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. Europe and Latin America also gradually recovered, though the economies of some countries, such as Argentina, regressed. The Chinese economy had been picking up, but trade friction with the U.S. as well as other factors caused capital expenditure demand to decelerate. The Japanese economy continued to register signs of a gradual economic recovery, as consumer spending picked up in response to a stable employment and improved income situation. There is concern of further economic deceleration moving forward. An expansion of the effects of U.S.-China trade friction, the direction of Brexit, and political risks in Latin America are among the factors fueling a growing sense of uncertainty.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥110.86 and ¥128.40, respectively. The yen-dollar exchange rate was nearly the same as in the previous period while the value of the yen against the euro increased by 1%.

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

(Billions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019	Change	Percentage of change	Main reason(s) for change
Revenue	1,102.1	1,089.6	(12.4)	(1.1%)	Decreased revenue in Wearable & Industrial Products Segment and decreases caused by the impact of foreign exchange rates
Cost of sales	(701.2)	(677.0)	24.2	–	Changes in revenue and decreases caused by the impact of foreign exchange rates
Gross profit	400.8	412.6	11.7	2.9%	
Selling, general and administrative expenses	(326.0)	(342.1)	(16.0)	–	Increases caused by the strategic investment in future growth
Business profit *	74.7	70.4	(4.2)	(5.7%)	Decreases caused by the strategic investment in future growth and impact of foreign exchange rates
Other operating income and Other operating expense	(9.7)	0.8	10.6	–	Decreases in foreign exchange losses and increases caused by gain on sales of idle properties
Profit from operating activities	65.0	71.3	6.3	9.8%	
Finance income and Finance costs	(2.4)	0.5	2.9	–	Decreases in foreign exchange losses
Profit before tax	62.6	72.0	9.3	15.0%	
Income taxes	(20.8)	(17.9)	2.9	–	Decreases compared with income taxes in the previous fiscal year which include the impact of increases caused by a reversal of deferred tax assets accompanying U.S. tax reform
Profit for the period	41.7	54.0	12.2	29.4%	

* 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 decreased. Inkjet printer revenue as a whole moved sideways. Although revenue from high-capacity ink tank inkjet printers grew with ongoing expansion of sales in both emerging and developed markets, these gains were offset by a combination of negative foreign exchange effects and shrinking revenue from ink cartridge printers, the result of limiting promotions to appropriate level and maintaining prices even as competitors aggressively stepped up their own price promotions. Consumables revenue decreased. Although revenue from ink bottles for high-capacity ink tank inkjet printers grew, ink cartridge sales slipped along with the consumer ink cartridge printer install base. Foreign exchange effects also negatively impacted consumables revenue. Serial impact dot matrix (SIDM) printer revenue declined as the market contracted.
Revenue in the professional printing business was consistent with the previous period. Large-format inkjet printer revenue as a whole was flat year on year, as solid sales in the growing signage and textile printer markets were offset by a combination of negative foreign exchange effects and weaker sales in the photo and graphics markets, where competitors aggressively conducted promotion activities. Point-of-sale (POS) system product revenue was flat year on year.

Segment profit in the printing solutions business was flat year on year despite the revenue growth in high-capacity ink tank inkjet printers and the positive effects of the change in the method of accounting for printhead inventory devaluations. This sideways movement is mainly attributable to strategic investment in future growth and the negative foreign exchange effects resulting from plummeting currencies in Latin America and some other emerging nations.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥723.6 billion, down 1.8% year on year. Segment profit was ¥94.5 billion, down 0.4% year on year.

Visual Communications Segment
Revenue in the visual communications segment increased, although it was tempered by negative foreign exchange effects. The increase was largely due to an improved model mix in which high added value 3LCD laser projectors in the high-brightness zone accounted for a higher percentage of total unit shipments, as well as to strong sales of ultra-short throw education projectors.

Segment profit in the visual communications segment declined because the effects of higher revenue were offset by strategic investment in future growth and negative foreign exchange effects.

As a result of the foregoing factors, revenue in the visual communications segment was ¥203.3 billion, up 2.2% year on year. Segment profit was ¥21.2 billion, down 13.1% year on year.

