

Management Analysis of Financial Position, Operating Results and Cash Flows

1. Operating results overview

(1) Operating results

On the whole, the global economy continued its gradual recovery during the year under review. Regionally, the U.S. economy continued to steadily recover, fueled by an increase in consumer spending and improvement in the employment situation. The Latin American and European economies gradually recovered, and the Chinese economy showed signs of picking up. The Japanese economy continued to register signs of a gradual economic recovery, as consumer spending remained stable in response to a firm employment and income situation.

The situation in the main markets of Epson was as follows.

Inkjet printer demand continued to contract in Japan and Europe but was firm in the Americas. Demand for high-capacity ink tank printers expanded steadily. Large-format inkjet printer demand stayed firm. Serial-impact dot-matrix (SIDM) printer demand contracted in China after spiking last year with the enactment of B2V tax reforms. Demand also shrank in the Americas and Europe.

Projector demand shrank. In addition to the absence of major sporting events in Europe, demand from the education sector in some of the major countries in Europe contracted while North American retail market sales remained sluggish.

Demand for smart phones, one of the main markets for Epson's crystal devices for electronic products, contracted due to market maturation in China. Watch demand gradually recovered in Japan. Demand for watch movements was firm. Demand for industrial robots expanded, particularly in China.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥110.85 and ¥129.66, respectively. This represents a 2% devaluation of the yen against the dollar and a 9% devaluation of the yen against the euro compared to the same period last year.

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

(Billions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Change	Percentage of change	Main reason(s) for change
Revenue	1,024.8	1,102.1	77.2	7.5%	Boosted revenue in Printing Solutions Segment and increases caused by the impact of foreign exchange rates
Cost of sales	(658.8)	(701.2)	(42.3)	–	Changes in revenue and increases caused by the impact of foreign exchange rates
Gross profit	365.9	400.8	34.8	9.5%	
Selling, general and administrative expenses	(300.1)	(326.0)	(25.8)	–	Increases caused by the impact of foreign exchange rates
Business profit *	65.8	74.7	8.9	13.6%	Increases caused by the impact of foreign exchange rates
Other operating income and Other operating expense	2.0	(9.7)	(11.8)	–	Increases in foreign exchange losses and expenses caused by restructuring of overseas plants
Profit from operating activities	67.8	65.0	(2.8)	(4.3%)	
Finance income and Finance costs	(0.4)	(2.4)	(1.9)	–	Increases in foreign exchange losses
Profit before tax	67.4	62.6	(4.8)	(7.1%)	

(Billions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Change	Percentage of change	Main reason(s) for change
Income taxes	(18.4)	(20.8)	(2.4)	-	Increases mainly caused by a reversal of deferred tax assets accompanying U.S. tax reform
Profit for the period	48.4	41.7	(6.6)	(13.8%)	

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

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

Printing Solutions Segment

Printer business revenue increased.

Inkjet printer revenue continued to expand, as high-capacity ink tank printer unit shipments jumped in emerging economies and as increased market recognition sparked unit shipment growth in developed countries, as well. Foreign exchange effects also boosted inkjet revenue. Consumables revenue moved sideways year on year, as increased sales of ink bottles for high-capacity ink tank printers and foreign exchange effects offset a decline in consumer printer ink cartridges revenue.

Page printer sales decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of a sharper focus on selling high added value models.

SIDM printer revenue declined compared to last year, when there was special demand in the Chinese tax collection system market.

Revenue in the professional printing business increased.

Total revenue from large-format inkjet printers increased on solid demand in the growing signage, textile, and label printer markets. Foreign exchange effects also had a positive effect on revenue. Consumables revenue also increased owing to an increase in unit shipments and to foreign exchange effects.

POS system product revenue increased owing primarily to unit shipment growth from contract wins in North America and beneficial effects of foreign exchange.

Segment profit in the printing solutions segment was squeezed by a decline in sales of SIDM printers and soaring raw materials costs yet still rose due to sales growth in high-capacity ink tank inkjet printers and large-format inkjet printers in combination with foreign exchange effects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥736.6 billion, up 7.3% year on year. Segment profit was ¥94.8 billion, up 12.8% year on year.

Visual Communications Segment

Visual communications revenue increased.

Total 3LCD projector revenue increased chiefly because firm demand for Epson's laser projectors in the high-brightness segment caused an upsurge in unit shipments of high added value products. Foreign exchange effects also positively affected revenue.

