EXCEED YOUR VISION

ANNUAL REPORT 2017

SEIKO EPSON CORPORATION

April 2016 - March 2017

Cautionary Statement

This report includes forward-looking statements that are based on management's view from the information available at the time of the announcement. These statements are subject to various risks and uncertainties. Actual results may be materially different from those discussed in the forward-looking statements. The factors that may affect Epson include, but are not limited to, general economic conditions, the ability of Epson to continue to quickly introduce new products and services, consumption trends, competition, technology trends, and exchange rate fluctuations.

In this annual report, "Epson" or the "Group" refers to the Epson Group, while "the Company" may refer to the Group or the parent company, Seiko Epson Corporation.

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Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	IFRS				
	Millions of yen				Thousands of U.S. dollars
	2014	2015	2016	**2017**	**2017**
Statement of Comprehensive Income					
Revenue	1,008,407	1,086,341	1,092,481	**1,024,856**	**9,135,003**
Information-related equipment business segment	841,228	907,296	-	-	-
Devices and precision products business segment	148,779	156,297	-	-	-
Sensing and industrial solutions business segment	16,174	23,396	-	-	-
Other	1,333	1,390	-	-	-
Adjustments	891	(2,038)	-	-	-
Printing Solutions business segment	-	730,867	736,369	**686,619**	**6,120,154**
Visual Communications business segment	-	177,186	184,033	**179,682**	**1,601,586**
Wearable & Industrial Products business segment	-	173,478	170,415	**158,548**	**1,413,209**
Other	-	1,390	1,404	**1,509**	**13,450**
Adjustments	-	3,418	257	**(1,502)**	**(13,396)**
Gross profit	362,589	395,924	397,660	**365,974**	**3,262,091**
Selling, general and administrative expenses	(272,501)	(294,648)	(312,708)	**(300,167)**	**(2,675,523)**
Profit from operating activities	79,549	131,380	94,026	**67,892**	**605,151**
Profit before tax	77,977	132,536	91,530	**67,470**	**601,390**
Profit for the period attributable to owners of the parent company	84,203	112,560	45,772	**48,320**	**430,698**
Total comprehensive income for the period	120,480	145,483	(1,469)	**55,982**	**498,992**

Statement of Cash Flows					
Net cash provided by (used in) operating activities	114,859	108,828	113,054	**96,873**	**863,472**
Net cash provided by (used in) investing activities	(41,244)	(32,735)	(51,558)	**(75,759)**	**(675,274)**
Free cash flows	73,615	76,093	61,495	**21,114**	**188,198**
Net cash provided by (used in) financing activities	(56,567)	(55,392)	(67,171)	**(26,691)**	**(237,908)**

Statement of Financial Position					
Current assets	560,645	650,383	601,451	**602,446**	**5,369,872**
Non-current assets	348,245	355,898	339,888	**371,940**	**3,315,278**
Total assets	908,890	1,006,282	941,340	**974,387**	**8,685,150**
Current liabilities	336,087	355,442	325,019	**351,389**	**3,132,088**
Non-current liabilities	208,045	153,531	145,644	**128,275**	**1,143,382**
Equity attributable to owners of the parent company	362,371	494,325	467,818	**492,196**	**4,387,164**

	IFRS				
	Millions of yen				Thousands of U.S. dollars
	2014	2015	2016	**2017**	**2017**
Per Share Data (yen and U.S. dollars)					
Basic earnings per share (Note2)	235.35	314.61	127.94	**136.82**	**1.22**
Diluted earnings per share (Note2)	235.35	314.61	127.94	**136.82**	**1.22**
Cash dividends per share (Note4)	50.00	115.00	60.00	**60.00**	**0.52**
Equity attributable to owners of the parent company, per share (Note2)	1,012.83	1,381.66	1,307.58	**1,397.40**	**12.46**

Financial Ratios (%)				
Equity attributable to owners of the parent company, ratio	39.9	49.1	49.7	**50.5**
ROE (Profit for the period attributable to owners of the parent company / Beginning and ending balance average equity attributable to owners of the parent company)	27.7	26.3	9.5	**10.1**
ROA (Profit from operating activities / Beginning and ending balance average total assets)	9.2	13.7	9.7	**7.1**
ROS (Profit from operating activities / Revenue)	7.9	12.1	8.6	**6.6**

Number of Employees				
Information-related equipment business segment	55,104	52,010	-	-
Devices and precision products business segment	13,723	12,787	-	-
Sensing and industrial solutions business segment	1,197	1,246	-	-
Printing Solutions business segment	-	-	41,051	**44,789**
Visual Communications business segment	-	-	10,041	**10,973**
Wearable & Industrial Products business segment	-	-	13,312	**13,092**
Other	252	306	340	**337**
Corporate	2,895	3,529	2,861	**3,229**
Total	73,171	69,878	67,605	**72,420**

Notes

1. The Consolidated Financial Statements have been prepared on the basis of International Financial Reporting Standards (IFRS) from the year ended March 31, 2014.
2. Seiko Epson Corporation (the "Company") completed the Company's ordinary shares split with an effective date of April 1, 2015. As a result, each share of the Company's ordinary shares was split into two shares. Basic earnings per share, diluted earnings per share and equity attributable to owners of the parent company, per share were calculated under the assumption that the shares split took effect at the beginning of the year ended March 31, 2014.
3. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.19 = U.S. $1 as of March 31, 2017.
4. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
5. Equity attributable to owners of the parent company is equity excluding non-controlling interest in subsidiaries.

For the years ended March 31

	JGAAP	
	Millions of yen	
	2013	2014
Statements of Income		
Net sales	851,297	1,003,606
Information-related equipment business segment	688,029	-
Devices and precision products business segment	156,872	-
Other	1,273	-
Eliminations and corporate	5,122	-
Information-related equipment business segment	685,862	836,436
Devices and precision products business segment	140,790	148,956
Sensing and industrial solutions business segment	11,413	16,181
Other	1,273	1,334
Eliminations and corporate	11,957	699
Gross profit	234,439	322,976
Selling, general and administrative expenses	213,184	238,007
Operating income	21,255	84,968
Ordinary income	17,629	78,121
Income (loss) before income taxes and minority interests	(3,479)	71,916
Profit (loss) attributable to owners of parent	(10,091)	83,698

Research and development costs	49,923	50,531
Capital expenditures	43,155	37,825
Depreciation and amortization	39,320	38,725

Net cash provided by (used in) operating activities	42,992	111,253
Net cash provided by (used in) investing activities	(39,511)	(39,519)
Free cash flows	3,480	71,733
Net cash provided by (used in) financing activities	21,298	(56,567)

	JGAAP	
	Millions of yen	
	2013	2014
Balance Sheet		
Current assets	519,457	602,452
Property, plant and equipment (net of accumulated depreciation)	217,388	216,170
Total assets	778,547	865,872
Current liabilities	326,688	313,636
Non-current liabilities	193,052	200,505
Net assets	258,806	351,730

Number of Employees		
Information-related equipment business segment	50,823	55,104
Devices and precision products business segment	13,859	13,723
Sensing and industrial solutions business segment	-	1,197
Other	241	252
Corporate	3,838	2,895
Total	68,761	73,171

Per Share Data (Yen)		
Earnings per share (Note1)	(56.41)	233.94
Cash dividends per share (Note3)	20.00	50.00
Net assets per share (Note1)	1,435.20	976.41

Financial Ratios (%)		
Shareholders' equity ratio	33.0	40.3
ROE (net income (loss) / average shareholders' equity at beginning and end of year)	(4.0)	27.6
ROA (ordinary income / average total assets at beginning and end of year)	2.3	9.5
ROS (operating income / net sales)	2.5	8.5

Notes

1. Seiko Epson Corporation (the "Company") completed the Company's ordinary shares split with an effective date of April 1, 2015. As a result, each share of the Company's ordinary shares was split into two shares. Earnings per share and net assets per share were calculated under the assumption that the shares split took effect at the beginning of the year ended March 31, 2014.
2. Ordinary income is a common item on financial statements in Japan, which is calculated by adding to or subtracting from operating income items such as interest income, rent income, interest expenses and foreign exchange gains or losses.
3. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
4. Shareholders' equity is net assets excluding minority interests.

Information on the Company
1. Overview of the business group

Epson is primarily engaged in developing, manufacturing, selling, and providing services for products in the printing solutions, visual communications, wearable and industrial products, and the other business.

Epson is organized into operations divisions that come under global consolidated management. The majority of advanced R&D and product development is conducted in Japan (by Corporate R&D and R&D organizations in the various operations divisions), while manufacturing and sales activities are conducted around the world by Epson Group manufacturing and sales companies, both in Japan and abroad.

A brief description of Epson's various businesses is provided below along with a list of the main Epson Group companies involved in each segment.

Printing Solutions Business Segment
This segment comprises the printer business, professional printing business, and others. The businesses in this segment leverage Epson's original Micro Piezo and other technologies to develop, manufacture, and sell products. The main activities of these businesses are described below.

Printer business
This business is primarily responsible for home and office inkjet printers, serial impact dot matrix (SIDM) printers, page printers, color image scanners, and related consumables, as well as office papermaking systems.

Professional printing business
This business is primarily responsible for large-format inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers, and related consumables.

Others
This business sells PCs in the Japanese market through a domestic subsidiary.

The major Epson Group companies involved in this segment are listed in the table below.

<table>
<tr><th rowspan="2">Business area</th><th rowspan="2">Main products</th><th colspan="2">Main Epson Group companies</th></tr>
<tr><th>Manufacturing companies</th><th>Sales companies</th></tr>
<tr><td>Printers</td><td>Inkjet printers, serial impact dot matrix printers, page printers, color image scanners, and related consumables, office papermaking systems</td><td rowspan="2">Tohoku Epson Corporation
Akita Epson Corporation
Epson Portland Inc.
Epson Telford Ltd.
Fratelli Robustelli S.r.l.
Tianjin Epson Co., Ltd.
Epson Engineering (Shenzhen) Ltd.
P.T. Epson Batam
P.T. Indonesia Epson Industry
Epson Precision (Philippines), Inc.</td><td rowspan="2">Epson Sales Japan Corporation
Epson America, Inc.
Epson Europe B.V.
Epson (U.K.) Ltd.
Epson Deutschland GmbH
Epson France S.A.
Epson Italia S.p.A.
For.Tex S.r.l.
Epson Iberica, S.A.
Epson (China) Co., Ltd.
Epson Korea Co., Ltd.
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.
P.T. Epson Indonesia
Epson (Thailand) Co., Ltd.
Epson Philippines Corporation
Epson Australia Pty. Ltd.
Epson India Pvt. Ltd.</td></tr>
<tr><td>Professional printing</td><td>Large-format inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers, and related consumables, and others</td></tr>
<tr><td>Others</td><td>PCs and other equipment</td><td>—</td><td>Epson Sales Japan Corporation
Epson Direct Corporation</td></tr>
</table>

Visual Communications Business Segment

The businesses in this segment leverage Epson's original microdisplay and projection technologies to develop, manufacture, and sell 3LCD projectors for business, education, and the home; high-temperature polysilicon TFT LCD panels for 3LCD projectors; and smart eyewear.

The major Epson Group companies involved in this segment are listed in the table below.

<table>
<tr><th rowspan="2">Business area</th><th rowspan="2">Main products</th><th colspan="2">Main Epson Group companies</th></tr>
<tr><th>Manufacturing companies</th><th>Sales companies</th></tr>
<tr><td>Visual communications</td><td>3LCD projectors, high-temperature polysilicon TFT LCD panels for 3LCD projectors, smart eyewear, and others</td><td>Epson Engineering (Shenzhen) Ltd.
Epson Precision (Philippines), Inc.</td><td>Epson Sales Japan Corporation
Epson America, Inc.
Epson Europe B.V.
Epson (U.K.) Ltd.
Epson Deutschland GmbH
Epson France S.A.
Epson Italia S.p.A.
Epson Iberica, S.A.
Epson (China) Co., Ltd.
Epson Korea Co., Ltd.
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.
P.T. Epson Indonesia
Epson (Thailand) Co., Ltd.
Epson Philippines Corporation
Epson Australia Pty. Ltd.
Epson India Pvt. Ltd.</td></tr>
</table>

Wearable & Industrial Products Business Segment

This segment comprises the wearable products business, robotics solutions business, and the microdevices business.
The main activities of these businesses are described below.

Wearable products business

This business leverages its ultrafine and ultraprecision machining and processing technologies and its high-density mounting and assembly technologies to develop, manufacture and sell watches, as well as to develop, manufacture and sell useful products that use high-accuracy sensors to connect people and information.

Watch business

This business primarily develops, manufactures, and sells watches and watch movements. Effective April 1, 2017, Seiko Epson succeeded to the watch sales operations (excluding domestic sales operations in Japan) of Orient Watch Co., Ltd. via an absorption-type company split. Epson Sales Japan Corporation, a consolidated subsidiary of Seiko Epson, succeeded to the domestic sales operations of Orient Watch Co., Ltd.

Sensing equipment business

This business is primarily engaged in developing, manufacturing, and selling sensing equipment that have extremely accurate built-in sensors and that are used in the personal health and sports fields etc.

Robotics solutions business

This business uses advanced precision mechatronics and other technologies to develop, manufacture, and sell industrial robots, IC handlers and other production systems that dramatically increase productivity.