Wearable & Industrial Products Segment
Revenue in the wearable products business decreased due to sluggish demand for movements and a slow overseas watch market.
Revenue in the robotics solutions business decreased mainly due to trade friction between the U.S. and China, which caused a pullback in capital expenditure in the Greater China Region.

Revenue in the microdevices business decreased. Semiconductor revenue was flat year on year, but quartz business revenue fell on lower demand for crystal devices in the contracting Chinese mobile and consumer electronics markets.

Segment profit in the wearable & industrial products segment declined in response to lower crystal device and robotics solutions revenue and foreign exchange effects.
As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥163.4 billion, down 2.3% year on year. Segment profit was ¥5.5 billion, down 23.0% year on year.

Other
Other revenue was flat year on year, amounting to ¥0.9 billion, as was the segment loss of ¥0.5 billion.

Adjustments
Adjustments to the total profit of reporting segments amounted to negative ¥50.2 billion. (Adjustments in the same period last year were negative ¥51.1 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the reporting segments and expenses associated with things such as new businesses and corporate functions.

(2) Cash flow performance
Net cash from operating activities during the year totaled ¥76.9 billion. The total for the previous year was ¥84.2 billion. Whereas Epson recorded ¥54.0 billion in profit for the year, there was a ¥24.9 billion increase in inventories and ¥17.5 billion in income taxes paid. Net cash was positively affected by the recording of ¥56.1 billion in depreciation and amortization.
Net cash used in investing activities totaled ¥82.7 billion (compared to ¥74.6 billion in the previous fiscal year). The Company used ¥90.3 billion in the acquisition of property, plant and equipment, and the purchase of intangible assets. Meanwhile, there were ¥9.3 billion in proceeds from sales of property, plant and equipment.
Net cash used in financing activities totaled ¥49.4 billion (compared to ¥0.0 billion in positive net cash in the previous fiscal year), chiefly due to ¥22.1 billion in dividends paid, a ¥10.0 billion redemption of bonds payable, and a net decrease of ¥16.8 billion in current borrowings.
As a result, cash and cash equivalents at the end of the fiscal year totaled ¥175.2 billion (compared to ¥229.6 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, 2019 (From April 1, 2018, to March 31, 2019) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	712,628	96.1
Visual communications	201,307	96.5
Wearable & Industrial products	154,186	96.3
Total for the segments	1,068,122	96.2
Other	–	–
Total	1,068,122	96.2

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, 2019 (From April 1, 2018, to March 31, 2019) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	722,958	98.2
Visual communications	203,305	102.2
Wearable & Industrial products	154,074	97.2
Total for the segments	1,080,337	98.8
Other	187	100.1
Total	1,080,525	98.8

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

3. 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 ¥1,038.3 billion, an increase of ¥5.0 billion from the previous fiscal year end. While cash and cash equivalents decreased by ¥54.4 billion due largely to the acquisition of property, plant and equipment, and intangible assets and to the dividends paid, total assets increased chiefly due to a ¥27.5 billion increase in inventories, a ¥27.1 billion increase in property, plant and equipment and intangible assets, and a ¥7.8 billion increase in trade and other receivables.
Total liabilities were ¥495.6 billion, down ¥22.6 billion compared to the end of the last fiscal year. Total liabilities decreased mainly because of a ¥24.2 billion decrease in bonds issued, borrowings and lease liabilities.
The equity attributable to owners of the parent company totaled ¥540.1 billion, a ¥27.4 billion increase compared to the previous fiscal year end. While the Company paid ¥22.1 billion in dividends, equity attributable to owners of the parent company increased mainly because retained earnings increased owing to the recording of ¥53.7 billion in profit for the period attributable to owners of the parent company.
Working capital, defined as current assets less current liabilities, was ¥325.1 billion, an increase of ¥8.3 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 ¥85.0 billion to capital expenditures for the fiscal year ending March 31, 2020, 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." The above amount of planned capital expenditures includes capital expenditures through finance leases and operating leases.
In order to stably secure funds necessary for business activities such as capital expenditures, Epson raises funds through utilization of internal funds as well as borrowings from financial institutions and issuance of bonds.
The balance of interest-bearing debt at the end of the fiscal year under review was ¥142.3 billion, down ¥24.2 billion compared to the previous fiscal year end, due to redemption of bonds and a decrease in borrowings. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥175.2 billion, down ¥54.4 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.

