

## Management Analysis of Financial Position, Operating Results and Cash Flows

### 1. Operating results overview

#### (1) Operating results

There is ongoing uncertainty regarding the prospect of an end to the COVID-19 epidemic, but the global economy in the year under review is generally headed toward improvement thanks to economic measures introduced in each country and higher vaccination rates, but the level of recovery varies by country, region, and industry. Moreover, with consumer demand rising as the global economy recovers, supply chain problems have become evident, including shortages of shipping containers, electronic parts, and semiconductors, so Epson will continue to closely watch trends going forward. Emerging economies in some regions such as India, Southeast Asia, and part of Latin America continue to face difficult economic conditions due to ongoing restrictions on economic activity, but economic activity in China continues to gradually recover. Developed countries are expected to rebound from bottom, but some countries and regions are seeing a resurgence in infections, so the situation needs to be closely monitored.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥106.01 and ¥123.67, respectively. This represents a 3% appreciation of the yen against the dollar and a 2% depreciation of the yen against the euro compared to the same period last year. The yen also rose against the currencies of some emerging countries, in places such as Latin America.

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

(Billions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Change	Percentage of change	Main reason(s) for change
Revenue	1,043.6	995.9	(47.6)	(4.6%)	[Revenue]
Cost of sales	(681.6)	(643.5)	38.0	–	Printing Solutions Segment (0.8)
Gross profit	362.0	352.3	(9.6)	(2.7%)	Visual Communications Segment (41.8)
Selling, general and administrative expenses	(321.1)	(290.7)	30.4	–	Wearable & Industrial Products Segment (4.2)
Business profit *	40.8	61.6	20.7	50.9%	[Business profit] Printing Solutions Segment 32.9 Visual Communications Segment (12.2) Wearable & Industrial Products Segment 1.3
Other operating income and Other operating expense	(1.3)	(13.9)	(12.6)	–	Recording of impairment loss in the wearable products business and increases in exchange-rate loss, etc.
Profit from operating activities	39.4	47.6	8.1	20.7%	
Finance income and Finance costs	0.1	(2.8)	(2.9)	–	Increases in foreign exchange losses
Profit before tax	39.7	44.9	5.2	13.1%	
Income taxes	(31.8)	(13.9)	17.9	–	Decreases caused by an increase in the reversal of deferred tax assets in the previous fiscal year and the absence of a significant amount of reversal of deferred tax assets in the current fiscal year.
Profit for the period	7.8	30.9	23.1	296.2%	

# SEIKO EPSON CORPORATION

(Billions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021	Change	Percentage of change	Main reason(s) for change
Profit for the period attributable to owners of the parent company	7.7	30.9	23.1	299.9%	

\* 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. Office and home inkjet printer demand soared as more people began working and learning from home. High-capacity ink tank printer and ink cartridge printer revenue increased in part due to an increase in selling prices. However, sales were tempered by the pandemic, which resulted in an inability to supply enough product due to temporary factory shutdowns and production limitations, and shipping delays caused by a shortage of shipping containers and port congestion. Consumables revenue increased owing to actions taken to increase production to meet rising at-home print demand. Serial impact dot matrix printer revenue decreased due to negative foreign exchange effects and a decline in sales associated with a market contraction.

Revenue in the professional printing business decreased. Commercial and industrial inkjet printer revenue fell in the first quarter due to the strong impact of restrictions on economic activity around the world due to the pandemic. However, revenue for the year increased owing primarily to strength in the remaining three quarters, resulting from the capture of large orders for photo and proofing printers and strong sales of corporate printers, CAD printers, and dye-sublimation transfer printers. POS system product revenue decreased. This was both a counteraction to the extra demand generated last year by tax reforms in Italy and a result of demand that was weakened by the restrictions on economic activity due to the pandemic.

Other revenue decreased compared to the same period last year, when PC demand rose as users sought to upgrade their operating systems.

Printing solutions segment profit increased despite negative foreign exchange effects because inkjet printer selling prices rose, sales of consumables increased, and we rigorously selected and sharply curtailed spending projects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥707.7 billion, down 0.1% year on year. Segment profit was ¥108.5 billion, up 43.5% year on year.

## Visual Communications Segment

Visual communications revenue decreased despite wins in the education market as schools reopened and despite increased demand in the home segment. The decrease was due to a combination of factors, including restrictions placed on economic activity around the world to slow the spread of COVID-19, the postponement or cancellation of events, the continued shrinkage of the projector market due to the continued incursion of flat panel displays, and product supply shortages due to shipping delays.

Epson was rigorously selective about spending projects and sharply cut costs. Nevertheless, visual communications segment profit decreased due to lower revenue.

As a result of the foregoing factors, revenue in the visual communications segment was ¥141.4 billion, down 22.8% year on year. Segment profit was ¥1.3 billion, down 90.1% year on year.

## Wearable & Industrial Products Segment

Wearable products business revenue fell sharply primarily as a result of the pandemic, which caused dealers and distributors around the world to voluntarily close and limited economic activity. Furthermore, COVID-19

infections in Japan caused year-end demand to slump while demand from travelers to Japan vanished.

Robotics solutions business revenue rose sharply on contract wins in China that boosted unit sales.

Microdevices business revenue increased amid a recent surge in demand for crystal devices in the PC and healthcare markets and for foundry services in the semiconductor business.