Micro-devices and others business

This business designs, manufactures, and sells small, accurate, energy-efficient electronic devices for external customers as well as for other businesses in the Epson Group. It also provides metal powders and surface finishing services.

Quartz device business

This business provides crystal units, crystal oscillators, and quartz sensors for consumer, automotive, and industrial equipment applications.

Semiconductor business

This business provides CMOS LSIs and other chips mainly for consumer electronics and automotive applications.

Others

This business develops, manufacturers, and sells a variety of high-performance metal powders for use as raw materials in the production of electronic components, etc. This business also provides high-value-added surface finishing in a wide variety of industrial fields.

The major Epson Group companies involved in this segment are listed in the table below.

Business area	Main products	Main Epson Group companies	
		Manufacturing companies	Sales companies
Wearable products	**Watches** Wristwatches, watch movements, and others	Akita Epson Corporation Epson Precision (Shenzhen) Ltd. Orient Watch (Shenzhen) Ltd. Epson Precision (Johor) Sdn. Bhd.	Orient Watch Co., Ltd. Epson Hong Kong Ltd.
	Sensing equipment	Akita Epson Corporation	Epson Sales Japan Corporation
Robotics solutions	Industrial robots, IC handlers, and others	Epson Engineering (Shenzhen) Ltd.	Epson Sales Japan Corporation Epson America, Inc. Epson Deutschland GmbH Epson (China) Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd.
Microdevices and others	**Quartz devices** Crystal units, crystal oscillators, quartz sensors, and others	Miyazaki Epson Corporation Epson Precision Malaysia Sdn. Bhd.	Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd.
	Semiconductors CMOS LSIs, and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd.	
	Others Metal powders, surface finishing	Epson Atmix Corporation Singapore Epson Industrial Pte. Ltd.	

<u>Other Business Segment</u>

This segment comprises the businesses of Epson Group companies that offer services for and within the Epson Group.

2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

(1) Seiko Epson Corporation

As of March 31, 2017

Name of plant (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m^2)	Other	Total	
Head Office (Suwa-shi, Nagano)	Overall administration and other	Other facilities	1,450	151	1,201 (42,383) [2,136]	72	2,876	509
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	708	–	– (–)	87	795	86
Hirooka Office (Shiojiri-shi, Nagano)	Printing solutions Other	Printer development and design and component manufacturing facilities Research and development facilities	16,297	17,933	6,098 (198,152) [32,746]	3,688	44,017	5,415
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Other	Other facilities	1,308	43	3,764 (179,759) [1,758]	48	5,165	653
Toyoshina Plant (Azumino-shi, Nagano)	Visual communications Wearable & Industrial products	3LCD projector, smart eyewear and factory automation development and design facilities	2,619	1,162	749 (75,912) [32,092]	1,760	6,291	1,436
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Printing solutions Visual communications Other	Printer component and liquid crystal panel manufacturing facilities Research and development facilities	6,070	14,349	1,443 (113,082) [28,909]	1,216	23,080	1,068
Chitose Plant (Chitose-shi, Hokkaido)	Visual communications	Liquid crystal panel manufacturing facilities	2,030	2,072	1,375 (160,528)	1,027	6,506	208
Ina Plant (Minowa-machi, Kamiina-gun, Nagano)	Wearable & Industrial products	Crystal device development and design facilities	1,849	1,958	129 (39,943) [1,502]	260	4,197	444
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Wearable & Industrial products Other	Sensing equipment and semiconductor development and design facilities Research and development facilities	6,948	1,948	1,996 (247,143)	855	11,748	1,070
Sakata Plant (Sakata-shi, Yamagata)	Wearable & Industrial products	Semiconductor manufacturing facilities Other	7,256	4,197	2,177 (538,828)	650	14,282	23
Hino Office (Hino-shi, Tokyo)	Wearable & Industrial products	Sales facilities	2,854	0	7,627 (36,245)	60	10,543	216
Shiojiri Plant (Shiojiri-shi, Nagano)	Wearable & Industrial products	Watch development, design and manufacturing facilities	1,693	3,010	1,047 (41,836) [5,764]	331	6,083	689

(2) Domestic subsidiaries

As of March 31, 2017

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m^2)	Other	Total	
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Printing solutions Wearable & Industrial products	Printer component and semiconductor manufacturing facilities	1	17	– (–)	905	924	1,986
Akita Epson Corporation (Yuzawa-shi, Akita)	Printing solutions Wearable & Industrial products	Printer component, watch movements and sensing equipment manufacturing facilities	5,289	139	650 (65,436)	708	6,787	953
Epson Atmix Corporation (Hachinohe-shi, Aomori)	Wearable & Industrial products	Manufacturing facilities for metal powders, etc.	2,911	2,070	409 (30,653) [34,208]	159	5,550	262

(3) Overseas subsidiaries

As of March 31, 2017

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m^2)	Other	Total	
Epson Engineering (Shenzhen) Ltd. (Shenzhen, China)	Printing solutions Visual communications Wearable & Industrial products	Printer, 3LCD projector and factory automation manufacturing facilities	3,078	3,556	– (–) [64,104]	3,710	10,345	9,329
Singapore Epson Industrial Pte. Ltd. (Singapore)	Printing solutions Wearable & Industrial products	Printer consumables, watch component and semiconductor manufacturing facilities and surface finishing facilities	3,839	7,601	52 (41,065) [54,094]	1,086	12,580	5,716
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Printing solutions	Printer manufacturing facilities	6,021	4,935	– (–) [254,871]	7,646	18,602	11,167
Epson Precision (Philippines), Inc. (Lipa, Philippines)	Printing solutions Visual communications	Printer and 3LCD projector manufacturing facilities	8,290	3,529	513 (100,000) [130,000]	3,385	15,719	10,861
Epson Precision Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Wearable & Industrial products	Crystal device manufacturing facilities	397	2,634	297 (32,437)	25	3,354	1,686

Notes

1. The above figures do not include consumption tax.
2. “Other” under the book value column includes tools, furniture and fixtures and other property, plant and equipment, but does not include construction in progress.
3. Portions of land are leased from companies not included in consolidated accounts. The size of each area of leased land is indicated in brackets [ ].
4. Tohoku Epson Corporation uses a portion of the facilities of the Sakata Plant.
5. Figures for Singapore Epson Industrial Pte. Ltd. and Epson Precision (Philippines), Inc., are included in consolidated business results.
6. The above book value amounts are after adjustments for consolidated accounts.

3. Overview of capital expenditures

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

As a result of these efforts, total capital expenditures (including property, plant and equipment, software and lease rights) amounted to ¥75.3 billion.
No equipment with significant impact on production capacity was sold or removed.
Capital expenditures in each business segment are discussed below.

Printing solutions segment
Investment used for commercializing new products such as printers, and for increasing of production capacity, rationalizing, upgrading and maintaining equipment and facilities amounted to ¥43.9 billion in the fiscal year under review.

Visual communications segment
Investment used for commercializing new products such as 3LCD projectors, and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥10.2 billion in the fiscal year under review.

Wearable & Industrial products segment
Investment used for commercializing new products such as watches, sensing equipment, factory automation products, crystal devices and semiconductors, and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥9.1 billion in the fiscal year under review.

Other and overall
Investment in R&D and other activities amounted to ¥11.9 billion in the fiscal year under review.

4. Plans for new additions or disposals

Epson plans to allocate ¥76.0 billion to capital expenditures for the fiscal year ending March 31, 2018.

Business segment	Planned amount of capital expenditures (100 million yen)	Main type and purpose of equipment and facilities
Printing solutions	430	Commercializing new products; increasing of production capacity, rationalizing, upgrading and maintaining equipment and facilities, etc.
Visual communications	130	Commercializing new products; increasing of production capacity, rationalizing, upgrading and maintaining equipment and facilities, etc.
Wearable & Industrial products	100	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Other and overall	100	Investment in research and development, etc.
Total	760	–

Notes

1. The above amounts do not include consumption tax.
2. Required funds will be covered by current funds in hand.
3. There are no plans to dispose of or sell major equipment and facilities with the exception of disposals and sales associated with regular and ongoing upkeep of equipment and facilities.

5. Major management contracts

(1) Reciprocal technical assistance agreements

Name of contracting company	Name of other party	Country	Type of contract	Contract period
Seiko Epson Corporation	Hewlett-Packard Company	U.S.A.	License to use patents relating to information-related equipment	May 1, 2012 until the expiry of the patents
Seiko Epson Corporation	International Business Machines Corporation	U.S.A.	License to use patents relating to information-related equipment	April 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Microsoft Corporation	U.S.A.	License to use patents relating to information-related equipment and software used by such equipment	September 29, 2006 until the expiry of the patents
Seiko Epson Corporation	Eastman Kodak Company	U.S.A.	License to use patents relating to information-related equipment	October 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Xerox Corporation	U.S.A.	License to use patents relating to electrophotography and inkjet printers	March 31, 2008 until the expiry of the patents
Seiko Epson Corporation	Texas Instruments Incorporated	U.S.A.	License to use patents relating to semiconductors and information-related equipment	April 1, 2008 until March 31, 2018
Seiko Epson Corporation	Canon Incorporated	Japan	License to use patents relating to information-related equipment	August 22, 2008 until the expiry of the patents

(2) Others

No major management contracts were decided or concluded during the fiscal year under review other than those stated in (1) above.

On November 30, 2016, the Company and its consolidated subsidiary Epson Imaging Devices Corporation (EID) agreed on the absorption-type merger of EID and concluded a merger contract with the effective date of February 1, 2017.

On January 31, 2017, the Company and its consolidated subsidiary Orient Watch Co., Ltd. (“Orient Watch”) agreed that the Company would succeed the watch sales business (excluding the Japan domestic sales business, etc.) of Orient Watch by an absorption-type split and concluded a company split contract with the effective date of April 1, 2017. The domestic sales business of Orient Watch was succeeded by Epson Sales Japan Corporation, another consolidated subsidiary of the Company.

Risks Related to Epson's Business Operations

At present, we have identified the following significant factors as risks that could have a materially adverse effect on our future business, financial condition or operating results and that should thus be taken into account by investors.
We strive to recognize, prevent, and control potential risks and to address risks that materialize.
Also, all forward-looking statements hereunder were made at Epson's discretion as of the date this Annual Report was submitted.

1. Our financial performance could be adversely affected by fluctuations in printer sales.
The ¥ 686.6 billion in revenue in the printing solutions segment in the year ended March 2017 accounted for slightly less than 70% of Epson's ¥ 1,024.8 billion in consolidated revenue. Inkjet printers (including printer consumables) for the home, office, and for commercial and industrial applications accounted for a large majority of our revenue and profit. Consequently, a decrease in revenue from printers and printer consumables could have a materially adverse effect on our operating results.

2. Our financial performance could be adversely affected by competition.
Adverse effects of competition on sales
All of our products, including our core printer and projector products, are subject to the effects of vigorous competition, which could cause, among other things, prices to fall, demand to shift toward lower-priced products, and unit shipments to decline.
We are taking strategic action to address the risk of declines in prices, a shift of demand toward lower-priced products, and unit shipments. On one hand, we must provide products tailored to customer needs in each market along with high-value products and services. On the other hand, we must reduce manufacturing costs by increasing design and development efficiency and by reducing fixed costs.
However, there is no assurance we will succeed in these efforts, and if we are unable to effectively counteract downward pressure on prices, our operating results could be adversely affected.

Adverse effects of competition on technology
Some of the products that we sell contain technology that places Epson in competition against other companies. For example:
- The Micro Piezo technology[1] that we use in our inkjet printers competes with the thermal inkjet technologies[2] of other companies;
- The 3LCD technology[3] that we use in our projectors competes with other companies' DLP technologies[4], and Epson's projectors also compete against flat panel displays (FPDs)[5] of other companies.

We believe that the technologies we use in these products have competitive advantage over the alternative technologies of other companies. However, if consumer opinion with respect to our technologies changes, or if other revolutionary technologies appear on the market and compete with our technologies, we could lose our competitive advantage in technology and our operating results could be adversely affected.

1 Micro Piezo technology is an inkjet technology created by Epson that manipulates piezoelectric elements to fire small droplets of ink from nozzles.
2 Thermal inkjet technology (also known as bubble-jet technology) is a printer technology in which the ink is heated to create bubbles and the pressure from the bubbles is used to fire the ink.
3 3LCD technology uses high-temperature polysilicon TFT liquid-crystal panels as light valves. The light from the light source is divided into the three primary colors (red, green and blue) using special mirrors, the picture is created on separate LCDs for each color, and then the picture is recombined without loss and projected on the screen.
4 DLP technology uses a digital micro-mirror device (DMD) as a display device. A DMD is a semiconductor on which a large number of micro mirrors are arranged, each mirror directing light onto its own individual pixel. An image is formed by the light from the light source being reflected from the mirrors onto the screen. DLP and DMD are registered trademarks of Texas Instruments Incorporated.
5 FPD encompasses a variety of thin electronic display technologies.

The emergence of new competitors
We presently face competition from powerful companies that have advanced technological capabilities, abundant financial resources, or strong financial compositions. We also face competition from companies around the world that have market recognition, strong supply capacities, or the ability to compete on price. There is, therefore, a

possibility that other companies could use their brand power, technological strength, ability to procure funds, marketing power, sales skills, low-cost production ability, or other advantages to enter business areas where we are active.