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.
Based on the results described above, 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 ¥2.3 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 ¥7.4 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 core technologies that evolved from the efficient, compact, and precision technologies that have been an Epson strength since its founding. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.

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

Total R&D spending during the fiscal year was ¥58.2 billion. The printing solutions segment accounted for ¥25.2 billion, the visual communications segment for ¥10.1 billion, and the wearable and industrial products segment for ¥5.9 billion. The “other” segment and corporate segment accounted for the remaining ¥16.9 billion.

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

Printing solutions segment

In the printer business, Epson launched two new business-spec Epson Smart Charge[1] A4 color inkjet printers, a multifunction model and a single-function model. These models have a 64% smaller footprint than the PX-M840FX (an earlier Smart Charge model) and fit into narrow spaces in a back office or on a counter.

Epson also launched six new models (one of which has two color variations) of high-capacity ink tank (EcoTank) printers. In addition to a pair of compact standard models with a front paper feeder, we released three white models for greater flexibility in matching the printer to the usage environment and two A4 monochrome business printer models that make ideal replacements for office laser printers. The augmented lineup gives customers a chance to select the model that best fits their needs, whether at home or in the office.

In the professional printing business, we launched a new digital label press that uses UV curing ink. This UV label press is equipped with PrecisionCore lineheads that deliver outstanding print results at high print speeds. It also comes equipped with features that reduce operation time and trouble. These features enable the press to accommodate industrial label print jobs as well as short- and medium-run print jobs, thus helping to increase print process efficiency.

On the software end, Epson developed Color Control Technology, a color management technology that enhances color reproduction in commercial and industrial printing. Epson began using this new technology to provide services such as printer color matching, spot color matching, and media profile creation. Color Control Technology, developed to address color-related issues in commercial and industrial printing, helps to ensure that customers get the print quality and high productivity they need.

1 Smart Charge is a managed print service that allows service subscribers to use printers, ink, and maintenance services provided by Epson for a fixed monthly rate. (Subscribers do not purchase printers, but printer delivery and installation, if needed, may be charged separately.)

Visual communications segment

Epson expanded and upgraded its lineup of laser projectors by launching six bright new business models (one with two color variations). The models designed for use in meeting rooms and auditoriums provide the brightness, image quality, and reliability of a laser light source in a compact, lightest-in-class[2] body.

The models designed for spatial projection and events are equipped with Epson’s first native 4K panels and deliver crisp, vivid images thanks to the high color reproduction and high-definition of Epson’s 3LCD system.

Epson unveiled new transparent smart glasses with dual (binocular) displays that are great for monitoring things such as the piloting of drones and inspection and measurement equipment. We also participated in an investigative commission organized and run by the Fire Equipment and Safety Center of Japan to explore the use of smart glasses in fire prevention and rescue systems using G-space information[3]. We were involved in a joint effort to develop concept models of smart masks and smart goggles based on Epson’s smart glasses technology for use in a next-generation rescue system.

2 Among laser projectors in Japan that produce at least 6,000 lumens per research conducted by Epson in June 2018

3 Geospatial information. Information consisting of information that indicates a specific point in space or area location, and position information and information associated with position information

Wearable and industrial products segment

In the wearable products business, Epson launched Orient Star models equipped with the new Series 46 F7-50 movement. The new movement increases the power reserve to 50 hours, up from a previous high of 40 hours. The use of a new front-loaded assembly[4] gives cases a thin profile while realizing a roomy dial and a luxurious-looking case design.