Segment profit in the wearable & industrial products segment was muted by the effects of lower revenue in the wearable products business yet still increased owing to spending controls and spending cuts.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥148.6 billion, down 2.8% year on year. Segment profit was ¥3.2 billion, up 75.0% year on year.

Epson also recorded a ¥7.5 billion impairment loss in the wearable products business due to the decline in profitability and changes in business strategy.

## **Other**

Other revenue amounted to ¥0.8 billion, down 12.2% year on year. Segment loss was ¥0.6 billion, compared to a segment loss of ¥0.5 billion last year.

## **Adjustments**

Adjustments to the total profit of reporting segments amounted to negative ¥50.8 billion. (Adjustments in the previous fiscal year were negative ¥49.6 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the reporting segments and expenses associated with things such as new businesses and corporate functions.

## **(2) Cash flow performance**

Net cash from operating activities during the year totaled ¥133.2 billion. The total for the previous year was ¥102.3 billion. Whereas Epson recorded a ¥30.9 billion profit for the period, there were negative factors such as a ¥12.8 billion increase in inventories. However, net cash was positively affected by the recording of ¥69.8 billion in depreciation and amortization and a ¥13.1 billion increase in trade payables.

Net cash used in investing activities totaled ¥57.4 billion (compared to ¥76.1 billion in the previous year), mainly because Epson used ¥55.8 billion in the purchase of property, plant and equipment and purchase of intangible assets.

Although Epson paid ¥21.4 billion in dividends and repaid ¥14.0 billion in long-term loans payable, net cash from financing activities totaled ¥23.1 billion (compared to ¥0.2 billion used in the previous year), chiefly due to a ¥69.6 billion issue of corporate bonds.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥304.0 billion (compared to ¥196.2 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, 2021 (From April 1, 2020, to March 31, 2021) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	662,229	95.8
Visual communications	135,636	76.5
Wearable & Industrial products	137,854	96.5
Total for the segments	935,720	92.5
Other	–	–
Total	935,720	92.5

#### 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, 2021 (From April 1, 2020, to March 31, 2021) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	707,563	100.0
Visual communications	141,468	77.2
Wearable & Industrial products	140,595	96.9
Total for the segments	989,626	95.5
Other	190	102.5
Total	989,817	95.5

#### 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 ¥1,161.3 billion, an increase of ¥120.4 billion from the previous fiscal year end. Total assets increased chiefly because cash and cash equivalents increased by ¥107.7 billion primarily due to bonds issued, and because of a ¥22.9 billion increase in inventories.

Total liabilities were ¥608.3 billion, up ¥73.4 billion compared to the end of the last fiscal year. Total liabilities increased mainly because of a ¥56.2 billion increase in bonds issued, borrowings and lease liabilities due to an issue of green bonds and because of an ¥13.1 billion increase in other current liabilities.

The equity attributable to owners of the parent company totaled ¥550.9 billion, a ¥47.1 billion increase compared to the previous fiscal year end. While Epson recorded ¥30.9 billion in profit for the period attributable to owners of the parent company and recorded ¥37.6 billion in other comprehensive income, the primary component of which was the remeasurement of the defined benefit plan, there were ¥21.4 billion in dividend payments.

Working capital, defined as current assets less current liabilities, was ¥434.0 billion, an increase of ¥96.4 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 ¥60.0 billion to capital expenditures for the fiscal year ending March 31, 2022, and the required funds will be covered by internal funds, borrowings from financial institutions and issuance of bonds.

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 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 ¥265.9 billion, up ¥56.2 billion compared to the previous fiscal year end, due to an increase in bonds issued, borrowings and lease liabilities due to an issue of green bonds. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥304.0 billion, up ¥107.7 billion compared to the end of the last fiscal year, giving Epson sufficient liquidity.

In addition, amid an uncertain outlook due to the COVID-19 pandemic, the Company entered into a commitment line contract for an environmentally conscious financing product with a main partner bank in May 2020, as part of its efforts to strengthen the financial foundation in preparation for emergencies. There is no outstanding balance of executed borrowings based on the said commitment line contract as of March 31, 2021.

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 boldly undertakes challenges and strives to make innovations beyond its own conventions and vision in order to solve social issues, based on the Company's unique strengths of efficient, compact, and precision technologies since the time of its founding. We are making

efforts to have all employees share values and act autonomously while demonstrating their comprehensive strengths. By doing so, we will continuously create and provide game-changing customer value in a timely fashion, play a central role as an indispensable company in building a better society, and achieve sustainable growth and improvement of our corporate value over the medium to long term.

In March 2021, we revised our Corporate Vision and established “Epson 25 Renewed,” with the goal of achieving sustainability and enriching communities, which we have set as our aspirational goal to pursue into the future. In response to environmental issues that Epson views as very important, we have revised “Environmental Vision 2050” with the aims of becoming carbon negative and underground resource\* free by 2050.

\* Non-renewable resources such as oil and metals

Additionally, the status of progress on financial targets set with the aim of realizing our Corporate Vision is provided in “Management Analysis of Financial Position, Operating Results and Cash Flows 5. Management policy, business environment and issues to be addressed, etc.”

#### **(4) Significant accounting estimates and assumptions used for those estimates**

The consolidated financial statements of Epson are prepared in conformity with IFRS in accordance with the provision of Article 93 of “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.” Estimates that are deemed necessary have been made based on reasonable criteria.