3. Sudden changes in the business environment could affect Epson.

Epson seeks to drive inkjet innovation, visual innovation, wearables innovation, and robotics innovation. We are looking to achieve our vision for each business by providing value to customers in the form of smart technologies, environmental benefits, and functional performance. Epson is executing plans and strategies based on a long-range corporate vision and a mid-range business plan that we believe will enable us to establish a competitive advantage in technology, which we believe will be crucial for increasing our competitiveness. We are driving further advances in our original core technologies, including Micro Piezo inkjet technology, microdisplays, sensing, and robotics, all of which arose from the efficient, compact, and precision technologies that have become a source of Epson's strength over many decades. By combining these technologies to create platforms, we are developing, manufacturing, and selling products and providing services that match customer needs.

However, in the product markets and businesses where Epson is concentrating its management resources the pace of technological innovation is typically rapid, and product life cycles are short. In addition, demand and investment trends in Epson's major markets could change along with global economic conditions and could affect sales of Epson products. Moreover, there is no guarantee that Epson's current mid-range business plan, business strategies, and actions specified therein will succeed or be realized.

Epson will also strive to make rapid and smooth transition from existing products to new products by understanding market and customer needs, investing and conducting research and development from a medium- and long-range view based on product market forecasts, and creating development and design platforms.

However, if Epson cannot suitably respond to technological innovations in its main markets, or if competition with other companies intensifies, or if economic downturns or other factors prevent a recovery in demand, or if Epson is unable to adequately meet sudden fluctuations in demand in a major market, its operating results could be adversely affected.

4. Our revenue and earnings could be adversely impacted by sales of third-party inkjet printer consumables.

Ink cartridges etc., which comprise the bulk of consumables sold for inkjet printers, are an important source of revenue and profit for Epson. However, third parties also supply ink cartridges and other inkjet printer consumables that can be used in Epson printers. These alternative products are typically sold for less than genuine Epson brand consumables and are more prevalent in emerging markets compared to the markets of developed countries.

To counter sales of third-party consumables for inkjet printers, we must emphasize the quality of genuine Epson products and must look to continuously realize customer value by further enhancing customer convenience with inkjet printers tailored to the needs of customers in each market. Printer models equipped with high-capacity ink tanks are an example of such products. We also take legal measures if any of the patent rights or trademark rights we hold over our ink cartridges are infringed upon.

However, there is no assurance that any of these efforts will be effective, and if our ink cartridge revenue and profit declines because unit shipments of Epson brand ink cartridges shrink as sales of third-party alternative products expand and as we lose market share, or if we must lower the prices of Epson brand products to stay competitive, our operating results could be adversely affected.

5. Expanding businesses overseas entails risks for Epson.

We continue to expand our businesses overseas, and overseas revenue accounted for approximately 75% of our consolidated revenue for the business year ended March 2017. We have production sites all over Asia, including China, Indonesia, Singapore, Malaysia and the Philippines, as well as in the United States, the United Kingdom, and other countries. We have also established many sales companies all over the world. As of the end of March 31, 2017, our overseas employees accounted for more than 70% of our total workforce.

We believe that our global presence provides many advantages. For example, it enables us to undertake marketing activities aligned with the market needs of individual regions. It also makes us cost-competitive by reducing manufacturing costs and lead times. There are, however, unavoidable risks associated with overseas manufacturing and sales operations. There are, however, unavoidable risks associated with overseas manufacturing and sales operations. These include but are not limited to changes in national laws, ordinances, or regulations related to manufacturing and sales; social, political or economic changes; transport delays; damage to infrastructure such as electrical power and communications; currency exchange restrictions; insufficient skilled labor; changes in regional labor environments; changes in tax systems overseas and uncertainty with regard to tax administration by tax authorities; protectionist trade regulations; geopolitical risks; and laws, ordinances, regulations or the like that could affect the import and export of Epson products.

6. Procuring products from certain suppliers entails risks for Epson.
We procure some parts and materials from third parties, but we generally conduct ongoing transactions without entering into long-term purchase agreements. We try to have multi-source relating to parts and materials. However, certain parts and materials are procured from a single source because procuring them from an alternative supplier is not possible. We must have procurement operations that are stable and efficient, so we work with our suppliers to maintain product quality, improve products, and reduce costs. However, if our manufacturing and sales activities were to be disrupted due to things such as supplier's parts shortages or supplier's quality problems, our operating results could adversely be affected.

7. Problems could arise relating to quality issues.
The existence of quality guarantees on Epson products and the details of those guarantees differ from one customer account to another, depending on the agreement we have entered into with them. If an Epson product is defective or does not conform to the required standard, it may have to be replaced or repaired or otherwise reworked at Epson's expense. Or, if the product causes personal injury or property damage, we could bear product liability or hold other liability.
We could also be liable to a customer and could incur expenses for repairs or corrections on the grounds that we did not adequately display or explain an Epson product's features or performance. Furthermore, product quality problems could cause loss of trust in Epson products, and we could lose major accounts or see a drop in demand for our products, any of which might adversely affect our operating results.

8. Epson's intellectual property rights activities expose Epson to certain risks.
Patent rights and other intellectual property rights are extremely important for maintaining our competitiveness. We have independently developed many of the technologies we need, and we acquire patent rights, trademark rights, and other forms of intellectual property rights for them both in Japan and overseas. We also license the intellectual property rights for products and technologies by entering into agreements with other companies. We must strengthen our intellectual property portfolio by placing personnel in key positions to manage our intellectual property.
If any of the situations envisioned below relating to intellectual property were to occur, our operating results could adversely be affected.

- An objection might be raised to, or an application to invalidate might be filed with respect to, an intellectual property right of Epson, and as a result, that right might be recognized as invalid.
- A third party to whom we originally had not granted a license could come to possess a license as a result of a merger with or acquisition by another party, potentially causing us to lose the competitive advantage conferred by that intellectual property.
- New restrictions could be imposed on an Epson business as a result of a buyout or a merger with a third party, and we could be forced to spend money to find a solution to those restrictions.
- Intellectual property rights that we hold might not give us a competitive advantage, or we might not be able to use them effectively.
- We or any of our customers could be accused by a third party of infringing on intellectual property rights, which could force us to spend a large amount of time and money to resolve this and associated issues, or which could interfere with our efforts to focus our management resources.
- If a third-party's claim of intellectual property right infringement were to be upheld, we could incur material damage if required to pay large amounts in compensation or royalties or if forced to stop using the applicable technology.
- A suit could be brought against Epson by an employee or other person seeking remuneration for an invention or the like, potentially forcing us to spend significant time and money to resolve the issue and, depending on the outcome, potentially requiring us to pay a large sum as remuneration.

9. Epson is vulnerable to environmental risks.
Epson is subject, both in Japan and overseas, to various environmental regulations concerning industrial waste and emissions into the atmosphere that arise from manufacturing processes. In addition, with heightened concern about the response to global climate change accompanying the Paris Agreement, which was adopted at the 21st

Conference of the Parties to the United Nations Framework Convention on Climate Change, companies increasingly need to set more ambitious goals for emissions reductions and strive to accomplish these goals.
Given this situation, Epson is proactively engage in environmental conservation efforts on multiple fronts in line with a mid-range action plan and "Environmental Vision 2050," a document that states our long-term goals for reducing our CO_2 emissions and other environmental impacts. For example, we have programs to develop and manufacture products that have a small environmental footprint. We also have programs to reduce energy use, promote the recovery and recycling of end-of-life products, ensure compliance with international substance regulations (primarily the RoHS Directive and REACH regulations in the EU), and improve environmental management systems.
As a result of these efforts, Epson has reduced its CO_2 emissions for the 2016 fiscal year to 590,000 tons. This represents an approximately 38% reduction since the 2006 fiscal year, which is the baseline year in "Environmental Vision 2050."
We have not had any serious environmental issues to date. In the future, however, it is possible that an environmental problem could arise that would require us to pay damages and/or fines, bear costs for cleanup, or force a halt of production. Moreover, new regulations could be enacted that would require major expenditures, and, if such a situation should occur, Epson's operating results could be adversely affected.

10. Epson faces risks concerning the hiring and retention of personnel.
We must hire and retain talented personnel both in Japan and overseas to develop advanced new technologies and manufacture advanced new products, but the competition for such personnel is becoming increasingly intense. We must hire and retain talented personnel by, for example, introducing compensation and benefit packages that are commensurate with roles and by proactively promoting people with the right skills overseas. If we are unable to continue to hire and keep enough of such employees, or if we are unable to pass along technologies and skills, we could find it difficult or impossible to execute our business plans.

11. Fluctuations in foreign currency exchanges create risks for Epson.
A significant portion of our revenue is denominated in U.S. dollars or the euro. We expanded our overseas procurement and moved our production sites overseas, so our dollar-denominated expenses currently exceed our dollar-denominated revenue. On the other hand, our euro-denominated revenue is still significantly greater than our euro-denominated expenses. On the whole, our revenues in other foreign currencies also significantly exceed our expenses in those currencies. Also, although we use currency forwards and other means to hedge against the risks inherent in foreign currency exchanges, unfavorable movements in the exchange rates of foreign currencies such as the U.S. dollar, euro, or other foreign currencies against the yen could adversely affect our financial situation and financial results.

12. There are risks inherent in pension systems.
We have a defined-benefit pension plan and a lump-sum payment on retirement as defined-benefit plans.
We revised the defined-benefit retirement pension plan in April 2014 in response to a drop in the rate of return on pension assets and an increase in the number of beneficiaries. The revisions are designed to enable us to adapt to future market changes and maintain stable operations into the future. However, if there is a change in the operating results of the pension assets or in the ratio used as the basis for calculating retirement allowance liabilities, our financial position and operating results could be adversely affected.

13. Epson is vulnerable to proceedings relating to antitrust laws and regulations.
With business operations that span the globe, Epson is subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and those protecting fair trade.
Overseas authorities sometimes investigate or gather information on certain industries and, in conjunction with this, Epson's market conditions and sales methods may come under investigation. Such investigations and proceedings, or violations of applicable statutes, could interfere with our sales activities. They could also potentially damage Epson's credibility or result in a large civil fine. Any of these could adversely affect our operating results.
Seiko Epson is currently under investigation by some competition authorities regarding allegations of involvement in a liquid crystal display price-fixing cartel. It is difficult at this time to predict the outcome of this investigation and when it may be settled.

14. Epson is at risk of material legal actions being brought against it.
Epson conducts businesses internationally. We are engaged primarily in the development, manufacture and sales of

printing solutions, visual communications equipment, and wearable and industrial products, as well as the provision of services related thereto. Given the nature of these businesses, there is a possibility that an action could be brought or legal proceedings could be started against Epson regarding, for example, intellectual property rights, product liability, antitrust laws or environmental regulations.
As of the date we submitted our Annual Securities Report, Epson was contending with the following material actions.
In June 2010, Epson Europe B.V. (“EEB”), a consolidated subsidiary of Seiko Epson, brought a civil suit against La SCRL Reprobel (“Reprobel”), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. With Reprobel subsequently filing a suit against EEB, the two lawsuits were adjoined. EEB’s claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.
It is difficult at this time to predict the outcome of these civil actions and when they may be settled, but our operating results and future business could be affected, depending on the outcomes of suits and legal proceedings.

15. Epson is vulnerable to certain risks in internal control over financial reporting.
We are building and using internal controls to ensure the reliability of financial reporting. With the establishment and operation of internal controls for financial reporting high on our list of important management issues, we have been pursuing a Group-wide effort to audit and improve corporate oversight of our Group companies. However, since there is no assurance that we will be able to establish and operate an effective internal control system on a continuous basis, and since there are inherent limitations to internal control systems, if the internal controls that Epson implements fail to function effectively, or if there are deficiencies in internal control over financial reporting or material weaknesses in the internal controls, it might adversely affect the reliability of our financial reporting.

16. Epson is vulnerable to risks inherent in its tie-ups with other companies.
One of our business strategy options is to enter into business tie-ups with other companies. However, the parties may review the arrangements of tie-ups, and there is a possibility that tie-ups could be dissolved or be subject to changes. There is also no assurance that the business strategy of tie-ups will succeed or contribute to our operating results exactly as expected.

17. Epson could be severely affected in the event of a natural or other disaster.
We have research and development, procurement, manufacturing, logistics, sales and service sites around the globe, and our operating results could be adversely affected by any number of unpredictable events, including but not limited to natural disasters, pandemics involving new strains of the influenza virus, infection by computer viruses, leaks or theft of customer data, reputational damage on social networking services (SNS), failures of mission-critical internal IT systems, supply chain disruptions, and acts of terrorism or war.
The central region of Nagano Prefecture, home to some of our key plants and offices, is an area that is at comparatively high risk of earthquakes due to the presence of an active fault zone along the Itoigawa-Shizuoka geotectonic line. Accordingly, in addition to earthquake-proofing its equipment and facilities, Epson conducts disaster drills, has prepared earthquake disaster management and response plans, and has established business continuity plans to mitigate the effects of disasters to the extent possible.
However, if a major earthquake occurs in the central region of Nagano Prefecture, it is possible that, despite these countermeasures, the effect on Epson could be extreme.
Although Epson is insured against losses arising from earthquakes, the scope of indemnification is limited.