In the robotics solutions business, Epson launched new industrial robots, including a compact 6-axis (vertically articulated) model and a SCARA (horizontally articulated) model. The new 6-axis robot has a 1,000-mm reach, handles payloads up to 6 kg, and takes up about 75% less installation space than Epson's 1,400-mm 6-axis robot arms[5]. This robot saves space in factories, where they are mostly used to transport and assemble small parts for consumer and vehicle electronics. The new SCARA robot is designed for maximum installation simplicity and usability, with a controller built into the base. It has a battery-less motor that reduces running costs, and, with the ability to handle payloads up to 6 kg, can transport larger, heavier objects. This robot can be outfitted with heavy end-effectors to help increase factory productivity.

In September 2018, Epson installed a new robot production line at its Toyoshina Plant, site of the company's robotics R&D center. This move is designed to facilitate closer collaboration with Epson's domestic and foreign production sites, as well as to maximize the efficiency of the cycle for developing challenging key components, establishing designs and mass production technology, and manufacturing the products. The company expects the production line to yield benefits in the form of faster time-to-market and improved assembly efficiency.

In the microdevices business, Epson developed a new axial accelerometer for structural health monitoring[6]. Offering the low noise, durability, and productivity needed to accelerate the spread of serious structural health monitoring systems, this sensor provides high accuracy without sacrificing durability. The product helps to address problems associated with aging social infrastructure and the escalating cost of maintenance by enabling accurate earthquake detection, environmental vibration measurement, industrial equipment and vehicle vibration and path monitoring, and continuous monitoring of structures such as buildings, road infrastructure, bridges, tunnels, and steel towers.

[4] A front loaded assembly (FLA) is a method of assembly in which a movement is inserted from above the case. Movements are ordinarily mounted from below the case, which necessitates a caseback that is larger than the dial. With FLA, however, a taper is made from the case side to the caseback (tapered back) to reduce the height (thickness) of the case.

[5] In comparative tests conducted by Epson based on assumed usage

[6] Technology for diagnosing the health of structures using sensors

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
In March 2019, Epson established the Epson 25 Phase 2 Mid-Range Business Plan (FY2019-2021) (hereinafter, the “Phase 2 Mid-Range Business Plan”), a three-year plan starting in FY2019, toward achieving the Epson 25 Corporate Vision (hereinafter, “Epson 25”) that describes what Epson would like to achieve in the days ahead. Although the business environment in which Epson operates is projected to remain unpredictable and challenging, 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 Phase 1 Mid-Range Business Plan (FY2016-2018) review
As stated in Epson 25, established in 2016, Epson envisions creating a new connected age of people, things and information with efficient, compact and precision technologies by 2025. To accomplish this, Epson seeks to drive innovations in four areas where it can leverage its competitive advantages and aims to enrich lives and contribute to sustainability.
In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

Main Accomplishments and Challenges in Phase 1

- We accomplished our goals of strengthening core technologies, increasing production capacity, and launching strategic products, but we still have issues in terms of speed.
- In sales, we made a certain amount of progress in enhancing our sales structures in Japan and Western Europe, and in accumulating customer insights, but there were delays in improving the sales structure in other regions. Meanwhile, we lagged in providing products and services that capitalize on the accumulated insights and fell behind in establishing effective selling techniques.
- We made aggressive capital expenditures and had active research and development programs, but, on the whole, we could have done better in determining priorities.

② Phase 2 business plan concept

We will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

Policies

1) Accelerate growth by taking maximum advantage of assets and through collaboration and open innovation
  - Strengthen solution selling business
  - Rapidly strengthen product portfolio, including through collaboration
  - Strengthen external sales of core devices and open innovation
  - Invest management resources in robotics to accelerate growth to make it a core business
2) Strengthen global operation under Head Office control
  - Select and focus on priority business areas and regions
  - Improve the organization and allocate personnel to strengthen B2B solution selling
  - Strengthen company-wide integrated IT infrastructure
3) Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness
  - Rebuild product portfolios based on priorities
  - Strengthen financial discipline

③ Financial targets under Phase 2 business plan and Epson 25

		FY2021 Target	FY2025 Target
Revenue		¥1,200 billion	¥1,700 billion
	Printing Solutions	¥780 billion	–
	Visual Communications	¥225 billion	–
	Wearable & Industrial Products	¥195 billion	–
Business profit [1]		¥96 billion	¥200 billion
ROS		8%	12%
ROE		Sustain over 10%	15%
Exchange Rate USD/EUR/Other [2]		¥110/¥125/92	¥115/¥125/100

[1] Business profit is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

[2] Index showing weighted average variance of rates for currencies other than USD and EUR against a benchmark of 100 in FY2025.