Segment profit in the visual communications segment increased chiefly as a result of growth in unit shipments of high-lumen and other projectors, as well as foreign exchange effects.

As a result of the foregoing factors, revenue in the visual communications segment was ¥198.8 billion, up 10.7 % year on year. Segment profit was ¥24.4 billion, up 51.3 % year on year.

Wearable & Industrial Products Segment

Revenue in the wearable products business decreased slightly from last year. Although positively affected by foreign exchange, it was not enough to compensate for a drop in retail demand in North America and other factors.

Revenue in the robotics solutions business increased owing to industrial robot order growth in China and foreign exchange effects.

Revenue in the microdevices business increased. Although positively affected by foreign exchange, crystal device revenue decreased due to a decline in unit shipments to manufacturers of cell phones and other personal electronics. Semiconductor revenue increased owing to increased market demand and unit shipment growth, as well as foreign exchange effects.

Segment profit in the wearable & industrial products segment decreased, as declines in sales of wearable products and quartz devices more than offset increased sales in the robotic solutions and semiconductor businesses and foreign exchange effects.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥167.3 billion, up 5.5% year on year. Segment profit was ¥7.1 billion, down 8.4% year on year.

Other

Other revenue amounted to ¥0.9 billion, down 37.9 % year on year. Segment loss was ¥0.5 billion, compared to a segment loss of ¥0.4 billion year on year.

Adjustments

Adjustments to the total profit of segments amounted to negative ¥51.1 billion. (Adjustments in the previous fiscal year were negative ¥41.7 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the segments and expenses associated with things such as new businesses and corporate functions.

(2) Cash flow performance

Net cash from operating activities during the year totaled ¥84.2 billion (compared to ¥96.8 billion in the previous fiscal year). This was due to factors including an increase in depreciation and amortisation totaled ¥49.9 billion, in addition to profit for the year of ¥ 41.7 billion.

Net cash used in investing activities totaled ¥74.6 billion (compared to ¥75.7 billion in the previous fiscal year), mainly because Epson used ¥73.6 billion in the purchase of property, plant and equipment and purchase of intangible assets.

Net cash from financing activities totaled ¥0.0 billion (compared to ¥26.6 billion used in the previous fiscal year). This was due to factors including proceeds from issuance of bonds issued totaling ¥19.8 billion and net increase in current borrowings totaling ¥11.5 billion, despite there being redemption of bonds issued totaling ¥10.0 billion and dividends paid totaling ¥21.1 billion.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥229.6 billion (compared to ¥221.7 billion at the end of the previous fiscal year).

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

<https://global.epson.com/IR/>

2. Manufacturing, orders received and sales

(1) Actual manufacturing

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

Business segment	Year ended March 31, 2018 (From April 1, 2017, to March 31, 2018) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	741,665	109.1
Visual communications	208,598	118.9
Wearable & Industrial products	160,060	108.5
Total for the segments	1,110,324	110.7
Other	176	29.6
Total	1,110,500	110.7

Notes

1. The above figures are based on sales prices. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. The above figures include outsourced manufacturing.

(2) Orders received

Epson's policy is to manufacture products based on sales forecasts. Accordingly, this section does not apply.

(3) Actual sales

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

Business segment	Year ended March 31, 2018 (From April 1, 2017, to March 31, 2018) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	736,239	107.3
Visual communications	198,889	110.7
Wearable & Industrial products	158,535	105.2
Total for the segments	1,093,663	107.6
Other	187	23.8
Total	1,093,851	107.5

Notes

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

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

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

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

(1) Operating results, etc.