Significant accounting policies applied in the consolidated financial statements of Epson, accounting estimates, and assumptions used for those estimates are provided in “Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 3. Significant Accounting Policies and 4. Significant Accounting Estimates and Judgments.”

## 4. Research and development activities

Epson seeks to co-create sustainability and enrich communities to connect people, things, and information by leveraging efficient, compact, and precision technologies that have been an Epson strength since its founding in addition to digital technologies. To this end, Epson places research and development activities as a part of initiatives to strengthen the business infrastructure, and promotes the evolution of foundational technologies, core technologies and product technologies to realize innovation. Going forward, the corporate R&D division and the R&D units of the operations divisions are teaming up to strengthen materials, AI and digital technologies in particular and strengthen the manufacturing foundation, primarily in growth areas and new areas. 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 ¥46.4 billion. The printing solutions segment accounted for ¥17.0 billion, the visual communications segment for ¥8.3 billion, and the wearable and industrial products segment for ¥5.5 billion. The “other” segment and corporate segment accounted for the remaining ¥15.6 billion.

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

### Printing solutions segment

In the printer business, Epson launched a new line of EcoTank inkjet printers for the home (three models) that have high-capacity ink tanks. These printers are six-color models that are loaded with the newly developed ClearChrome K2 Plus ink and include both pigment- and dye-type black inks. In particular, the ability to print on art paper, such as Velvet Fine Art Paper, which has been difficult to print on until now, has improved significantly.

Epson launched the LX-10020MF series of dedicated monochrome A3 multifunction printers for business as new Epson Smart Charge products, where one can select a plan and printer that matches ones’ usage of printing and copying. These printers deliver the same ease of use as they print at a high speed of 100 pages/minute<sup>1</sup>, reduce the trouble of replacing ink cartridges due to being loaded with high-capacity ink, reduce the trouble of replacing the paper supply due to high-capacity paper feed and ejection, and other factors. They can fold paper in half and staple, and are compatible with high-speed, easy to use finishers. Furthermore, by using Heat-Free Technology<sup>2</sup>, which does not use heat during the printing process, the environmental impact is reduced as power consumption is limited to 320W<sup>3</sup> or less.

In the professional printing business, Epson launched two new SureColor series printers for the sign display industry. The SC-R5050/R5050L, which is loaded with the newly developed water-based resin ink UltraChrome RS ink and takes into consideration an environment with a low VOC (volatile organic compound) content, contributes to the significant shortening of the time until delivery, such as by making it possible to carry out post-processing immediately after printing as drying time after printing is not needed. This printer prints not only on polyvinyl, tarpaulin and film, which solvent inks specialize in, but can also print on a wide variety of mediums, such as plain paper, wallpaper and textiles, and realizes outstanding image quality with little granularity or banding through the use of Epson Precision Dot Technology, which consists of Epson’s proprietary microweave, halftone module and LUT<sup>4</sup>, all of which having been cultivated through inkjet technologies over many years.

Epson launched the ML-8000 for textile printing, which is ideal for manufacturing many products in small quantities, as a new product in the Monna Lisa series of inkjet digital textile printers. In the textile printing market, it is necessary to shift from analogue to digital textile printing, such as by expanding manufacturing of many products in small quantities due to the diversification of consumers’ needs, and taking the environment into consideration to realize a sustainable society. The ML-8000 is the entry model of the Monna Lisa series, which has a lower introductory cost, that also realizes high productivity, printing quality and stable operation. It is equipped with eight of the newest 4.7 inch PrecisionCore micro TFP printheads, and realizes a printing speed of 155m<sup>2</sup> per hour (600x600 dpi<sup>5</sup> – 2Pass) while using the standard mode.

<sup>1</sup> Details about measurement data and measurement conditions are provided on Epson websites.

<sup>2</sup> Details about Heat-Free Technology are provided on Epson websites.

<sup>3</sup> This is the largest power consumption figure only for the main unit.

<sup>4</sup> LUT (Look Up Table) refers to a table that decides what color ink to use and in what quantity in order to faithfully recreate the color specified by the data.

<sup>5</sup> When outputting multi-layer halftone.

## Visual communications segment

Epson launched two new business projectors, including high-brightness models whose use for image rendering has expanded due to their support for large to small spaces, and four signage models. The high-brightness models EB-L30000U and EB-L30002U are the smallest and lightest in the world<sup>6</sup>, and realize the intense brightness of 30,000lm, which is the highest brightness for Epson's projectors. Moreover, through the use of the stacking function, which uses Epson Projector Professional Tool and the unit's internal camera, they can reduce the time needed for adjustment during setup as they can quickly and simply project images whose brightness is increased by layering images from multiple projectors into one. The signage models EV-110 and EV-115 can render a wide range of images and have superior installability as they can be installed like spotlights on ceilings, rails or on the floor, and because they have a wide range of movement due to their arm-like form.

In smart glasses, Epson developed the optical engine VM-40 for the fourth generation of smart glasses, which are loaded with Epson's cutting edge optical technologies for the next generation of the MOVERIO series. This newly developed optical engine realizes 1.5 times higher definition, 5 times higher contrast and 1.5 times wider field of view when compared with the Company's usual products due to Epson's proprietary silicone OLED (organic light emitting diode) display and optical technologies.

<sup>6</sup> For the main unit of the 3LCD projector that is currently being sold and can output 30,000lm (not including the protruding portion, handle or lens).