④ New initiatives

Initiatives in each of our innovation areas

Inkjet innovation

- In the home & SOHO, and office shared printers*, Epson is transitioning away from a business model that is reliant on consumables by accelerating the displacement of laser printers and ink cartridge printers with high-capacity ink models such as high-capacity ink tank printers and high-speed linehead inkjet multifunction printers.
  * Office shared printer: A printer category for high-print volume office users
- In the commercial and industrial segments, rapidly expand the lineup of high productivity products through platforming and collaboration with partners. Expand business by responding to a diverse range of needs with external print head sales and open innovation.
- Capture needs spawned by rapid digitization and embrace collaboration and open innovation to create new printing services.

Visual innovation

- Refine laser light source platforms, expand the lineup in the high-lumen and other segments, and promote the advantages of projectors.
- Develop new markets by creating demand in the spatial design market with accent lighting projectors, and by developing small projectors.
- For smart glasses, accelerate open innovation to broaden the range of their application through enhancing the selection of interface models that enable connections with PCs and smartphones and external sales of optical engine modules.

Wearables innovation

- Continue to focus resources on the high-value-added analog watch segment to capitalize on Epson's unique technologies.

Robotics innovation

- Accelerate the growth of robotics into a future core business by leveraging a solid foundation of technology and infrastructure while also actively collaborating with partners to further increase product competitiveness and improve its ability to propose solutions.
- Use AI to further improve usability and enter the collaborative robot market.

Strengthening sales capabilities

- Epson will strengthen Head Office control over global sales strategies and management functions while simultaneously transitioning to B2B sales methods that emphasize customer intimacy and solution selling.

Sustainability initiatives

- For our sustainability initiatives, we will approach heightened expectations for achieving sustainability as a business opportunity. For example, we will accelerate innovation using printing and environmental performance, ink versatility and other advantages of inkjet technology to contribute to sustainability.

⑤ Financial targets under Phase 2 business plan

1) Cash Flow

- Restore our ability to generate cash flow by steadily growing profit and increasing operations efficiency.
- By allocating generated cash to growth areas based on identified priorities, we will pay steady dividends while maintaining a healthy financial structure.

	Phase 1 Mid-range Result	Phase 2 Mid-range Target
Operating CF	3-year total: ¥258.1 billion	3-year total: ¥370 billion
FCF	3-year total: ¥24.9 billion	3-year total: ¥170 billion

2) R&D Expenses and Capital Expenditure

	Phase 1 Mid-range Result	Phase 2 Mid-range Target
R&D expenses	3-year total: ¥161.3 billion	Aggressively invest in new products and key technologies necessary to achieve Epson 25
Capital expenditure (excluding lease)	3-year total: ¥236.8 billion	3-year total: ¥200 billion (Production capacity, new products)

(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

The Company established in March 2016 the Epson 25 Corporate Vision, which describes what the company would like to achieve by the start of the 2025 fiscal year.

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

In the Phase 2 Mid-Range Business Plan (FY2019-2021), which was established in March 2019, we will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

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. The measures were then revised for further enhancement of their appropriateness and objectivity, and shareholders approved their updating at the June 28, 2017 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 that benefit neither the Company’s corporate value nor the common interests of its shareholders 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 active 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.

Based on our start-of-year target, the Company has paid an annual dividend of ¥62 per share.

In line with the basic policy on shareholder return, the Company resolved at the meeting of its board of directors held on April 26, 2019 to repurchase its own shares pursuant to Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to Article 165, Paragraph 3 of the Act. Details are provided in "Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 40. Subsequent Events."

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 30, 2018, by resolution of the board of directors	10,924	31
June 26, 2019, by resolution of the general shareholders' meeting	10,924	31

Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 30, 2018 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 26, 2019 includes ¥5 million of cash dividends for the Company's shares held through the BIP trust.