Financial position

Total assets at the end of the fiscal year were ¥1,033.3 billion, an increase of ¥58.9 billion from the previous fiscal year end. This increase was mainly due to a ¥22.7 billion increase in property, plant and equipment, a ¥14.7 billion increase in inventories, a ¥9.5 billion increase in trade and other receivables, a ¥7.8 billion increase in cash and cash equivalents, and a ¥3.3 billion increase in other current assets. Segment assets of the printing solutions segment at the end of the fiscal year under review were ¥410.4 billion, an increase of ¥33.7 billion compared to the end of the last fiscal year, because of an increase in property, plant and equipment in conjunction with capital expenditures principally for the purpose of new products and enhancement of production capacity, and other factors. Likewise, segment assets of the visual communications segment amounted to ¥127.3 billion, up ¥12.3 billion compared to the previous fiscal year end, and those of the wearable & industrial products segment totaled ¥142.3 billion, up ¥8.3 billion compared to the previous fiscal year end. Total liabilities were ¥518.2 billion, up ¥38.5 billion compared to the end of the last fiscal year. Although other current liabilities decreased by ¥5.3 billion and net defined benefit liabilities decreased by ¥2.9 billion, total liabilities increased primarily because of a ¥19.9 billion increase in bonds issued, borrowings and lease liabilities under current liabilities and non-current liabilities, an ¥13.1 billion increase in trade and other payables, a ¥7.9 billion increase in other non-current liabilities, and a ¥7.1 billion increase in provisions for current liabilities and non-current liabilities.

The equity attributable to owners of the parent company totaled ¥512.7 billion, a ¥20.5 billion increase compared to the previous fiscal year end. Although dividends paid totaled ¥21.1 billion and there was a ¥5.2 billion decrease in other components of equity, primarily consisting of exchange differences on translation of foreign operations associated with a rise in the value of the yen, equity attributable to owners of the parent company increased mainly because retained earnings increased due to the recording of a ¥41.8 billion profit for the period and because of a ¥4.9 billion remeasurement of net defined benefit liabilities (assets)

Working capital, defined as current assets less current liabilities, was ¥316.7 billion, an increase of ¥65.7 billion compared to the end of the previous fiscal year.

Operating results

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

Cash flow performance

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

(2) Capital resources and liquidity

Epson plans to allocate ¥83.0 billion to capital expenditures for the fiscal year ending March 31, 2019, and required funds will be covered by current funds in hand. The amount of planned capital expenditures for each segment is as described in "Information on the Company 4. Plans for new additions or disposals."

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

The balance of interest-bearing debt at the end of the fiscal year under review was ¥166.5 billion, up ¥19.9 billion compared to the previous fiscal year end, due to an increase in issuance of bonds and borrowings, despite redemption of bonds. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥229.6 billion, up ¥7.8 billion compared to the end of the last fiscal year, giving Epson sufficient liquidity.

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

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

As stated in “Management Analysis of Financial Position, Operating Results and Cash Flows 5. Management policy, business environment and issues to be addressed, etc.,” Epson will aim to achieve, for the 2025 fiscal year, ¥1,700 billion in revenue, ¥200 billion in business profit, a 12% return on sales (business profit/revenue), and a 15% return on equity (profit for the period/equity attributable to owners of the parent company), assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, by striving to promote a growth strategy based on the Epson 25 Corporate Vision and the mid-range business plan for achieving the vision and strengthen its business infrastructure and financial structure.

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

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

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

(Expenses associated with post-employment benefits)

Under Japanese accounting standards, Epson wrote off actuarial gains and losses and past service costs over a certain period of time. Under IFRS, remeasurement of net defined benefit liabilities (assets) is recognized in full as other comprehensive income in the period in which this item is transferred to retained earnings immediately. Past service costs are recognized in profit and loss either in the period when the plan is amended or curtailed, or in the period when associated restructuring costs or termination benefits are recognized, whichever is earlier. Due to these effects, the cost of sales and selling, general and administrative expenses, and finance costs in the previous fiscal year increased by ¥0.4 billion when calculated based on IFRS rather than Japanese standards. The cost of sales and selling, general and administrative expenses, and finance costs in the fiscal year increased by ¥2.3 billion.

4. Research and development activities

Epson conducts research and development to create products and services that offer value that exceeds customer expectations. We seek to create value by driving advances in Micro Piezo printheads, microdisplays, sensors, and robotics, all of which are unique core technologies that evolved from Epson's rich legacy of efficient, compact, and precision technologies. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.

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

Total R&D spending during the fiscal year was ¥50.3 billion. The printing solutions segment accounted for ¥18.0 billion, the visual communications segment for ¥10.0 billion, and the wearable and industrial products segment for ¥7.1 billion. The "other" segment and corporate segment accounted for the remaining ¥15.0 billion. The main R&D accomplishments in each segment are described below.