Researched by Epson. (as of October 2020)

## Wearable and industrial products segment

In the microdevices business, Epson developed the single-chip microcontroller S1C31W73, which is loaded with high-capacity memory and a high-resolution liquid crystal driver. The number of functions provided in electronic equipment has been growing in recent years, and program sizes are increasing, as the amount of information is displayed. Meanwhile, equipment manufacturers need either maintain or further shrink the size of their products, making it essential to reduce the number of parts and save board space. This microcontroller has 384 kB of built-in flash memory and a liquid crystal driver that can directly drive a display of up to 2,560 dots. By combining Epson's strong microcontroller display driver technology with the proven Arm®Cortex®-M0+ processor, Epson will help customers to increase the functionality and performance of their products while also reducing their development burden.

Epson also developed the S2D13V02, its first warning light monitoring IC for in-vehicle display systems. Amid the proliferation of vehicle functions, electronics, and automation, the S2D13V02 can properly display warning lights, which are information that is of particular importance to drivers. The S2D13V02 monitors images streamed from the host (SoC<sup>7</sup>), and when a warning light irregularity is detected, it notifies the host and, if necessary, performs display processing, for example, by overwriting the warning light image or displaying error messages. Even when warning lights are overlaid on images with changing backgrounds, such as on a map display, the IC can check the warning light in images and also detect visibility errors. The S2D13V02 supports the construction of highly reliable display systems with a full range of display safety functions.

<sup>7</sup> A system on a chip (SoC) integrates most or all the functions required for the operation of a system on a single chip. The configuration differs depending on the system, but SoC generally integrate a CPU, memory, and I/O functions.

## 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) Business and financial issues to be addressed with higher priority

In March 2021, Epson revised its Corporate Vision and established "Epson 25 Renewed" with the goal of achieving sustainability and enriching communities, which was set as the aspirational goal to pursue into the future. Furthermore, in response to environmental issues that Epson views as important, we have revised "Environmental Vision 2050" with the aims of becoming carbon negative and underground resource<sup>1</sup> free by 2050.

<sup>1</sup> Non-renewable resources such as oil and metals

#### ① Our aspirational goal that Epson will pursue into the future

At present, humanity is facing a wide range of social issues, including climate change and the COVID-19 pandemic. We believe that we have entered an era in which people aspire to achieve a variety of enrichment, including not only material and economic wealth, but also spiritual and cultural enrichment. Sustainability is a fundamental requirement for achieving this. With this background, Epson develops its business by always focusing on social issues as a starting point, considering what we can do to solve them, and how we can use our technologies to solve problems and contribute to society. This is how we work to realize our abovementioned aspirational goal that Epson will pursue into the future.

#### ② "Epson 25 Renewed"

##### a. Reflecting on "Epson 25"

The social environment has changed significantly as described above since we established our previous "Epson 25" Corporate Vision. We have been expanding our products and services and strengthening our

foundation, but have not yet achieved sufficient results, and we recognize that there have been some issues and causes as listed below.

As a response based on these reflections, we will redefine our business area goals and evolve our strategies. Simultaneously, we will strengthen our efforts for the environment, DX, and co-creation across business domains going forward. In addition, we will clarify our business portfolio, allocate management resources appropriately, and work to further strengthen the business infrastructure that supports strategy execution.

Issue	Cause	Response
<ul style="list-style-type: none"> <li>● Plan assumed excessive revenue growth</li> <li>● Strategy execution lacked speed</li> <li>● Slow response to environmental changes</li> </ul>	<ul style="list-style-type: none"> <li>● Unmindful of customer and competitor perspectives, together with mindset that superior products would be enough to drive sales</li> <li>● Lack of sensitivity to changes in societal demands and weakness in incorporating them in company-wide strategy</li> <li>● Lack of ability to execute strategy and over-emphasis on self-reliance</li> </ul>	<ul style="list-style-type: none"> <li>● Redefine business area goals and evolve strategies</li> <li>● Strengthen company-wide strategy across businesses</li> <li>● Allocate management resources to new areas and growth areas by clarifying business portfolio</li> <li>● Strengthen business infrastructure to execute strategy</li> </ul>

b. Recognizing our external environment

In achieving “Epson 25 Renewed,” we recognize the following as the external environment surrounding Epson.

- With digitalization and the evolution of technologies such as AI, the megatrend towards diversified consumption and lifestyles is accelerating and moving forward faster than expected.
- There is growing demand to solve social issues including environmental issues.
- Decentralization is accelerating along with demand for new lifestyles, including telecommuting and contact-free exchanges.
- The importance of “connecting” and “information” is growing further in response to issues such as obstruction and division of communication due to decentralization.

c. Vision statement

On this occasion, we have established the vision statement for “Epson 25 Renewed,” which is “Co-creating sustainability and enriching communities to connect people, things, and information by leveraging our efficient, compact, and precision technologies and digital technologies.”

Based on the aforementioned recognition of our external environment, we will provide solutions that connect people, things, and information in a smart manner to society as a whole, including people’s personal lives, industries, and manufacturing sites, in order to achieve our aspirational goal. The three most important initiatives in doing so are the environment, DX, and co-creation.

Environmental initiatives

- Promote decarbonization and close the resource loop, develop environmental technologies, and provide products and services that reduce environmental impacts.

DX initiatives

- Contribute to customer success by building a robust digital platform, connecting people, things, and information, and co-creating solutions that continue to meet customer needs.

