining service period of employees at the time of the occurrence in each fiscal year.

Actuarial gains or losses are amortised for the pro-rata amount computed by the straight-line method over a certain period (five years), which is within the average remaining service period of employees at the time of the occurrence in each fiscal year, commencing from the fiscal year following the fiscal year of occurrence.

4. Basis for Translating of Foreign Currency Denominated Assets and Liabilities into Japanese Yen

Monetary receivables and payables denominated in foreign currency are translated into Japanese yen at the spot exchange rate on the closing date of the fiscal year under review. Translation differences are recognised as profit or loss in the fiscal year under review.

5. Hedge Accounting

(1) Hedge Accounting Method

Gains or losses on hedging instruments measured at market value are deferred, in principle, as deferred gains or losses on hedges under net assets until such gains or losses on hedged items are recognised.

(2) Hedging Instruments and Hedged Items

Forward foreign exchange contracts and non-deliverable forwards: Amounts of foreign currencies deposited or withdrawn

(3) Hedge Policy

The Company enters into derivative contracts for hedging purposes to restrict foreign exchange fluctuation risks, which are mainly associated with sales denominated in foreign currencies while minimizing the amounts not covered by hedging through the use of netting and other measures.

(4) Assessment of Hedge Effectiveness

The assessment of hedge effectiveness is omitted because the market fluctuation of hedging instruments and hedged items is offset at the start of hedging and it continues to remain offset subsequently since the fluctuation rates of hedging instruments and hedged items are identical.

6. Accounting for Consumption Tax

The tax-exclusion method is used for the accounting of both national and local consumption taxes.

## Changes in Presentation

(Statement of Income)

“Loss on valuation of shares of subsidiaries and affiliates” (1,877 million yen for the previous fiscal year) which was presented as a separate line item under “Extraordinary losses” in the previous fiscal year is presented as “Other” under “Extraordinary losses” from the fiscal year under review due to a decrease in its monetary impact.

The amount of “Loss on valuation of shares of subsidiaries and affiliates” included in “Other” under “Extraordinary losses” for the fiscal year under review is 70 million yen.

## Balance Sheet

1. Accumulated Depreciation of Property, Plant and Equipment	611,464 million yen
2. Monetary Receivables from and Payables to Affiliates	
Short-term monetary receivables:	167,816 million yen
Long-term monetary receivables:	0 million yen
Short-term monetary payables:	95,157 million yen
Long-term monetary payables:	794 million yen

## Statement of Income

Transactions with Affiliates	
Sales to affiliates:	742,716 million yen
Purchases from affiliates:	444,881 million yen
Other operating transactions with affiliates:	32,755 million yen
Transactions with affiliates other than operating transactions:	33,332 million yen

## Statement of Changes in Net Assets

Number of Treasury Shares as of the End of the Fiscal Year under Review	
Treasury shares	47,406,139 shares

Note: The total number of treasury shares includes 173,528 shares of the Company's shares held by BIP trust.

## Tax-Effect Accounting

Significant Components of Deferred Tax Assets and Deferred Tax Liabilities:

(Millions of yen)

Deferred tax assets	
Loss carried forward	24,439
Non-current assets (impairment losses and excess of depreciation)	17,222
Provision for retirement benefits	9,020
Loss on valuation of shares	5,449
Provision for bonuses	4,025
Loss on valuation of inventories	3,293
Provision for product warranties	807
Lump-sum depreciable assets	271
Other	5,105
Subtotal	<u>69,635</u>
Valuation allowance	<u>(23,434)</u>
Total deferred tax assets	46,200
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(1,063)
Asset retirement cost corresponding to asset retirement obligations	(609)
Other	<u>(152)</u>
Total deferred tax liabilities	<u>(1,826)</u>
Net deferred tax assets	<u>44,374</u>

## Transactions with Related Parties

### Subsidiaries

(Millions of yen)