Printing solutions segment

In the printer business, Epson launched an A4 compatible business inkjet multifunction printer that is both space-saving and has high ink capacity. This product is equipped with an ink pack system that allows for higher ink capacity than ink cartridges and by installing the ink packs in the lower section of the printer, it's possible to simultaneously save space and increase ink capacity. Also, Epson achieved the fastest first-page printing speed among Epson business inkjet printers¹ with the first page taking 5.3 seconds when printing in color² and 4.8 seconds when printing in black and white². Furthermore, it has an increased range of compatible paper types, is equipped with the ability to handle paper types suitable for various tasks, and has a simple printing process and architecture that is only possible with inkjet. Because the printing process does not rely on heat, using a non-contact printing process that sprays ink onto the paper, the printer offers outstanding environmental performance.

In addition, Epson launched new inkjet printer products in the Japanese domestic market equipped with high-capacity ink tanks (eco tank). These included a compact A4 compatible multifunction unit, the first A3 compatible³ multifunction unit model equipped with a high-capacity ink tank, and an A3 extra compatible⁴ multifunction unit for business. These new product models reduce the inconvenience of changing ink cartridges for customers that do a lot of printing and are equipped with large-capacity ink tanks that allow customers to print documents and photos at low cost and without hesitation. They are able to print clear and clean characters because all models are loaded with clear black pigment ink. Also, models equipped with PrecisionCore printheads can achieve high-resolution printing on plain paper at 600dpi enabling printing tasks with fine lines, such as detailed characters and blueprints, to be reproduced with stunning clarity.

In the professional printing business, Epson launched a new product, a large format inkjet printer appropriate for design and proof processes and the production of high-resolution posters. With this product, color reproduction is possible throughout the process, from design to printing, which enables process simplification by reducing the time spent checking colors. In this way, said product contributes to improving the work flow efficiency of printing operations, from design to proofing.

Also, Epson launched a new sublimation transfer printer product, a high-end model equipped with two PrecisionCoreTFP printheads. The basic performance and convenience of this product were further improved by combining Epson Precision Dot, an original technology developed based on Epson's many years of experience with photographic image technology related to inkjet printers, and Epson's genuine software RIP, Epson Edge Print.

Epson also launched a new garment printer product with improved productivity and ease of maintenance reflecting customer requests. New to this product is a function that keeps T-shirts flat and reduces setting time with a setting method that uses a cloth sheet and *baren*⁵. This product is also capable of printing that is both high-concentration and high-speed using the Double Strike printing function in which color ink and white ink are used in combination. Furthermore, Epson improved ease of maintenance by, for example, newly installing a filter to the automatic ink circulation system and by automating absorption cap cleaning by adding a cleaning cartridge. As a result, Epson reduced downtime and achieved stable operation of the aforementioned product.

¹ Among Epson's lineup for business inkjet printers as of January 16, 2018.

- ² Please refer to Epson's website for details regarding the calculation criteria for printing time of the first sheet.
- ³ The scanner is A4 compatible.
- ⁴ The scanner is A3 compatible.
- ⁵ Reduces unevenness by keeping T-shirts flat when set on a cloth sheet.

Visual communications segment

In regard to the 3LCD projectors for business, as part of efforts to strengthen the lineup for models equipped with a laser light source, Epson launched a bright model intended for permanent installation appropriate for use in wide open spaces such as large meeting rooms and concert halls, and launched a wall-mounted ultra-short throw projector model that can be used not just in meeting rooms and classrooms but can also be used for digital signage and ambiance enhancement at retail and entertainment facilities. In regard to the high-lumen (15,000lm (lumen)) model intended for permanent installation, Epson achieved decreased size and increased efficiency and succeeded in making it compact and lightweight with brightness increased by approximately 50% when compared to the lamp light source⁶ in Epson's previous models, and volume reduced by approximately 30%. As for the wall-mounted ultra-short throw projector model, among all 4,000lm devices, this model is Epson's first model equipped with a laser light source. This product can project clear and vivid images even in a well-lit room and due to being high resolution, WUXGA (1920×1200), it can enlarge projected images, including high-definition diagrams and charts with many items, and maintain clarity. Furthermore, when projecting a 70 inch image, it's possible to set the projector almost directly above the surface being projected onto, as the product has a projection distance of about 41cm. As such, it's less likely for a nearby person to cast a shadow on the projection and there's no risk of looking into a bright light.