18. Laws, regulations, or licenses and the like pose risks for Epson.
Epson is a multinational corporation with a variety of business operations around the globe. We ensure compliance with the laws and regulations of the countries in which we operate by building a robust compliance framework in each country and each business and by communicating the nature and importance of compliance requirements internally. To expand our businesses in the future, we must strengthen our sales and marketing activities that target new customers, including public institutions, and we plan to develop new areas, such as the health market, where greater adherence to all forms of relevant laws, regulations, and compliance (compliance with laws and regulations) is demanded.
Compliance remains high on our list of important management issues, and we are developing measures to prevent and control potential issues as appropriate. However, if we were to violate or potentially violate laws and regulations relating to, among others, corruption, advertising and labeling, personal data and privacy protection, or export control, or if the authorities were to introduce stricter laws and regulations or impose more stringent laws,

we could see our credibility damaged, could become subject to the imposition of a large civil fine, or could see constraints placed on our business activities. We could also see the costs of complying with such laws and regulations increase, and any of the foregoing could adversely affect our financial performance and future business development.

Business Conditions

1. Overview of business results

(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 recover, fueled by an increase in consumer spending and an improved employment situation. The economic slowdown in Latin America, however, continued. In Europe the economy also gradually recovered, with a drop in the unemployment rate. Meanwhile, the Chinese economy showed signs of picking up. In Japan improved corporate earnings, an uptick in consumer spending, and an improvement in the employment situation signaled a continuation of a gradual economic recovery.

The situation in the main markets of Epson was as follows.
Total demand for inkjet printers was stagnant due to the continuing contraction of the Japanese consumer market and a shrinking of the North American and Western European markets. On the other hand, there was solid demand for high-capacity ink tank printers, as the entry of other companies had the effect of boosting recognition. Large-format inkjet printer demand was subdued in China and Latin America due to economic deceleration but remained firm in North America and Japan. Serial-impact dot-matrix (SIDM) printer demand in China in the first half of the year was driven by that country's change from a business tax to a value added tax (B2V tax reform). However, demand continued to contract in the Americas and Europe.
Projector demand increased in Europe ahead of major sporting events, but overall demand was subdued due to the effects of the economic slowdown in Latin America, a sluggish North American retail market, and weak demand for education projectors in some major European countries. However, signs of a slight recovery were seen throughout the second half of the year.
Demand was mixed in the main markets for Epson's electronic devices. In the mobile phone market, demand for feature phones continued to decline while demand for smart phones remained firm, owing primarily to growth of emerging market manufacturers in China and elsewhere. Demand in the digital camera market was subdued. Demand for watches fell sharply overall due to softening demand from tourists to Japan, declines in demand in China and North America, and a soft market for watch movements. Demand for industrial robots remained firm in the Americas and China, as well as in Japan, where sales to the automotive industry were firm.

Against this backdrop, Epson began the 2016 fiscal year under the Epson 25 Phase 1 Mid-Range Business Plan (FY2016-18). The Phase 1 Plan delineates the first phase of work toward achieving the Epson 25 Corporate Vision, which sets forth a goal of "Creating a new connected age of people, things and information with efficient, compact and precision technologies." During the three years of the Phase 1 Plan Epson will sustain the momentum it gained by strategically adopting new business models and developing new market segments under the previous corporate vision. At the same time, it will move forward on product development while aggressively investing as needed to provide a solid business foundation.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥108.38 and ¥118.79, respectively. This represents a 10% appreciation in the value of the yen against both the dollar and the euro compared to the previous fiscal year. The yen also continued to ride high against currencies other than the U.S. dollar and euro. The yen gained more against the Chinese yuan, British pound, and some Latin American currencies than it did against the U.S. dollar and euro due to the effects of an economic slowdown and other factors.
Epson's consolidated full-year financial results reflect the foregoing factors. Revenue was ¥1,024.8 billion, down 6.2% year on year. Business profit (Note) was ¥65.8 billion, down 22.5% year on year. Profit from operating activities was ¥67.8 billion, down 27.8% year on year. Profit before tax was ¥67.4 billion, down 26.3% year on year. Profit for the period was ¥48.4 billion, up 5.1% year on year.

(Note) Business profit is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

A breakdown of the financial results in each reporting segment is provided below.

Printing Solutions Segment

Printer business revenue decreased.
Total inkjet printer revenue declined. High-capacity ink tank printer revenue continued to expand, as the entry of other companies into the high-capacity ink tank printer market boosted market recognition and helped to fuel a sharp increase in unit shipments. However, given the contracting market, unit shipments of ink cartridge models declined mainly in the home market. Revenue was dragged down also by foreign exchange effects.
Although consumables unit volume decreased, the product mix is improving, with consumables for office printers, which have a higher unit price, accounting for a greater percentage of total consumables sales. However, revenue from consumables decreased due to foreign exchange effects.
Page printer sales decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of Epson’s focus on selling high added value models.
In SIDM printers, foreign exchange effects caused revenue to decline despite extra first-half demand in the Chinese tax collection system market.
Revenue in the professional printing business decreased.
Large-format inkjet printer total revenue decreased, partly due to foreign exchange effects. Sales of Epson’s new products in the growing signage market were strong, and sales expanded in the textile printing segment on heightened demand. However, a decrease in unit shipments in the existing photo and graphics markets resulted in a decline in total revenue in this category. Consumables sales also decreased on lower revenue, a result of a decline in printer unit sales and foreign exchange effects.
POS system product revenue decreased. Although demand for low-end models was firm in Europe, total unit shipments declined due to a lack of large orders such as those received in the previous fiscal year in Japan and North America. Unit volume also decreased in China. Revenue was also hurt by foreign exchange effects.

Segment profit in the printing solutions segment decreased even though profit rose on increased sales of high-capacity ink tank inkjet printers. The decrease in segment profit was due to a combination of factors, including a decrease in large-format inkjet printer sales, strategic investment and spending on medium-term growth, and foreign exchange effects.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥686.6 billion, down 6.8% year on year. Segment profit was ¥84.1 billion, down 19.7% year on year.

Visual Communications Segment

Visual communications revenue decreased.
Total 3LCD projector revenue decreased. The education market contracted in some of the main countries of Europe. The North American and Latin American markets also continued to shrink. However, unit shipments and sales increased owing to the release of new projectors in the high-brightness category, expanded sales in Asia, and an increase in demand for models in the volume zone in Europe in advance of major sporting events. Nevertheless, revenue was hurt by foreign exchange effects.

Segment profit in the visual communications segment increased. Although hurt by foreign exchange effects, segment profit increased thanks to unit shipment growth and the expansion of the high-brightness projector segment, which improved product mix.

As a result of the foregoing factors, revenue in the visual communications segment was ¥179.6 billion, down 2.4% year on year. Segment profit was ¥16.1 billion, up 3.5% year on year.

Wearable and Industrial Products Segment

Revenue in the wearable products business as a whole decreased. Average selling prices for watches in the Japanese market rose due to the release of new watch products, but unit volume fell because purchases by foreign visitors to Japan decelerated and demand in overseas markets was subdued. Revenue was also hurt by a weak watch movements market and foreign exchange effects.
Revenue in the robotics solutions business increased. Although hurt by foreign exchange effects, revenue increased primarily due to industrial robot unit shipment growth in China and because of a rise in IC handler revenue as a result of firm demand for smart phones in China.
Revenue in the microdevices business decreased. Revenue from crystal devices decreased due to a decline in unit

shipments to manufacturers of cell phones and other personal electronics and because of foreign exchange effects. Semiconductor revenue increased despite a decline in volume to a major automotive account and foreign exchange effects. The increase was due to a rise in sales volume linked to growth in silicon foundry demand. The surface finishing business, which developed new customers, and the metal powders business, which reported firm sales of high-performance material powders for mobile equipment, both saw revenue decline due to foreign exchange effects.

Segment profit in the wearable and industrial products segment decreased due to lower sales in the microdevices business and wearable products business.

As a result of the foregoing factors, revenue in the wearable and industrial products segment was ¥158.5 billion, down 7.0% year on year. Segment profit was ¥7.8 billion, down 20.4% year on year.

Other
Other revenue amounted to ¥1.5 billion, up 7.4% year on year. Segment loss was ¥0.4 billion, compared to a segment loss of ¥0.5 billion in the previous fiscal year.

Adjustments
Adjustments to the total profit of reporting segments amounted to negative ¥41.7 billion. (Adjustments in the previous fiscal year were negative ¥44.6 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 provided by operating activities during the year totaled ¥96.8 billion (compared to ¥113.0 billion in the previous fiscal year). This was due to factors including an increase in depreciation and amortization totaled ¥ 43.6 billion, in addition to profit for the year of ¥ 48.4 billion.
Net cash used in investing activities totaled ¥75.7 billion (compared to ¥51.5 billion in the previous fiscal year), mainly because Epson used ¥77.5 billion in the acquisition of property, plant, equipment and purchase of intangible assets.
Net cash used in financing activities totaled ¥26.6 billion (compared to ¥67.1 billion in the previous fiscal year). While it had ¥49.7 billion in proceeds from issuance of bond issued, Epson also recorded net decrease in current borrowings of ¥14.3 billion, redemption of bonds issued of ¥30.0 billion, dividends paid of ¥21.2 billion, and purchase of treasury shares of ¥10.3 billion.
As a result, cash and cash equivalents at the end of the fiscal year totaled ¥221.7 billion (compared to ¥230.4 billion at the end of the previous fiscal year).

(3) Parallel disclosure
Differences between the main items on IFRS consolidated financial statements and those on consolidated financial statements prepared based on Japanese accounting standards
(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, remeasurements of net defined benefit liabilities (assets) are recognized in full as other comprehensive income in the period in which they are incurred and 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 ¥3.8 billion when calculated based on IFRS rather than Japanese standards. The cost of sales, selling, general and administrative expenses, and finance costs in the fiscal year increased by ¥0.4 billion.

*Please refer to the following for Epson’s financial results for previous fiscal years:
http://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, 2017 (From April 1, 2016, to March 31, 2017) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	679,644	96.4
Visual communications	175,504	105.3
Wearable & Industrial products	147,542	90.0
Total for the reporting segments	1,002,692	96.8
Other	595	117.8
Total	1,003,287	96.8

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, 2017 (From April 1, 2016, to March 31, 2017) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	686,353	93.3
Visual communications	179,642	97.6
Wearable & Industrial products	150,674	91.7
Total for the reporting segments	1,016,671	93.8
Other	787	104.5
Total	1,017,458	93.8

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. Analysis of financial condition, results of operations and cash flows

(1) Analysis of operating results

Revenue

Consolidated revenue was ¥1,024.8 billion, a year-over-year decrease of ¥67.6 billion (6.2%).
Revenue for each reporting segment is discussed below.

Revenue in the printing solutions segment was ¥686.6 billion, a year-over-year decrease of ¥49.7 billion (6.8%). The most significant factors that contributed to this change are as follows.
Total inkjet printer revenue declined. High-capacity ink tank printer revenue continued to expand, as the entry of other companies into the high-capacity ink tank printer market boosted market recognition and helped to fuel a sharp increase in unit shipments. However, unit shipments in the contracting ink cartridge printer market declined mainly in the home segment. Revenue was also dragged down by foreign exchange effects. Although consumables unit volume decreased, the product mix is improving, with consumables for office printers, which have a higher unit price, accounting for a greater percentage of total consumables sales. However, revenue from consumables decreased due to the negative effects of foreign exchange. Page printer sales decreased due to a slump in consumables sales in addition to a decline in unit shipments, the result of Epson's focus on selling high added value models. In SIDM printers, foreign exchange effects caused revenue to decline despite extra first-half demand in the Chinese tax collection system market. Large-format inkjet printer total revenue decreased, partly due to foreign exchange effects. Sales of Epson’s new products in the growing signage market were strong, and sales expanded in the textile printing segment on heightened demand. However, a decrease in unit shipments in the existing photo and graphics markets resulted in a decline in total revenue in this category. Revenue from consumables also decreased due to a decline in printer unit sales and foreign exchange effects.
POS system product revenue decreased. Although demand for low-end models was firm in Europe, unit shipments declined in China, as well as in Japan and North America due to a lack of large orders such as those received in the same period last year. Revenue was also hurt by foreign exchange effects.

Revenue in the visual communications segment was ¥179.6 billion, a year-over-year decrease of ¥4.3 billion (2.4%). The most significant factors that contributed to this change are as follows.
3LCD projector revenue decreased. The education market contracted in some of the main countries of Europe. The North American and Latin American markets also continued to shrink. However, unit shipments and sales increased owing to the release of new projectors in the high-brightness category, expanded sales in Asia, and an increase in demand for models in the volume zone in Europe in advance of major sporting events. Nevertheless, revenue was hurt by foreign exchange effects.

Revenue in the wearable and industrial products segment was ¥158.5 billion, a year-over-year decrease of ¥11.8 billion (7.0%). The most significant factors that contributed to this change are as follows.
Watch and watch movement revenue decreased. Average selling prices for watches in the Japanese market rose due to the release of new watch products, but unit volume fell because purchases by foreign visitors to Japan decelerated and demand in overseas markets was subdued. Revenue was also hurt by a weak watch movements market and foreign exchange effects.
Revenue from crystal devices decreased due to a decline in unit shipments to manufacturers of cell phones and other personal electronics and because of foreign exchange effects.
Semiconductor revenue increased despite a decline in unit shipments to a major automotive account and foreign exchange effects. The increase was due to a rise in unit shipments linked to growth in silicon foundry demand.
Industrial robot and IC handler revenue increased. Although hurt by foreign exchange effects, revenue increased primarily due to industrial robot unit shipment growth in China and because of a rise in IC handler revenue as a result of firm demand for smart phones in China.
The surface finishing business developed new customers, and the metal powders business, which reported firm sales of high-performance material powders for mobile equipment, both saw revenue decline due to foreign exchange effects.