Co-creation initiatives

- Leveraging our technologies and product families, solve societal issues with partners by providing core devices and a place for co-creation and networking, as well as through collaboration and investment.

d. “Epson 25 Renewed” policies

With uncertainty in the social environment expected to continue, we will seek to secure profitability and future growth by focusing on priorities. We will continuously strengthen the necessary environmental, DX, and co-creation initiatives in all areas.

Category	Applicable businesses	Policy
Growth areas	Office printing, commercial & industrial printing, printhead sales, production systems	See environmental changes as an opportunity and invest management resources.
Mature areas	Home printing, projection, watches, microdevices	Emphasize profitability through structural changes and efficiency improvements, etc.
New areas	Sensing, environmental business	Develop new technologies and businesses.

e. Innovation strategies

On this occasion, in order to execute the strategy for realizing our goals, we have reorganized the areas of innovation into five areas as follows. In addition, in the past, we focused on technology-centered innovation, but we have reconfigured the innovation areas around customer value and societal issues.

The microdevices business supports innovation in these five areas. Here, Epson will contribute to the development of a smart society with crystal and semiconductor solutions that elevate our efficient, compact and precision technologies.

Epson sees environmental contributions as a priority issue for achieving sustainability and will develop new environmental solutions that integrate materials technologies and contribute to decarbonization and resource recycling.

Innovation areas	Goals	Value proposition to customers
Office & home printing innovation	Lead the evolution toward distributed printing to reduce environmental impacts and increase work productivity by proposing inkjet technology, paper recycling technology, and open solutions.	Increased work productivity; reduction of environmental impacts; distributed printing; support for at-home learning; lower printing costs; high-quality printing
Commercial & industrial printing innovation	Offer inkjet technology and solutions that lead the digitization of printing and contribute to lower environmental impacts and higher productivity.	Power of digital expression; small lot production and fast delivery; distributed production, and local production for local consumption; waste reduction; improved work environment; accommodate logistics changes
Manufacturing innovation	Innovate manufacturing by co-creating flexible high-throughput production systems that reduce environmental impacts.	Accommodate low volume, high mix production; alleviate labor shortages; distributed production and local production for local consumption; reduced environmental impacts and close the resource loop; save space; reduce burden for system building

Innovation areas	Goals	Value proposition to customers
Visual innovation	Connect people, things, information, and services with inspiring video experiences and quality visual communications to support learning, working, and lifestyles.	Equal, high-quality learning environment; higher productivity and creativity; support lifestyle and work arrangement diversification; enrich lives
Lifestyle innovation	Utilize craftsmanship and co-create solutions that utilize sensing technologies to enrich diverse lifestyles.	Appeal to people of every sensibility; improve environmental performance with automatic power generating systems; personalized information; support tailored to lifestyle and work changes

f. Initiatives to strengthen business infrastructure

To realize each of the above-mentioned types of innovation, Epson will work to strengthen business infrastructure going forward as follows:

Measure	Initiatives
Sales strategies	<ul style="list-style-type: none"> <li>● Provide customer sales/support utilizing digital technology                             <ul style="list-style-type: none"> <li>- Further develop solution sales.</li> <li>- Use digital technology to create and expand customer touch points that are unconstrained by time and place.</li> </ul> </li> <li>● Focused organizational strengthening by region and business segment.</li> </ul>
Production strategies	<ul style="list-style-type: none"> <li>● Leverage changes caused by the spread of COVID-19 to accelerate the existing strategy.                             <ul style="list-style-type: none"> <li>- Use automation and digital technology to double productivity in FY2025.</li> <li>- Strengthen distributed production and local production for local consumption.</li> <li>- Total investment: approximately 40 billion yen (5 years)</li> </ul> </li> </ul>
Technology development strategy	<ul style="list-style-type: none"> <li>● Advance basic, core, and product technologies that support innovation.                             <ul style="list-style-type: none"> <li>- Particularly reinforce material, AI, and digital technologies.</li> </ul> </li> </ul>
Human resources strategies	<ul style="list-style-type: none"> <li>● Allocate human resources to priority areas                             <ul style="list-style-type: none"> <li>- Acquisition of specialists</li> <li>- Priority placement in growth areas</li> </ul> </li> <li>● Strengthen human resource development                             <ul style="list-style-type: none"> <li>- Enhancement of specialized education</li> <li>- Acceleration of rotation that broadens knowledge and experience</li> </ul> </li> <li>● Organizational activation                             <ul style="list-style-type: none"> <li>- Respect diversity and maximize team strength</li> <li>- Create a free and open organizational culture</li> <li>- Respond to diversification of working styles</li> </ul> </li> </ul>

g. Financial targets

To realize the above-mentioned “Epson 25 Renewed,” we will aim to shift to profitability-focused management, and rather than pursue excessive revenue growth, focus on priorities, secure profitability, and seek future growth. In line with this policy, we have set targets for ROIC, ROE, and ROS.