Also, Epson announced a new projector product equipped with a laser light source, a lighting model for the ambiance enhancement market. This product is the first projector Epson provides that can not only project images but also be used as a spotlight. Using a cylindrical shape that feels natural in most spaces, this projector can project onto things other than a screen such as tables, display cases and products. Also, it's easy to customize the projected image to be, for example, a circle or a window shape and due to its exceptional ease of installation, it's possible to use it for new ambiance enhancement using imagery in various locations such as offices, stores, retail facilities, and restaurants.

⁶ When comparing with the EB-Z10005U and the EB-Z10000U.

Wearable and industrial products segment

In the wearable products business, Epson newly created TRUME, a brand that aims to create the ultimate analog watch using leading-edge technology, and launched an original analog watch that displays each sensor data using analog needles. This watch has various sensors, such as a GPS sensor, an air pressure/elevation sensor, and a magnetic north sensor, installed and functioning in it. It can continue to function, even while receiving additional data from the expanded sensor device, as it is provided power by a built-in solar panel.

In the robotic solutions business, Epson commercialized an autonomous dual-arm robot with the product concept of "seeing, sensing, thinking, and working." Unlike most industrial robots, which are conventionally installed in a fixed location on a line to perform a given task, this product can be moved to wherever it's needed to take the place of a single human worker and carry out jobs such as assembly and transferring. In this way, it enables the automation of manufacturing that previously would have been difficult to automate. Epson also developed a 6-axis industrial robot (vertical articulated robot) and a SCARA (Selective Compliance Assembly Robot Arm) robot (horizontal articulated robot) that meet many of the needs of a manufacturing facility. As a result of efforts such as independently developing a folding arm and internalizing the controller within the robot itself, these products are able to contribute to reducing space used in factories and improving productivity.

In the micro-devices business, Epson developed a real time clock module⁸ that has an internal digital temperature compensated crystal oscillator (DTCXO⁷) for automotive and industrial applications. In general, there is a tradeoff between lower energy consumption and higher precision when making real time clock modules. However, with this product Epson succeeded in reducing electricity consumption and expanding operating temperature range by using manufacturing technology of tiny, accurate tuning fork crystal units and new IC design technology that enables the crystal unit to be driven at low power.

⁷ A digital temperature compensated crystal oscillator is an oscillator (crystal unit and oscillation circuit) with a function that applies corrections to frequencies, which change in response to the ambient temperature of the crystal unit.

⁸ Epson's real-time clock modules are single-package products that have a real-time clock IC with clock, calendar, and other functions and an integrated 32.768-kHz crystal unit.

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

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

(1) Fundamental management policy

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

Epson Management Philosophy

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

EXCEED YOUR VISION

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

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

Epson began the 2016 fiscal year under a new 10-year corporate vision and a new mid-range business plan. The Epson 25 Corporate Vision describes what Epson would like to achieve by the start of the 2025 fiscal year. Meanwhile, the Epson 25 Mid-Range Business Plan (FY2016-2018) 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 communication technology will interconnect vast amounts of information on the Internet, causing cyber space to expand indefinitely. As a manufacturing company that specializes in generating value in the real world, Epson will play an important role in “creating a new connected age of people, things and information” by using attractive, advanced products as leverage to collaborate with IT companies and increase the value of the technologies it provides to customers.

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

In line with this vision, Epson will provide value in the form of smart technologies, the environment, and performance in four areas of innovation: inkjet innovation, visual innovation, wearables innovation and robotics innovation. Epson will drive innovations in these areas by achieving the vision in each of its businesses. To support the realization of Epson 25, Epson will further strengthen its business infrastructure and company-wide information systems in the areas of human resources, technology, manufacturing, sales, and the environment. Epson set out financial performance targets in Epson 25. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2025 fiscal year, ¥1,700 billion in revenue, ¥200 billion in business profit, a 12% return on sales (business profit*/revenue), and a 15% return on equity (profit for the period/equity attributable to owners of the parent company).

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

Vision in Each Business

Printing: inkjet innovation

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

Visual communications: visual innovation

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

Wearables: wearables innovation

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

Robotics: robotics innovation

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

Microdevices: support the four innovations

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

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

The Epson 25 Mid-Range Business Plan (FY2016-2018) is a roadmap for the first phase of work toward achieving the Epson 25 vision. During this phase Epson will sustain the momentum it gained by strategically

adopting new business models and developing new market segments under the previous corporate vision. At the same time, it will move forward on product development while aggressively investing as needed to provide a solid business foundation.