Revenue in the “other” segment was ¥1.5 billion, a 7.4% increase compared to the previous fiscal year.

Cost of sales and gross profit

Cost of sales was ¥658.8 billion, a year-over-year decrease of ¥35.9 billion (5.2%). The decrease in cost of sales

is primarily associated with foreign exchange effects.
As a result, gross profit was ¥365.9 billion, a year-over-year decrease of ¥31.6 billion (8.0%).

Selling, general and administrative expenses and business profit

Selling, general and administrative (SG&A) expenses were ¥300.1 billion, a year-over-year decrease of ¥12.5 billion (4.0%). The decrease in SG&A expenses was primarily associated with foreign exchange effects.
As a result, business profit was ¥65.8 billion, a year-over-year decrease of ¥19.1 billion (22.5%).

Segment profit (business profit) in each reporting segment was as follows.
Segment profit in the printing solutions segment was ¥84.1 billion, a year-over-year decrease of ¥20.6 billion (19.7%). The decrease in segment profit was due to a combination of factors, including but not limited to a decrease in large-format inkjet printer sales and strategic investment and spending on medium-term growth.
Segment profit in the visual communications segment was ¥16.1 billion, a year-over-year increase of ¥0.5 billion (3.5%). Although hurt by foreign exchange, segment profit increased mainly due to unit shipment growth and the expansion of the high-brightness projector segment, which improved the product mix.
Segment profit in the wearable and industrial products segment was ¥7.8 billion, a year-over-year decrease of ¥2.0 billion (20.4%). The decrease was primarily associated with foreign exchange effects.
Segment loss in the “other” segment was ¥0.4 billion, compared to a ¥0.5 billion loss in the previous fiscal year.
As for adjustments, segment loss decreased to ¥41.7 billion compared to the ¥44.6 billion loss incurred in the previous fiscal year. Adjustments consisted primarily of patent royalties and R&D expenses for basic research that do not belong to a reporting segment, and SG&A expenses, primarily comprising expenses associated with new businesses and Head Office functions.

Other operating income, other operating expenses, and profit from operating activities

Other operating income was ¥5.4 billion, a year-over-year decrease of ¥9.3 billion (63.4%). Other operating income decreased mainly because the figure from the previous fiscal year included income from the sale of land.
Other operating expenses totaled ¥3.3 billion, a year-over-year decrease of ¥2.3 billion (41.8%).

Finance income and finance costs

Finance income was ¥1.3 billion, a year-over-year decrease of ¥0.2 billion (16.3%). The decrease in finance income was primarily due to a decrease in interest income. Finance costs were ¥1.8 billion, a year-over-year decrease of ¥2.3 billion (56.3%). The decrease in finance costs was primarily due to a decrease in foreign exchange loss.

Profit before tax

The foregoing resulted in profit before tax of ¥67.4 billion, a year-over-year decrease of ¥24.0 billion (26.3%).

Income taxes

Income taxes were ¥18.4 billion, a year-over-year decrease of ¥26.9 billion (59.4%). The decrease is primarily because income taxes were higher in the previous fiscal year due to an increase in tax expenses resulting from the partial reversal of deferred tax assets arising from the carryforward of unused tax losses.

Profit for the period

Profit for the period was ¥48.4 billion, a year-over-year increase of ¥2.3 billion (5.1%).

(2) Liquidity and capital resources

Cash flow

Net cash provided by operating activities was ¥96.8 billion, a year-over-year decrease of ¥16.1 billion. Although the increase in profit for the period and trade payables had a ¥2.3 billion and ¥19.8 billion positive impact, respectively, net cash provided by operating activities decreased mainly because of a ¥26.9 billion effect owing to lower income taxes, and a ¥17.3 billion effect resulting from an increase in inventories.
Net cash used in investing activities totaled ¥75.7 billion, a year-over-year increase of ¥24.2 billion. This was primarily due to an ¥11.0 billion increase in cash used to acquire property, plant and equipment and a ¥12.8

billion decrease in income due to the sale of investment properties.
Net cash used in financing activities totaled ¥26.6 billion, a year-over-year decrease of ¥40.4 billion. Although there was a ¥12.5 billion net decrease in short-term loans payable and a ¥10.3 billion increase in expenditure to purchase treasury shares, net cash used in financing activities decreased chiefly due to the effects of a ¥3.7 billion decrease in dividends paid, a ¥49.7 billion increase in proceeds from a bond issue, and a ¥10.0 billion decrease in payments due to redemption.
As a result of the foregoing factors, cash and cash equivalents at the end of the fiscal year stood at ¥221.7 billion, a decrease of ¥8.7 billion compared to the end of the previous fiscal year, giving Epson sufficient liquidity.
Interest-bearing liabilities totaled ¥146.5 billion, a year-over-year increase of ¥4.8 billion. Although the Company repaid short-term loans payable and redeemed bonds payable, interest-bearing liabilities increased because the Company issued bonds payable.
Long-term loans payable (excluding the current portion) at the end of the period totaled ¥0.4 billion, at a weighted average interest rate of 0.28% due in 2022. These borrowings were obtained as unsecured bank loans.

Financial condition

Total assets were ¥974.3 billion, an increase of ¥33.0 billion compared to the end of the previous fiscal year. This increase was mainly due to a ¥34.1 billion increase in property, plant and equipment and intangible assets.
Total liabilities were ¥479.6 billion, up ¥9.0 billion compared to the end of the last fiscal year. Although liabilities decreased due to a ¥30.0 billion redemption of bonds payable, a ¥14.9 billion reduction in short-term loans payable, and a ¥9.5 billion decrease in net defined benefit liabilities, total liabilities increased mainly because of an issue of ¥50.0 billion in bonds payable and an ¥11.0 billion increase in trade and other payables.
The equity attributable to owners of the parent company totaled ¥492.1 billion, a ¥24.3 billion increase compared to the previous fiscal year end. The Company paid ¥21.2 billion in dividends and ¥10.3 billion to purchase treasury shares, but the equity attributable to owners of the parent company increased because retained earnings increased due to the recognition of ¥48.3 billion in profit for the year attributable to owners of the parent company.
Working capital, defined as current assets less current liabilities, was ¥251.0 billion, a decrease of ¥25.3 billion compared to the end of the previous fiscal year.
The ratio of interest-bearing liabilities to total assets was 15.0%, remaining essentially the same as at the end of the previous fiscal year, when the ratio was 15.1%.

4. Research and development activities

Epson conducts research and development to create products and services that offer value that exceeds customer expectations. We seek to create value by driving advances in Micro Piezo printheads, microdisplays, sensors, and robotics, all of which are unique core technologies that evolved from the efficient, compact, and precision technologies that Epson has developed 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 ¥52.7 billion. The printing solutions segment accounted for ¥21.5 billion, the visual communications segment for ¥9.4 billion, and the wearable and industrial products segment for ¥6.4 billion. The “other” segment and corporate segment accounted for the remaining ¥15.3 billion. The main R&D accomplishments in each segment are described below.

Printing solutions segment
In the printer business, Epson announced its first corporate color inkjet printers equipped with high-speed lineheads (launched in Japan in June 2017). These multifunction units offer greater productivity and higher quality output than ordinary color laser printers while using far less power. Epson’s unique inkjet systems employ piezoelectric actuators rather than heat to precisely deposit ink. The non-contact printing process and architecture are elegantly simple. And, since the printing process does not rely on heat, Epson’s inkjet systems offer outstanding environmental performance. The new products offer all of the traditional advantages of inkjet systems, and much more. The top-of-the-line model, powered by Epson’s latest PrecisionCore lineheads, delivers up to 100 A4 horizontal pages per minute.
Epson also announced its smallest multifunction home printers to date. These products are 96 mm narrower and have a 42% smaller footprint than Epson’s comparable 2011 models. Outfitted with a newly developed six-color dye ink set that offers a wider green gamut, these printers reproduce scenes with even more lush and gorgeous greens.
In the professional printing business, Epson released new large-format inkjet printers that feature newly developed UltraChrome GS3 Ink and UltraChrome GS3 Ink with Red for the signage and display industry. The new ink delivers superb printing quality, including a wider color gamut, brighter colors, and a glossier finish. These inks also have improved drying performance, increasing productivity up to winding time after printing which is important in practice and fully demonstrating the performance of high speed printing.

Visual communications segment
Epson upgraded and expanded its lineup of 3LCD projectors for business by releasing new mobile, meeting room, and large venue projectors. The nimble mobile models are bright yet lightweight. In fact, weighing just 1.8 kg and measuring a mere 44 mm tall, they are not only the lightest LCD projectors in their class but also the world’s slimmest projectors[1]. Despite their compact size and easy portability, they boast sharply higher basic performance than their predecessors, with every model offering 3,000 lumens of brightness or more and a 10,000:1 contrast ratio. The powerful meeting room models are loaded with features and shine bright even in large, well lit rooms. The lineup includes models that weigh less than 5 kg yet deliver up to 5,500 lumens of brightness, as well as models with WUXGA resolution and Full HD support. The new models come with a host of features. In addition to Epson’s popular automatic picture correction features, some of the new models have screen mirroring, Screen Fit, and a new feature that enables a presenter to move forward or backward through a slide presentation with the touch of a hand on the image. The high-lumen large venue models are ideal for permanent installation in auditoriums and other large spaces. All models offer 5,500 lumens of brightness and a 15,000:1 contrast ratio[2], for bright, sharp images. All of these models are equipped with a wide range of lens shift capabilities in both the vertical and horizontal directions for installation flexibility.
For the home theater market, Epson also released new projectors that feature a laser light source, 4K Enhancement Technology[3], and high dynamic range (HDR) support[4]. By automatically detecting HDR signals and adjusting image brightness levels, these projectors render an unprecedented range of gradations, from the brightest highlights to the deepest shadows. They can deliver dynamic images with exquisite detail and more vivid color, without clipped whites and crushed blacks.

1 Slimmest among 3LCD projectors per Epson research conducted in November 2016
2 With Auto Iris turned on
3 4K Enhancement Technology shifts each pixel diagonally by 0.5 pixels to double the resolution to 3840 x 2160 and achieve ultra-high definition.
4 HDR technology expands the range of both contrast and color in video and still images.

Wearable and industrial products segment

In the wearable products business, Epson released new products in the WristableGPS (“Runsense” in some markets) series of sports watches. The new products feature a revamped design and dedicated applications. New additions to the lineup include models in the WristableGPS for Women series. Epson’s first monitors for female runners, these products have a clean, sporty design along with improved comfort and usability.

The robotics solutions business released force sensors as optional accessories for Epson robots. Force sensors endow robots with the ability to sense extremely slight pressure—forces as small as 0.1 newton[5]. This ability enables robots to perform tasks that were previously impossible to automate, such as the assembly of delicate parts and the fitting together or insertion of parts with small tolerances. Epson also developed industrial SCARA robots that run off AC100V power. These robots save space with a controller that is built into the base of the robot. Meanwhile, a batteryless motor helps to keep running costs low.

In the microdevices business, Epson developed a new, energy-efficient 32-bit microcontroller (MCU) that has an ARM® Cortex®-M0+ processor[6] and built-in Flash memory. This was the world’s first[7] MCU to feature a memory LCD[8] controller and power supply IC integrated onto a single chip. This arrangement eliminates the need for external components and interface software development, so users are able to save time and effort while also reducing the size of their products.

5 A force approximately equal to the gravity acting on a 10g object
6 ARM and Cortex are registered trademarks of ARM Limited (or its subsidiaries) in the EU and other countries. All rights reserved.
7 World’s first among mass-produced general purpose microcontrollers per Epson research conducted in August 2016
8 Liquid crystal that can hold a display even after power is turned off

5. Mangement policy, business environment and issues to be addressed, etc.
All forward-looking statements hereunder were made at Epson's discretion at the end of the fiscal year.

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

Epson Management Philosophy

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

EXCEED YOUR VISION

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

(2) Medium- and long-term corporate strategy and issues to be addressed
Epson began the 2016 fiscal year under a new 10-year corporate vision and a new mid-range business plan. The Epson 25 Corporate Vision describes what Epson would like to achieve by the start of the 2025 fiscal year. Meanwhile, the Epson 25 Mid-Range Business Plan (FY2016-18) is a three-year plan for the first phase of work toward achieving the vision.
Regarding the business environment surrounding Epson, although the global economy is on a gradual recovery trend in general, due to the occurrence of geopolitical risks and foreign exchange fluctuations, the impact on each country's economy, consumption and investment trends is expected to continue, so it is necessary to keep an eye on continued gaze.
Under these circumstances, Epson will look to sustain growth and increase corporate value over the medium- to long term by steadily executing the strategies described below.

① Epson 25 Corporate Vision
The Epson 25 Corporate Vision (hereafter called "Epson 25"), which was created based on an understanding of the mega trends, changes, and other forces that will shape Epson's business in the future, contains the following vision statement: "Creating a new connected age of people, things and information with efficient, compact and precision technologies."
"Efficient, compact and precision technologies" are original technologies that will create the value that Epson will provide to its customers in three areas: smart technologies, the environment, and performance.