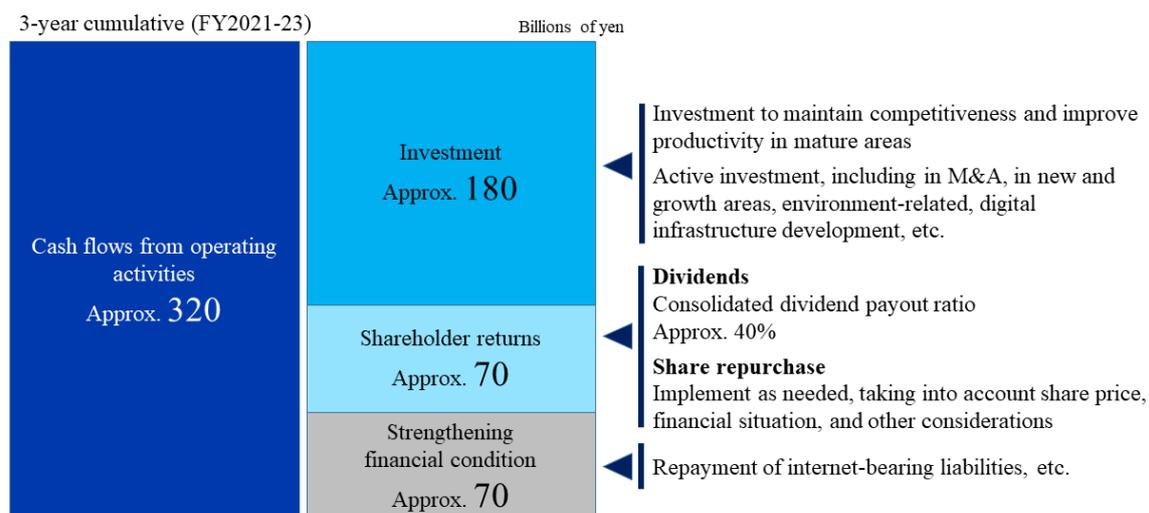
Company-wide financial targets	FY2020 (Result)	FY2023 (Target)	FY2025 (Target)
ROIC <sup>2</sup>	5.6%	8% or more	11% or more
ROE	5.9%	10% or more	13% or more
ROS	6.2%	8% or more	10% or more

<sup>2</sup> ROIC = Profit for the period attributable to owners of the parent company / (equity attributable to owners of the parent company + interest-bearing liabilities)

By newly setting ROIC as a financial target, management with even higher capital efficiency is required. For this, Epson will increase the efficiency of management by introducing business portfolio management that clarifies the positioning of profitability and the Company's growth, realizing the efficient circulation of capital and increasing management efficiency. Epson's business areas are broadly classified as "growth areas," "mature areas" and "new areas" as stated above. We will carry out capital allocation and target setting that matches these positions, and while going through the cycle of periodically reviewing this, decide the direction of business.

#### h. Cash allocation

Allocate cash toward investments in growth and new areas and areas related to the environment, continuously provide stable shareholder returns, and strengthen our financial condition, such as the repayment of interest-bearing liabilities, while comprehensively taking capital demand into consideration.



#### i. Initiatives to strengthen governance

We will continue to speed up and ensure the transparency of management decision-making to realize "Epson 25 Renewed." To this end, we will improve the effectiveness of the board of directors and work for continuous engagement with investors and other stakeholders. We will also centralize management of information by providing a global integrated IT infrastructure with the aim of speeding up management decisions.

### ③ "Environmental Vision 2050"

Epson revised "Environmental Vision 2050," the vision related to environmental issues, which are a prerequisite for a sustainable society, as described below. We also set goals to be achieved by 2050 and established initiatives to realize them.

Item	Details
Vision statement	Epson will become carbon negative and underground resource free by 2050 to achieve sustainability and enrich communities
Goals	2030: Reduce total emissions in line with the 1.5°C scenario <sup>3</sup> 2050: Carbon negative and underground resource free
Actions	<ul style="list-style-type: none"> <li>● Reduce the environmental impacts of products and services and in supply chains.</li> <li>● Achieve sustainability in a circular economy and advance the frontiers of industry through creative, open innovation.</li> <li>● Contribute to international environmental initiatives.</li> </ul>

<sup>3</sup> Target for reduction of greenhouse gas emissions that conforms with scientific knowledge based on the criteria of the Science Based Targets initiative (SBTi)

#### ④ Climate change initiatives and TCFD

Climate change is greatly impacting society and Epson sees it as a significant social problem to be worked on. The goal of the Paris Agreement is to achieve decarbonization and limit the global average temperature to well below 2°C, and work to limit it to 1.5°C, compared to pre-industrial levels. To achieve this, Epson is working to “reduce total emissions in line with the 1.5°C scenario” by 2030. Furthermore, Epson has revised “Environmental Vision 2050” in coordination with the announcement of “Epson 25 Renewed.” To become carbon negative and underground resource free by 2050, which is stated as our goal, we are working for decarbonization and to close the resource loop. We are also promoting the provision of products and services that reduce environmental impacts, and the development of environmental technologies.