Company name	Ownership percentage of voting rights	Relationship with the Company	Description of transactions	Transaction amount	Account item	Fiscal year-end balance
Epson Sales Japan Corporation	Direct holding 100%	Sales of the Company's products; Interlocking directors	Sales of products (Note 1)	121,995	Accounts receivable - trade	18,758
			Lending of necessary funds (Note 2)	(Note 3)	Short-term loans receivable	8,190
Epson America, Inc.	Indirect holding 100%	Regional headquarters of the Americas; Sales of the Company's products; Interlocking directors	Sales of products (Note 1)	208,418	Accounts receivable - trade	47,316
Epson Europe B.V.	Direct holding 100%	Regional headquarters of Europe; Sales of the Company's products; Interlocking directors	Sales of products (Note 1)	158,830	Accounts receivable - trade	25,596
P.T. Indonesia Epson Industry	Direct holding 100%	Entrusted manufacturing of the Company's products; Interlocking directors	Purchases of products (Note 4)	126,338	Accounts payable - trade	19,867
					Accounts receivable - other	2,711
Epson Precision (Philippines), Inc.	Direct holding 100%	Entrusted manufacturing of the Company's products	Purchases of products (Note 4)	122,608	Accounts payable - trade	23,120
					Accounts receivable - other	2,325
Epson Precision (Thailand) Ltd.	Direct holding 100%	Entrusted manufacturing of the Company's products; Interlocking directors	Underwriting of capital increase (Note 5)	8,234	—	—

Terms and conditions of transactions and their policies

- Note 1: Selling prices are determined by subtracting an appropriate margin for the respective sales companies from market prices.
- Note 2: Lending of necessary funds and depositing of excess funds are made in accordance with the relevant rules under the system of borrowing and lending funds established by Epson.
- Note 3: Lending of necessary funds and depositing of excess funds are not stated in the “Transaction amount” as funds are transferred day by day under the system of borrowing and lending funds within Epson.
- Note 4: Purchase prices are determined by adding an appropriate profit for the manufacturing companies on the manufacturing costs.
- Note 5: Underwriting of capital increase is the subsidiary’s capital increase entirely underwritten by the Company.
- Note 6: The transaction amount does not include consumption taxes, whereas the fiscal year-end balance includes consumption taxes.

**Per Share Data**

- |                         |              |
|-------------------------|--------------|
| 1. Net Assets per Share | 1,061.45 yen |
| 2. Earnings per Share   | 117.03 yen   |

Note: For the purpose of calculation of per share data, the shares of the Company held by BIP trust are accounted as treasury shares and the number of those shares are deducted from the number of shares at the end of the period and weighted-average number of ordinary shares outstanding during the period. The number of treasury shares owned by the Trust at the end of the fiscal year and the average number of shares for the period are 173,528 shares and 175,029 shares, respectively.

## Others

### Business combinations

#### Common control transaction

The Company absorbed part of the businesses of Orient Watch Co., Ltd. (Orient Watch), a wholly-owned subsidiary of the Company, by way of absorption-type company split with an effective date of April 1, 2017.

#### (1) Overview of the transaction

##### 1) Name and outline of the business subject to the company split

Name of the business: Wearable Products Business

Outline of the business: Watch sales business (excluding Japan domestic sales)

##### 2) Date of the business combination

April 1, 2017

##### 3) Legal form of the business combination

The company split was an absorption-type company split where Orient Watch was the splitting company and the Company was the succeeding company.

##### 4) Name of the company after the business combination

Seiko Epson Corporation

##### 5) Other matters regarding the outline of the transaction

The Company has decided to absorb the watch sales business of Orient Watch (excluding Japan domestic sales) with the aim of further reinforcing its operational capabilities by optimising the allocation of management resources within Epson.

#### (2) Overview of the accounting treatment applied

In accordance with the “Accounting Standard for Business Combinations (ASBJ Statement No.21; September13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10; September13, 2013), the merger was processed as a common control transaction.

As a result of this transaction, gain on extinguishment of tie-in shares of 1,071 million yen was recorded under extraordinary income.