Smart technologies. Use advanced products and software so customers can easily, conveniently, and securely use our products anywhere and anytime.

Environment. Contribute to the development of a sustainable society by leveraging efficient, compact and precision technologies to reduce the environmental impact of products and services across their life cycles.

Performance. Create new and higher value by providing outstanding products that contribute to customer productivity, accuracy and creativity.

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

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

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

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

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

Vision in Each Business

Printing: inkjet innovation

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

Visual communications: visual innovation

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

Wearables: wearables innovation

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

Robotics: robotics innovation

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

Microdevices: Support the four innovations

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

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

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

solid business foundation.
The basic strategy for achieving this will be to continue to grow by further increasing its competitive edge in businesses where SE15 strategic initiatives were successful, and to quickly address issues and establish a path to growth in businesses where Epson was unable to fully advance. Epson will look to ensure growth by creating products and services that generate customer value in smart technologies, the environment, and performance, as the Epson 25 aims to achieve. While taking care to grow profit over the short term, Epson will also invest management resources as appropriate, quickly establish new business models, and strengthen its sales organizations to achieve the Epson 25 vision. Epson will also position itself for future growth by pursing the business strategies below and by building up its business infrastructure.
These moves will enable Epson to aim to achieve the following financial performance targets in FY2018, the final year of the phase 1 plan. Assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, Epson will aim to achieve, by the 2018 fiscal year, ¥1,200 billion in revenue, ¥96 billion in business profit, an 8% return on sales, and a 10% or higher return on equity on a continuous basis.

Strategies in Each Business

- In the printer business, Epson will aim to establish a competitive advantage in the home printer market by boosting the attractiveness of its products and to getting office market development on track with linehead models.
- In professional printing, Epson will establish a competitive advantage with hardware, improve support and other organizational infrastructure, and achieve solid growth in new domains.
- In visual communications, Epson will further strengthen its presence in the projection market and use laser light sources to pave the way to rapid growth in new markets.
- In wearable products, Epson will lay the foundation for building wearables into a core business by refining watch resources and combining them with sensors to create families of differentiated products.
- In robotics solutions, Epson will create a framework for growth on top of its technology base.
- In microdevices, Epson will create a stable business platform in the quartz business by building competitive strength. The semiconductor business, meanwhile, will create new core technologies and devices.

Strengthening Business Infrastructure

Technology. Refine our efficient, compact and precision technologies, advance our actuator, optical control, and sensor technologies, and bring in data communications technology to continue to create new customer value.

Manufacturing. Provide timely products that others cannot easily imitate. Offer them at highly competitive costs and quality.

Sales and support. Strengthen the office and industrial domains, establish optimum area sales organization, improve products quality with a market-driven (market-in) approach, and transform the brand image.

Environment. Expand initiatives to reduce environmental impacts across product and service life cycles and supply chains.

These strategies enabled Epson to launch sales of the PaperLab, the world’s first* office papermaking system to use a dry process, and announce the development of high-speed linehead inkjet multifunction and single-function printers during the fiscal year under review. PaperLab is designed to enhance security and reduce environmental impacts. It uses Epson’s proprietary dry fiber technology to securely destroy confidential documents and produce new paper from the recycled fibers, all on-site. The new linehead inkjet products will revolutionize office printing with their high speeds, outstanding image quality, and low power consumption. Epson also released a new laser projector for the promising high-brightness segment of the market, began a reorganization to accelerate growth in the wearable products business, and launched new products that will lower the barriers currently discouraging manufacturers from introducing robots into their production operations.

In addition, to build the business infrastructure needed to achieve future growth, Epson moved steadily forward on projects to increase production line efficiency and automation. It also began construction on new factories and started up operations at others.

* PaperLab is the first office papermaking system to use a dry process, per Epson research conducted in November 2016.

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.

The Company's full-year financial performance was in line with the outlook primarily as a result of strategic progress in the Company's businesses and despite currency volatility. The Company therefore has paid an annual dividend of ¥60 per share, as forecast at the beginning of the fiscal year. In addition, between May and June 2016, the Company purchased ¥9.9 billion in treasury shares [the total acquisition price (maximum): ¥10 billion] as a way to optimize capital efficiency and further increase shareholder returns.

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 27, 2016, by resolution of the board of directors	10,572	30
June 28, 2017, by resolution of the general shareholders' meeting	10,572	30

Corporate Governance

1. Approach to corporate governance
(1) Basic corporate governance principles
The general principles of corporate governance at Epson are as follows:
- Respect the rights of shareholders, and ensure equality.
- Bear in mind the interests of, and cooperate with, stakeholders, including shareholders, customers, local communities, business partners, and Epson personnel.
- Appropriately disclose company information and maintain transparency.
- Directors, Executive Officers, and Special Audit & Supervisory Officers shall be aware of their fiduciary duties and shall fulfill the roles and responsibilities expected of them.
- Engage in constructive dialogue with shareholders.

To achieve the goals declared in the Management Philosophy, promote sustainable growth, and increase corporate value over the medium and long terms, Epson strives to continuously enhance and strengthen corporate governance so as to realize transparent, fair, fast, and decisive decision-making.
Under a company with an Audit & Supervisory Committee, to further increase the effectiveness of corporate governance, Epson further improves the supervisory function of the Board of Directors, further enhances deliberation and speeds up management decision-making.

(2) Corporate governance system
Overview of and reasons for adopting the current system of corporate governance
Epson is structured as a company with an Audit & Supervisory Committee. It has a Board of Directors, an Audit & Supervisory Committee, and a financial auditor. It has also voluntarily established an advisory committee for matters such as the Director nomination and compensation.
This governance system was adopted to further increase the effectiveness of corporate governance by strengthening supervision over management and by enabling the Board of Directors to devote more time to discussions while speeding up decision-making by management.
The main corporate management bodies and their aims are described below:

Board of Directors
The Board of Directors, with a mandate from shareholders, is responsible for realizing efficient and effective corporate governance, through which Epson will accomplish its social mission, sustain growth, and maximize corporate value over the medium and long terms. To fulfill these responsibilities, the Board of Directors will exercise a supervisory function over general management affairs, maintain management fairness and transparency, and make important business decisions, including decisions on things such as management plans, business plans, and investments exceeding a certain amount.
The Board of Directors is composed of 11 Directors, including five Outside Directors. Meetings of the Board of Directors are, as a rule, held once per month and as needed. The Board of Directors makes decisions on basic business policies, important business affairs, and other matters that the Board of Directors is responsible for deciding as provided for in internal regulations. Business affairs that the Board of Directors is not responsible for deciding are delegated to executive management, and the Board monitors these. To speed up business decisions and increase business agility as a company with an Audit & Supervisory Committee, Epson expanded the scope of affairs delegated to executive management from the Board of Directors and limits board deliberations to only the most important issues. Corporate Governance Policy states that at least one-third of the board members should be outside directors.

Audit & Supervisory Committee
The Audit & Supervisory Committee, with a mandate from shareholders, is responsible for independently and objectively auditing and monitoring the execution of director duties and for ensuring the sound and sustained growth of Epson. The Audit & Supervisory Committee verifies the effectiveness of the internal control system and conducts audits primarily in cooperation with internal audit departments and the financial auditor. The Audit & Supervisory Committee has established basic guidelines for selecting outside financial auditors and criteria for evaluating their independence and expertise. Resolutions concerning financial auditors selected by the Committee per the guidelines are submitted for approval at a general meeting of shareholders. The Audit & Supervisory Committee also discusses the selection, dismissal, resignation, and compensation of Directors who

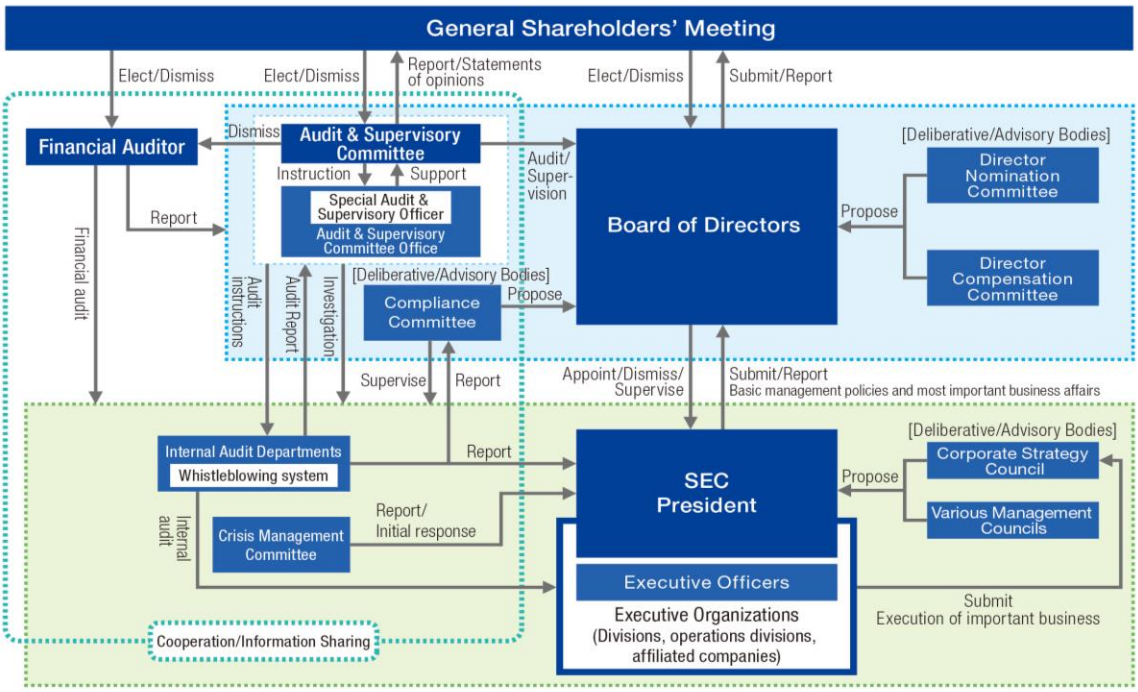
are not Audit & Supervisory Committee members and decides on the opinions to be presented at a general meeting of shareholders.
The Audit & Supervisory Committee is composed of four Audit & Supervisory Committee members, three of whom are Outside Directors. It is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held once per month and as needed.

Corporate Strategy Council
The Corporate Strategy Council is an advisory body to the president whose purpose is to help ensure that the right decisions are made based on a range of opinions on the executive management side. Meetings of the Corporate Strategy Council are where Directors, Executive Officers, and Special Audit & Supervisory Officers exhaustively examine important business topics that affect the Epson Group as a whole and matters on the agenda for meetings of the Board of Directors.

Compliance Committee
The Compliance Committee's function is to discuss the content of reports that it receives concerning important compliance activities, and report its findings and communicate its opinions to the Board of Directors in order to see that compliance activities are appropriately executed by line management.
As an advisory body to the Board of Directors, the Compliance Committee is composed of Outside Directors and Directors who are Audit & Supervisory Committee members. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held every half year and as needed.
A Chief Compliance Officer (CCO) is elected by the Board of Directors and supervises and monitors compliance-related affairs on the whole. The CCO periodically reports the state of compliance affairs to the Compliance Committee.

Nomination Committee and Compensation Committee
Epson has created a Nomination Committee and a Compensation Committee as advisory bodies to the Board of Directors. These Committees, which are composed primarily of Outside Directors, are designed to ensure transparency and objectivity in the screening and nomination of candidates for Director, Executive Officer, and Special Audit & Supervisory Officer and in matters of Director compensation. Both Committees include Outside Directors, who comprise the majority of members, the Representative Director/President, and the Director in charge of human resources. Directors who are full-time members of the Audit & Supervisory Committee can attend meetings of either Committee as observers.

Epson's system of corporate governance is schematically represented below.



Internal control system
Epson's Board of Directors approved a basic policy on the internal control system (a system for ensuring that business is conducted suitably by the corporate group), and Epson has implemented the approved internal control system.

The Company considers its Management Philosophy to be its most important business concept, and to realize it Epson has established "Principles of Corporate Behavior" that are shared across the Group, including at subsidiaries. The Company will establish the following basic policy regarding the internal control system (a system for ensuring that business is conducted suitably by the corporate group) and provide an improved internal control system for the Epson Group as a whole.