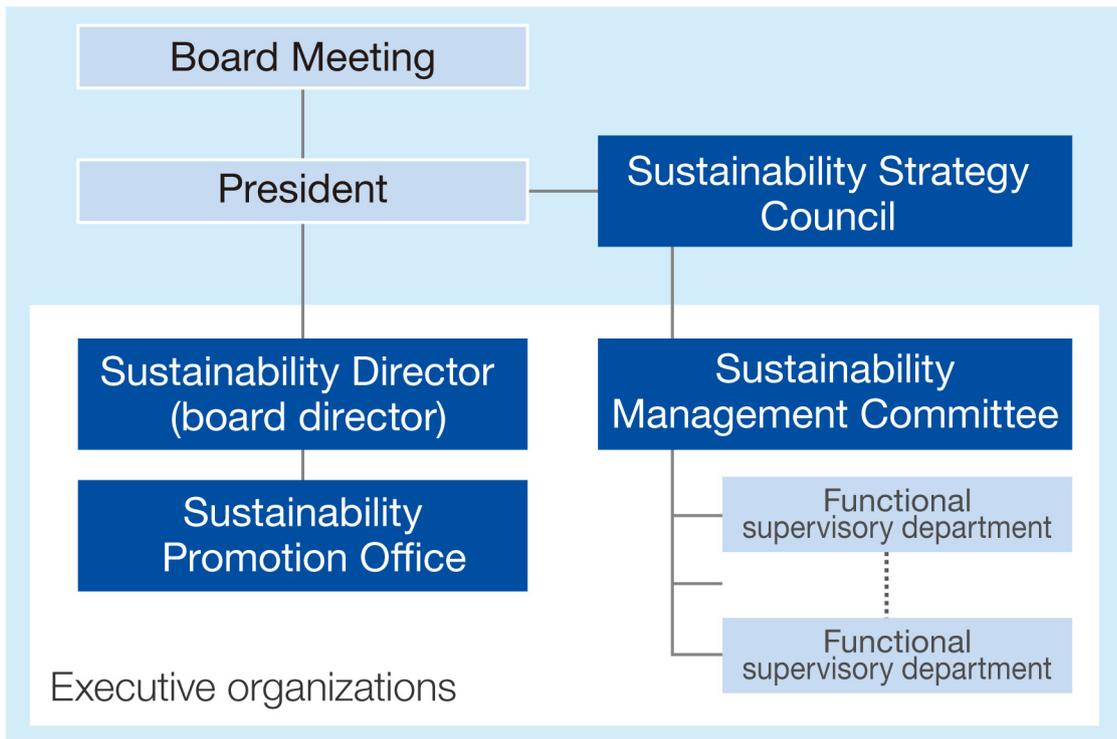
Since Epson indicated its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in October 2019, it has disclosed information (on governance, strategy, risk management, and metrics and targets) based on the TCFD framework so as to enable good communication with shareholders, investors, and a broad spectrum of other stakeholders. Epson has decided to disclose the level of financial impact in 2021 in a quantitative manner for the first time.

##### a. Governance

Important matters related to climate change are supervised by the board of directors, who receives reports at least once a year after deliberations at the “Sustainability Strategy Council,” which formulates medium- to long-term strategy for the Epson Group’s sustainability activities and carries out reviews of the status of implementation as the president’s advisory body.

In addition, Seiko Epson’s president and representative director, the individual who has the highest responsibility and authority for climate-related issues, delegates responsibility for climate-related issues to the Sustainability Director, who heads the Sustainability Promotion Office and manages and promotes climate change initiatives, including TCFD.

■ Executive organization



b. Strategy

Epson has determined that achieving sustainability in a circular economy and advancing the frontiers of industry are material matters in its value creation story. To achieve these, we will further reduce greenhouse gas (GHG) emissions by leveraging our efficient, compact, and precision technologies to drive innovation.

Epson identified and evaluated scenarios in the categories of transition risk, physical risk, and opportunity to evaluate the importance of climate-related risks and opportunities. Six risks and opportunities were singled out for evaluation. We evaluated the business impact and financial impact of each on the basis of the scenarios corresponding to temperature increase of 1.5°C presented by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) as well as on the basis of internal and external information. The results of the evaluation of climate-related risks and opportunities based on this scenario analysis are as follows:

## Climate-Related Risks and Opportunities in a 1.5°C Scenario

The results of evaluating climate-related risks and opportunities based on scenario analysis are as follows.

Category		Evaluated risks & opportunities	Actualization	Business impacts	Financial impact
Transition risks	Market changes Policy & laws and regulations	Paper demand	Short-term	<b>Impact</b> <ul style="list-style-type: none"> <li>We were unable to detect a strong relationship between climate change and the change in paper demand, but demand for printing and communication paper is assumed to be on a declining trend. Even if that shift to paperless advances further due to changes in trends due to COVID-19 (such as the contraction of office printing because of decentralization), we expect that the financial impact from the strengthening of products and services based on inkjet technology and paper recycling technology (reduction of printing costs, reduction of environmental impacts, increase of ease of printing, appeal using usefulness of paper information) will be limited.</li> </ul>	Small
		(Initiatives in Environmental Vision 2050) - Decarbonization - Closed resource loop - Environmental technology development	Short-term	<b>Impact</b> <ul style="list-style-type: none"> <li>“Decarbonization” of products and services as well as the supply chain and advanced initiatives in “resource recycling” are needed to respond to “climate change” and “resource depletion,” which are social issues shared globally.</li> <li>Scientific and specific solutions are necessary to develop environmental technologies linked with the rapid decrease of environmental impacts.</li> </ul> <b>Response to risks</b> <ul style="list-style-type: none"> <li>Decarbonization                             <ul style="list-style-type: none"> <li>Renewable energy use</li> <li>Energy-saving facilities</li> <li>Greenhouse gas removal</li> <li>Supplier engagement</li> <li>Carbon-free logistics</li> </ul> </li> <li>Closed resource loop                             <ul style="list-style-type: none"> <li>Effective use of resources</li> <li>Minimize production losses</li> <li>Extend product service lives</li> </ul> </li> <li>Environmental technology development                             <ul style="list-style-type: none"> <li>Dry fiber technology applications</li> <li>Naturally derived (plastic-free) materials</li> <li>Material recycling (metal, paper)</li> <li>CO<sub>2</sub> absorption technology</li> </ul> </li> </ul>	Invest a total of approximately ¥100.0 billion by 2030
Physical risks	Acute	Damage to business sites due to floods, etc.	Long-term	<b>Impact</b> <ul style="list-style-type: none"> <li>Based on the results of the latest FY2021 risk assessment for 36 sites (17 sites in Japan and 19 sites overseas), the changes in future operational risks due to flooding (rivers overflowing) and high tides are limited.</li> <li>Short-term climate change risks to the supply chain will be addressed in line with our business continuity plans.</li> </ul>	Small
	Chronic	Damage to business sites due to rising sea levels			