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

(3) Basic policy regarding company control

Epson's board of directors agreed on a basic policy governing persons who control our financial and business policy decisions (hereinafter the "basic policy").

① Overview

Epson believes that its shareholders should be determined through free trade on the market. Therefore, the decision as to whether to accept a takeover offer that would allow another party to acquire a controlling share of Epson and thus gain power over the Company's financial and business decisions should ultimately be put before the shareholders.

To ensure and enhance the corporate value and common interests of shareholders, Epson believes it is essential for Epson's directors, managers, and employees to work as a team to create value, to pursue the Epson tradition of creativity and challenge, and to earn and keep the trust of its customers.

Not all large-scale acquisitions of shares enhance the value of the company whose shares are being acquired, nor do they always serve the common interests of shareholders. Epson recognizes the need to use all necessary and appropriate means to protect the Company's corporate value and the common interests of its shareholders against persons seeking to improperly acquire large numbers of shares in an attempt to gain control over decisions concerning the Company's financial and business policies.

② Summary of measures in support of the basic policy

1) Specific actions in support of the basic policy

In March 2016 the Company established the Epson 25 Corporate Vision, a document that describes Epson's goals over the decade between the 2016 and 2025 fiscal years. At the same time, the Company established the Epson 25 Mid-Range Business Plan (FY2016-2018), a three-year plan for the first phase of work toward achieving the Epson 25 vision.

Under the Phase 1 Mid-Range Business Plan, Epson will build a robust foundation for business by sustaining the results of successful strategic initiatives pursued to date, developing products for the future, and aggressively investing as needed.

2) Efforts to deter parties who are deemed inappropriate based on Epson's basic policy in gaining control over the Company's financial and business policy decision making

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

The purpose of the Plan is to prevent large-scale acquisitions of Epson stock certificates by having shareholders decide whether to allow such acquisitions and by giving the Epson board of directors the time and information they need to present shareholders with an alternative proposal and enable the board to negotiate with the acquirer on behalf of shareholders. Specifically, a party that intends to acquire or make a takeover bid for 20% or more of stock certificates outstanding shall be required to submit in advance to the Epson board of directors a statement of intent as well as sufficient and necessary information for decision making on the part of shareholders and for evaluation and consideration by a special committee. The party shall also be required to comply with the procedures defined in the Plan. Furthermore, the Plan allows for the activation of defensive measures if, for example, the proposed acquisition is not conducted in line with the Plan or it is deemed contrary to Epson's corporate value or the common interest of its shareholders.

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

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

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

6. Dividend policy

The Company strives to sustain business growth through the creation of customer value and to generate stable cash flow by improving profitability and using management resources efficiently. While the top priority is on strategic investment in growth, the Company also actively returns profits in parallel with its efforts to build a robust financial structure that is capable of withstanding changes in the business environment.

In line with this policy, the Company has set a consolidated dividend payout ratio in the range of 40% as a medium-term target, the ratio based on profit after an amount equivalent to the statutory effective tax rate is deducted from business profit, a profit category that shows profit from the Company's main operations (and which is very similar to operating income under Japanese accounting standards, both conceptually and numerically). The Company intends to be more active in giving back to shareholders by agilely purchasing treasury shares as warranted by share price, the capital situation, and other factors.

The Company's dividend policy is to pay cash dividends twice a year. The year-end dividend is determined by resolution of the general shareholders' meeting and the interim dividend is determined at a meeting of the board of directors.

Revenue and business profit, the latter of which indicates the true strength of a business, grew year on year primarily owing to strategic progress and foreign exchange effects. The Company therefore has paid an annual dividend of ¥62 per share, an increase of ¥2 per share compared to last year.

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

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

Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 26, 2017, by resolution of the board of directors	10,572	30
June 27, 2018, by resolution of the general shareholders' meeting	11,276	32

Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 26, 2017 includes ¥5 million of cash dividends for the Company's shares held through the BIP (Board Incentive Plan) trust (hereinafter referred to as the "BIP trust").
2. The total amount of dividends to be paid based on the resolution of the general shareholders' meeting on June 27, 2018 includes ¥5 million of cash dividends for the Company's shares held through the BIP trust.