Compliance
(1) The Company will establish "Principles of Corporate Behavior" as a guide for putting the Management Philosophy into practice. The Company will also establish regulations that spell out things such as basic compliance requirements and the organizational framework.
(2) The Company has created a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee and is composed of Outside Directors and members of the Audit & Supervisory Committee. The Compliance Committee meets regularly and as needed to hear and discuss important matters concerning the Company's compliance program. It reports its findings and offers opinions to the Board of Directors. Financial auditors can attend meetings of the Compliance Committee as observers.
(3) A Chief Compliance Officer (CCO) is elected and supervises and monitors the execution of all compliance operations. The CCO periodically reports the state of compliance affairs to the Compliance Committee.
(4) Compliance promotion and enforcement will be supervised by the president of Seiko Epson. Group-wide compliance programs will be carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions and subsidiaries. Compliance programs of the divisions and their related subsidiaries will be promoted by the respective chief operating officers of the divisions. The compliance management department helps to ensure the completeness and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.
(5) The Corporate Strategy Council, an advisory body to the president comprised of members of the Board of Directors, etc. of the Company, will address important matters with respect to compliance promotion and enforcement in the Epson Group as a whole, including subsidiaries. The Council will strive to ensure the effectiveness of compliance by exhaustively discussing and analyzing the implementation of programs for assuring observance of statutes, internal regulations, business ethics, and initiatives in high-risk and other key areas.
(6) The Company, including its subsidiaries, will strive to provide an effective whistleblowing system. Employees are encouraged and are able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls are in place to protect whistleblowers from reprisal, and allegations are reported to the Company's Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
(7) The Company strives to enhance legal awareness by providing Epson Group employees with web-based training and other educational opportunities.
(8) The president of Seiko Epson periodically reports important compliance-related matters to the Board of Directors and take measures as needed to respond to issues.
(9) The Company's "Principles of Corporate Behavior" states that the Company will have no association whatsoever with antisocial forces (i.e., organized crime groups). The Company takes a firm stance in rejecting any and all contact with antisocial forces that threaten social order and security.

Business execution system
(1) The Company formulates long-term corporate visions and mid-range business plans, and it sets clear medium-and long-range goals for the Epson Group as a whole.
(2) The Company has instituted a system to ensure the appropriate and efficient execution of business. To that end, the Company has established regulations governing organizational management, levels of authority, the division of responsibilities, and the management of affiliated companies, thus distributing power and

authority across the entire Group.

(3) Personnel responsible for business operations report the matters below to the Board of Directors at least once every three months.
- Current business performance and performance outlook
- Risk management responses
- Status of key business operations

Risk management

(1) The Company has established a basic risk management regulation that stipulates the risk management system of the Company, including its subsidiaries, and that defines the organization, risk management methods and procedures, and other basic elements of this system.

(2) Overall responsibility for risk management in the Epson Group, including subsidiaries, belongs to the president of Seiko Epson. Group-wide risk management is carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business are managed by the chief operating officer of that business, including at subsidiaries consolidated under them. The Company has also set up the risk management department, monitors overall risk management Group-wide, makes corrections and adjustments thereto, and ensures the effectiveness of risk management programs.

(3) The Corporate Strategy Council strives to ensure effective management of serious risks that could have an egregious effect on society by dynamically and exhaustively discussing and analyzing ways to identify and control risks. Also, when major risks become apparent, the president leads the entire company in mounting a swift initial response in line with the Company’s prescribed crisis management program.

(4) The president of Seiko Epson periodically reports critical risk management issues to the Board of Directors and formulates appropriate measures to respond to these issues, as needed.

Ensuring the appropriateness of operations in the corporate group

(1) The Group’s management structure helps to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company is organized into product-based divisions. Each division is headed by a chief operating officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office own global responsibility. Responsibility for providing the framework for business operations at subsidiaries is owned by the head of each business. Group-wide corporate functions are the responsibility of the heads of Head Office supervisory departments.

(2) The Company has business processes that enable business to be controlled on a Group level. This is accomplished by regulations governing the management of affiliated companies that require subsidiaries to report or acquire pre-approval for certain business affairs from the parent company, Seiko Epson, and by requiring issues that meet certain criteria to be submitted to Epson’s Board of Directors for resolution. The Company has established regional head offices in certain regions to supervise local subsidiaries in order to ensure the suitability and efficiency of operations Group-wide.

(3) Per the Basic Regulation for Internal Audits, internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. Internal audit departments audit internal controls and the state of their implementation in all Epson Group companies, including subsidiaries. The findings of the internal audit departments are presented to the head of the audited organization along with requests for corrective action, where needed. This information is also regularly reported to the president of Seiko Epson and to the Audit & Supervisory Committee. In this way, Epson strives to optimize operations across the entire Group.

Safeguarding and management of work-related information

(1) Information on the performance of duties is safeguarded and managed in accordance with regulations governing, among other things, document control, management approval, and contracts. All directors are able to access this information at all times.

(2) The Company strives to prevent the leak and loss of Epson Group internal information by managing confidential information according to the level of sensitivity, in accordance with internal information security regulations.

Audit system

(1) The Audit & Supervisory Committee can interview Directors who are not members of the Audit & Supervisory Committee, executive officers, and other personnel whenever they deem necessary in the performance of duties based on the Audit & Supervisory Committee Audit Regulation.

(2) Audit & Supervisory Committee members can attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings that will enable them to conduct audits based on the same information as that available to directors who are not members of the Audit & Supervisory Committee. Members of the Audit & Supervisory Committee also routinely review important documents related to management decision-making.

(3) An Audit & Supervisory Committee Office was set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office serves as the Special Audit & Supervisory Officer and assigns full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from Directors who are not members of the Audit & Supervisory Committee. Matters relating to the personnel of the office must be approved in advance by the Audit & Supervisory Committee.

(4) To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework has been created to secure close cooperation between the internal audit departments and the Audit & Supervisory Committee.

(5) If a situation involving the Audit & Supervisory Committee or cooperation with the internal audit departments or other organizations is observed to interfere with the effectiveness of audits by the Audit & Supervisory Committee, the Audit & Supervisory Committee can ask the representative director or Board of Directors to take corrective action.

(6) The Audit & Supervisory Committee receives audit reports from internal audit departments and can issue specific instructions to internal audit departments as needed. If the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president will have the internal audit departments honor the instructions of the Audit & Supervisory Committee.

(7) Per the Audit & Supervisory Committee Audit Regulation, the Audit & Supervisory Committee can ask Directors who are not members of the Audit & Supervisory Committee, the compliance management department, and the risk management department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also view supporting materials. The Audit & Supervisory Committee can also ask, as needed, subsidiary company directors, corporate auditors, internal audit departments, and other organizations to report the state of management of the subsidiary.

(8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with financial auditors.

(9) The Audit & Supervisory Committee and representative director regularly meet to enable the Committee to directly assess business operations.

(10) Funds required by the Audit & Supervisory Committee to perform its duties are properly budgeted for in advance. However, funds required to perform the duties of the Audit & Supervisory Committee in emergency or extraordinary situations will be promptly paid in advance or refunded on each occasion.

(3) Internal audits

Audit & Supervisory Committee audits

Epson’s Audit & Supervisory Committee is composed of four Directors, three of whom are Outside Directors. Noriyuki Hama was selected to serve as a Full-Time Audit & Supervisory Committee member to help ensure that the Audit & Supervisory Committee works effectively, as it was concluded that it would be necessary for someone to prepare an environment to facilitate audits, attend important internal meetings to smoothly collect internal information, work closely with groups such as the internal audit department, and monitor the internal control system.

Audit & Supervisory Committee members can attend meetings of the Corporate Strategy Council and other important meetings as part of their efforts to properly monitor business affairs. They examine the legality and suitability of actions taken by the directors by checking and confirming compliance and by supervising and verifying things such as the state of the internal control system, including internal control over financial reporting. When they deem it necessary, Audit & Supervisory Committee members can ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties.

In addition, the Audit & Supervisory Committee ordinarily conducts audits using internal audit departments but can exercise its investigation authority to conduct its own audits if the effectiveness of audits conducted by the internal audit departments is not being maintained.
Full-Time Audit & Supervisory Committee member Noriyuki Hama has many years of experience in finance and general accounting, while Audit & Supervisory Committee member Chikami Tsubaki is a certified public accountant. Both have an appreciable degree of knowledge and insight into finance and accounting.

Internal audits
Epson's internal compliance system guards against potential legal and internal regulatory violations in departmental operations. Internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. They audit internal controls and the implementation of controls in all Epson Group companies, including subsidiaries.
Internal audit departments conduct internal audits based on an annual audit plan. After conducting internal audits, they report their observations, including recommendations for improvements based on the facts, to the president and to the Audit & Supervisory Committee in a timely manner. Internal audit departments also regularly report the internal audit situation to the president and Audit & Supervisory Committee.

Interconnections among Audit & Supervisory Committee audits, internal audits, and accounting audits, and the relationship of these audits to the internal control department
In order to make Audit & Supervisory Committee audits systematic and efficient, Epson ensures close collaboration between internal audit departments and the Audit & Supervisory Committee. In relation to the structure of the Audit & Supervisory Committee Office and the coordination system with internal audit departments, if circumstances hindering the effectiveness of the audit by the Audit & Supervisory Committee are found, the Audit & Supervisory Committee requests the representative directors or the Board of Directors to rectify them.
Epson's internal audit departments regularly present their audit plans and audit results to the Audit & Supervisory Committee. In response, the Audit & Supervisory Committee can, when it deems necessary, ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. The Audit & Supervisory Committee ordinarily conducts audits using internal audit departments but can conduct its own audits if the effectiveness of audits conducted by the internal audit departments is not being maintained.
Internal audit departments are seen as a keystone for internal control functions built by the president and operations departments. On the other hand, to ensure the effectiveness and independence of audits by the Audit & Supervisory Committee and internal audit departments, if the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president must have internal audit departments honor the instructions of the Audit & Supervisory Committee.
The Audit & Supervisory Committee and the internal audit departments will thus proactively cooperate going forward, but Epson set up an Audit & Supervisory Committee Office headed by the Special Audit & Supervisory Officer as an organization dedicated to supporting the Audit & Supervisory Committee. The Audit & Supervisory Committee Office is independent from executive management and supports the Audit & Supervisory Committee, with a direct reporting line to it.
The Audit & Supervisory Committee and financial auditors enhance the effectiveness of audits by periodically discussing issues with one another. Financial auditors have the right to observe meetings of the Compliance Committee, which is made up of Outside Directors and a Director who is a member of the Audit & Supervisory Committee.

(4) Overview of limited liability agreements
The Company has executed agreements with non-executive directors Hideaki Omiya, Mari Matsunaga, Noriyuki Hama, Michihiro Nara, Chikami Tsubaki, and Yoshio Shirai that limit their liability for damages under Article 423 (1), pursuant to the provisions of Article 427 (1) of the Companies Act. The maximum amount of liability for damages under these agreements is limited to the amount provided for by laws and regulations. The liability of the non-executive directors shall be limited only if they have acted in good faith and without gross negligence in performing their duties.

(5) Outside Directors

The role of Outside Directors

To ensure that Outside Directors are independent from the Company's management team, have a broad view, and are able to objectively supervise the making of important decisions, the Company has set forth the role of Outside Directors in the Corporate Governance Policy as below. In principle, Outside Directors should comprise at least one-third of the members of the Board of Directors.

(i) Monitoring of the management
- Monitoring of corporate executives through involvement in the officer election process and the compensation determination process based on an evaluation of the business as a whole
- Monitoring of the business as a whole through the exercise of voting rights on important business decisions made by the Board of Directors

(ii) Advisory function for improving business efficiency

(iii) Monitoring of conflicts of interest
- Monitoring of conflicts of interest between Epson and its Directors and Executive Officers
- Monitoring of conflicts of interest between Epson and related parties

Principle of independence

The Company's Board of Directors has established a "Standard of Outside Officers' Independence" and, in compliance with this standard, elects director candidates who are unlikely to have conflicts of interest with general shareholders. The title of this standard and some of the content were amended at a meeting of the Board of Directors held on April 28, 2017. The amendments were made to help guarantee the independence of Outside Directors and to select Outside Directors from a broad range of qualified individuals who can be expected to contribute to the Company. All current Outside Directors satisfy the independence requirements of the amended standard.

The content of the amended standard is described below.

Criteria for Independence of Outside Directors

The Company has established the criteria below to objectively determine whether potential Outside Directors are independent.

1. A person is not independent if:

(1) The person considers the Company to be a major business partner[1], or has served as an executive[2] within the past five years in an entity for which the Company is a major business partner;

(2) The person is a major business partner[3] of the Company or has served as an executive within the past five years in an entity that is a major business partner of the Company.

(3) The person is a business consultant, certified public accountant, or lawyer who has received a large sum of money or other forms of compensation[4] (other than compensation as an officer) from the Company or has, within the past three years, performed duties equivalent to those of an executive as an employee of a corporation or group, such as a union, that has received a large sum of money or other forms of compensation from the Company;

(4) The person is a major shareholder[5] of the Company or has, within the past five years, been an executive or Audit & Supervisory Board Member of an entity that is a major shareholder of the Company;

(5) The person is an executive or Audit & Supervisory Board Member of an entity in which the Company is currently a major shareholder;

(6) The person is a major lender[6] to the Company or has been an executive of a major lender to the Company within the past five years;

(7) The person has been employed by an auditing firm that has conducted a legal accounting audit of the Company within the past five years;

(8) The person has been employed by a leading managing underwriter of the Company within the past five years;

(9) The person has received a large donation[7] from the Company or, within the past three years, has performed duties equivalent to those of an executive as an employee of a corporation or a group, such as a union, that has received a large donation from the Company;

(10) The person came from an entity that employs someone from the Company as an Outside Director; or

(11) The spouse or other immediate family member of a person to whom any of items (1) through (9) apply.

2. Even if any of the foregoing criteria apply to a potential Outside Director, the Company can elect that person as an Outside Director if that person satisfies the requirements for Outside Directors set forth in the Companies Act, and the Company deems the person suitable as an Outside Director of the Company in light of his or her personality, knowledge, experience, or other qualifications upon explaining and announcing the reasons thereof.