# SEIKO EPSON CORPORATION

Category		Evaluated risks & opportunities	Actualization	Business impacts	Financial impact
Opportunities	Products and services	(Initiatives in “Environment Vision 2050”) - Customer environmental impact mitigation	Short-term	<p><b>Assumed scenarios</b></p> <ul style="list-style-type: none"> <li>The need for environmentally friendly products and services will increase due to the introduction of a carbon tax, soaring electricity prices, rising waste disposal costs, sustainable production amounts, and reduced resource use.</li> </ul> <p><b>Business opportunities</b></p> <ul style="list-style-type: none"> <li>For the growth areas of “Epson 25 Renewed,” a CAGR (compound annual growth rate) of 15% is expected for revenue growth by providing 1) office printing, commercial &amp; industrial printing and printhead sales utilizing inkjet technology to achieve a reduction of environmental impacts, increased work productivity and reduction of printing costs and 2) production systems with expanded use of new production devices to achieve a reduction of environmental impacts.</li> </ul>	Large CAGR of 15% is expected in growth areas until 2025
		Environmental business	Short-term	<p><b>Assumed scenarios</b></p> <ul style="list-style-type: none"> <li>Market growth is expected in the field of combatting global warming and the field of waste treatment and effective utilization of resources.</li> <li>Due to the shift to a circular economy, market growth is expected for recycled plastics, high-performance biomaterials, bioplastics and metal recycling.</li> </ul> <p><b>Business opportunities</b></p> <ul style="list-style-type: none"> <li>As effective solutions for combatting global warming and responding to the shift to a circular economy, generate revenue by upcycling (enhancing functionality), eliminating plastics (packing and molding materials), creating new high-value-added materials and carrying out other measures through the establishment of technologies, such as applications of dry fiber technology, including paper recycling, development of naturally derived materials (elimination of plastics) and recycling of raw materials (metal and paper recycling).</li> </ul>	Medium

**Actualization** Short term: ≤ 10 years

Medium term: 10-50 years

Long term: > 50 years

**Financial impact** Small: ≤ 1 billion yen

Medium: 1-10 billion yen

Large: >10 billion yen

## c. Risk management

As the environment in which we operate grows more complex and uncertain, effectively dealing with risks that could have a significant impact on corporate activities will be essential in order to carry out business strategies and business objectives.

Epson sees climate-related issues as risks that could significantly impact management and manages them appropriately.

### ■ Climate-related risk identification, assessment and management process

1. Study	2. Identify & assess	3. Manage
<ul style="list-style-type: none"> <li>- Study risks of natural disasters caused by climate change at major sites worldwide.</li> <li>- Research social trends.</li> </ul>	<ul style="list-style-type: none"> <li>- Identify risks and opportunities from the policies and action of “Epson 25 Renewed” and “Environmental Vision 2050.”</li> <li>- Evaluate scenario analysis through the Sustainability Strategy Council and board of directors.</li> </ul>	<ul style="list-style-type: none"> <li>- Effectively manage risks through the Sustainability Strategy Council and the board of directors.</li> </ul>

## d. Metrics and targets

Under “Environmental Vision 2050,” in order to achieve the medium- and long-term greenhouse gas (GHG) emission reduction targets validated by the Science Based Targets initiative (SBTi), we are actively working to reduce environmental impacts throughout the value chain such as by improving the environmental performance of our products, utilizing renewable energy, and enhancing our business activities, based on our efficient, compact, and precision technologies, which are a source of Epson’s technologies.

The current targets validated by the SBTi correspond to the target of 2°C. In FY2021, we plan to update the reduction targets to those that correspond to the target of 1.5°C, which is the target in “Environmental Vision 2050.”

### GHG Reduction Targets (reduction targets in line with “SBT 1.5 Scenario”)

scopes 1, 2, 3	Reduce GHG emissions by 55% compared to FY2017 by FY2030.
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Scope 1: Direct emissions from the use of fuel, etc., by the reporting company

Scope 2: Indirect emissions from purchased energy

Scope 3: Emissions from the reporting company’s value chain

## 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 its dividend policy and the perspective of stable dividend, the Company has paid an annual dividend of ¥62 per share.

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 29, 2020, by resolution of the board of directors	10,731	31
June 25, 2021, by resolution of the general shareholders' meeting	10,731	31

#### Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 29, 2020 includes ¥6 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 25, 2021 includes ¥6 million of cash dividends for the Company's shares held through the BIP trust.