Notes

[1] A person (usually a supplier) considers the Company to be a major business partner if 2% or more of its consolidated net sales (consolidated revenue) has come from the Company in any fiscal year within the past three years.

[2] "Executive" means an executive officer, executive director, operating officer, or an employee occupying a senior management position of department manager or higher.

[3] A person (usually a buyer) is a major business partner if 2% or more of the Company's consolidated revenue has come from that partner in any fiscal year within the past three years.

[4] "A large sum of money or other forms of compensation" means an average annual amount for the past three years that is:
i) no less than 10 million yen for an individual; or
ii) no less than 2% of the annual revenues in any fiscal year for a group.

[5] "Major shareholder" means a shareholder who directly or indirectly holds 10% or more of the voting rights.

[6] "A major lender" means a financial institution or other major creditor that is indispensable for the Company's financing and on which the Company depends to the extent that it is irreplaceable in any fiscal year within the past three years.

[7] "Large donation" means a donation whose annual average amount for the past three years exceeds either;
i) 10 million yen or
ii) 30% of the annual expense of the group, whichever is higher.

Number of outside directors, selection criteria, and human, capital, business or other interests between outside directors and the Company

Epson had five outside directors (of whom three are Audit & Supervisory Committee members) as of the submission date of its the security report.

(i) Hideaki Omiya

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

He has monitored corporate management appropriately by expressing opinions actively including findings and proposals regarding overall managerial issues from a perspective of a corporate manager well-versed in the global corporate management in the heavy industry, a different business field.

Epson believes that he will appropriately monitor management to achieve sustained growth and increase medium-to long-term corporate value.

Mr. Omiya was an executive of Mitsubishi Heavy Industries, Ltd. Although the Company has had transactions involving the purchase and sale of semiconductor manufacturing equipment with Mitsubishi Heavy Industries, Ltd. in the past three years, these transactions are immaterial, totaling less than 0.1% of the consolidated net sales of the Company and Mitsubishi Heavy Industries, Ltd. and thus does not fall under the category of "major business partner" as prescribed in the "Criteria for Independence of Outside Directors." Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

(ii) Mari Matsunaga

Ms. Matsunaga has created new business models and has a considerable insight and experiences through her involvement in the management of multiple companies as an Outside Officer. As an Outside Director of the Company, she has appropriately monitored management, actively pointing out business issues and offering recommendations particularly from a diversity and employee working environment perspective.

Epson believes that she will monitor management appropriately to achieve sustained growth and increase medium-to long-term corporate value.

Epson has engaged Ms. Matsunaga as a speaker in the past three years, but the speaking fee was less than 500,000 yen and thus does not fall under the category of "a large sum of money or other forms of

compensation" as prescribed in the "Criteria for Independence of Outside Directors." Epson has registered her as an Independent Director with the Tokyo Stock Exchange.
She owns a small number of Epson shares, but there are no human, capital, business or other interests between her and the Company.

(iii) Michihiro Nara (Outside Director who is an Audit & Supervisory Committee member)
Mr. Nara has a high level of expertise as an attorney. He has considerable insight and experience through his involvement in the management of multiple companies as an independent outside officer and achievements as an Outside Audit & Supervisory Board member of the Company. Epson believes that he will monitor management appropriately to achieve sustained growth and increase medium-to long-term corporate value. He has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that he can appropriately perform his duties as an Outside Director who is an Audit & Supervisory Committee member.
As an Outside Director of the Company, Mr. Nara has actively pointed out business issues and offered recommendations from the perspective of a legal professional.
The Company has not entered into a consulting agreement nor has it consigned any business under any individual agreement with Mr. Nara as an attorney-at-law or with the law office to which he belongs. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.
He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

(iv) Chikami Tsubaki (Outside Director who is an Audit & Supervisory Committee member)
Ms. Tsubaki has a high level of expertise as a certified public accountant. She has a considerable insight and experiences through her involvement in the management of multiple companies as independent outside officer. Epson believes that she will monitor management appropriately to achieve sustained growth and increase medium to long-term corporate value. She has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that she can appropriately perform her duties as an Outside Director who is an Audit & Supervisory Committee member.
As an Outside Director of the Company, Ms. Tsubaki has actively pointed out business issues and offered recommendations from the perspective of a finance and accounting professional.
Epson does not have a business relationship with Ms. Tsubaki, a certified public accountant, and has never engaged her based on an advisory agreement or other separate agreement. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.
She owns a small number of Epson shares, but there are no human, capital, business or other interests between her and the Company.

(v) Yoshio Shirai (Outside Director who is an Audit & Supervisory Committee member)
Mr. Shirai has served as a director at Toyota Motor Corporation, Hino Motors, Ltd., and Toyota Tsusho Corporation, and has considerable insight and a wealth of experience as a corporate manager. On his global perspective as well as his management experience in a different business field, automotive industry and trading company, Epson believes that he will monitor management appropriately to achieve sustained growth and increase medium-to long-term corporate value.
As an Outside Director of the Company, Mr. Shirai has drawn on his global perspective as well as his management experience in a different business field to actively point out business issues and offer recommendations.
Mr. Shirai has served as an executive at Hino Motors, Ltd. and Toyota Tsusho Corporation within the past five years. The Company has had no transactions with Hino Motors, Ltd. or Toyota Tsusho Corporation in the past three years, and neither company falls under the category of a "major business partner" as prescribed in the "Criteria for Independence of Outside Directors." Epson has registered him as an Independent Director with the Tokyo Stock Exchange.
He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

(6) Officer compensation, etc.

Basic policy

The policy on director and executive officer compensation is as follows.

(a) Compensation shall provide incentive to improve business performance in order to increase corporate value in the near, medium, and long terms.

(b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.
(c) Compensation shall be commensurate with period performance so that directors and executive officers can demonstrate their management capabilities to the fullest during their tenure.

Compensation for non-executive officers

(a) The composition of compensation shall guarantee independence so that these officers can suitably exert their general management supervisory function, etc.
(b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.

Compensation system

- Director and executive officer compensation of the Company consists of base compensation, bonuses, and stock compensation. Non-executive officers receive base compensation only, a fixed amount, from the standpoint independent from business execution, because their role is to supervise general management. They do not receive bonuses and stock compensation, which are forms of compensation that are linked to performance and share price.

  Base compensation

  Base compensation is a monetary amount that is determined by taking into account all factors such as an individual's position and responsibilities. It is paid as a monthly compensation that reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

  Bonus

  An annual bonus is monetary compensation in an amount that is determined by taking into account factors such as the financial performance for the year. The bonus reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

  Stock compensation

  Under Epson's stock-based compensation plan, a trust scheme is used to deliver Company shares to officers, the number of shares being based on points system, where in officers are awarded points depending on the level of achievement with respect to medium- and long-term operating performance targets, such as business profit, ROS and ROE.

Procedure for determining compensation

- Compensation is determined by an appropriate body, such as the general meeting of shareholders, the Board of Directors, or Audit & Supervisory Committee, after a fair, transparent, and rigorous review by the Director Compensation Committee, which is composed mainly of Outside Directors and which issues an opinion, to ensure transparency and objectivity.

Compensation paid

Category	Total compensation (millions of yen)	Total compensation by type (millions of yen)				Number of individuals
		Fixed compensation	Variable compensation			
		Base compensation		Bonus	Stock compensation	
Directors who are not Audit & Supervisory Committee members (amount accounted for by Outside Directors)	433 (28)	287 (28)	11 (–)	97 (–)	36 (–)	12 (3)
Directors who are Audit & Supervisory Committee members (amount accounted for by Outside Directors)	61 (36)	61 (36)	– (–)	– (–)	– (–)	4 (3)
Audit & Supervisory Board members (amount accounted for by Outside Audit & Supervisory Board members)	17 (9)	17 (9)	– (–)	– (–)	– (–)	4 (3)
Total	512	365	11	97	36	20

Notes:

1. The amount of compensation, etc. to Directors who are not Audit & Supervisory Committee members includes the amount of compensation, etc. to Directors prior to the Company's transition to a company with an Audit & Supervisory Committee.
2. The base compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors) consists of fixed compensation and variable compensation. Variable compensation refers to monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
3. The Company has introduced an officer stock ownership plan to link compensation more closely to shareholders' value. The acquisition of the Company's shares accounts for a portion of the base compensation.
4. Upon the resolution at the annual general meeting of shareholders of June 28, 2016, the maximum base compensation was set to at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (Outside Directors account for 10 million yen of this amount) and at 20 million yen for Directors who are Audit & Supervisory Committee members.
5. The amount above includes 97 million yen in bonuses to be paid to six Directors (excludes Outside Directors and Directors who are Audit & Supervisory Committee members), as approved by shareholders at the annual general meeting of shareholders on June 28, 2017.
6. From the current fiscal year, the Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the officer compensation BIP (Board Incentive Plan) trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).
7. The number of individuals above includes three Directors and four Audit & Supervisory Board members who retired at the conclusion of the annual general meeting of shareholders held on June 28, 2016.
8. The amount paid to Audit & Supervisory Board members is the amount paid for the period prior to the Company's transition to a company with an Audit & Supervisory Committee. The amount paid to Directors who are Audit & Supervisory Committee members is the amount for the period after the transition to a company with an Audit & Supervisory Committee.
9. In addition to the above, the Company paid a 15 million yen retirement allowance to an Audit &

Supervisory Board member (Outside Audit & Supervisory Board member) who retired at the conclusion of the annual general meeting of shareholders held on June 28, 2016, pursuant to the discontinuation of the retirement allowance system for executives resolved at the annual general meeting of shareholders held on June 23, 2006.

10. Stock options are not granted.

Total compensation paid to officers whose total consolidated compensation is 100 million yen or more

<table>
<tr><th rowspan="3">Name</th><th rowspan="3">Total consolidated compensation (millions of yen)</th><th rowspan="3">Category</th><th colspan="4">Total consolidated compensation by type (millions of yen)</th></tr>
<tr><th>Fixed compensation</th><th colspan="3">Variable compensation</th></tr>
<tr><th colspan="2">Base compensation</th><th>Bonus</th><th>Stock compensation</th></tr>
<tr><td>Minoru Usui</td><td>116</td><td>Director</td><td>65</td><td>4</td><td>30</td><td>16</td></tr>
</table>

Note: The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).

(7) Securities held by the Company

a. Balance sheet total of stocks held for reasons other than pure investment:
18 companies ¥12,278 million

b. Issuing company, number, and balance sheet total of stocks held for reasons other than pure investment
Previous fiscal year
Special investment securities

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	7,810	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Mizuho Financial Group, Inc.	15,008,880	2,522	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Seiko Holdings Corporation	1,644,080	733	To maintain and strengthen the business relationship with a major buyer of Epson products
Marubun Corporation	332,640	255	To maintain and strengthen the business relationship with a major buyer of Epson products
The Hachijuni Bank, Ltd.	489,500	237	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Hakuto Co., Ltd.	190,000	188	To maintain and strengthen the business relationship with a major buyer of Epson products
King Jim Co., Ltd.	221,980	186	To maintain and strengthen the business relationship with a major buyer of Epson products
Otsuka Corporation	30,000	178	To maintain and strengthen the business relationship with a major buyer of Epson products
Joshin Denki Co., Ltd.	70,000	60	To maintain and strengthen the business relationship with a major buyer of Epson products
Nippon BS Broadcasting Corporation	33,200	35	To maintain and strengthen the business relationship with a company whose parent company is major buyer of Epson products
Pixelworks, Inc.	100,000	24	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products

Current fiscal year

Special investment securities

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	2,507,000	6,317	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Mizuho Financial Group, Inc.	15,008,880	3,061	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Seiko Holdings Corporation	1,644,080	746	To maintain and strengthen the business relationship with a major buyer of Epson products
Otsuka Corporation	60,000	362	To maintain and strengthen the business relationship with a major buyer of Epson products
The Hachijuni Bank, Ltd.	489,500	307	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services
Marubun Corporation	332,640	237	To maintain and strengthen the business relationship with a major buyer of Epson products
Hakuto Co., Ltd.	190,000	195	To maintain and strengthen the business relationship with a major buyer of Epson products
King Jim Co., Ltd.	221,980	193	To maintain and strengthen the business relationship with a major buyer of Epson products
Joshin Denki Co., Ltd.	130,000	147	To maintain and strengthen the business relationship with a major buyer of Epson products
Pixelworks, Inc.	100,000	52	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products
Nippon BS Broadcasting Corporation	33,200	35	To maintain and strengthen the business relationship with a company whose parent company is major buyer of Epson products

c. Stocks held purely for investment purposes

None

(8) Accounting audits

1) Names and other details of certified public accountants performing audits

Name of CPA		Audit company	No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	4
Designated and Engagement Partner, Certified Public Accountant	Yoshiyuki Sakuma	Ernst & Young ShinNihon LLC	1
Designated and Engagement Partner, Certified Public Accountant	Yoshitomo Matsuura	Ernst & Young ShinNihon LLC	4

2) Composition of auditing team
The auditing team comprises 69 staff including 31 certified public accountants, 17 accountant examination passers, and 21 other accounting staff.

(9) Number of directors

Epson's Articles of Incorporation provide for a maximum of nine directors who are not members of the Audit & Supervisory Committee and a maximum of five directors who are members of the Audit & Supervisory Committee.

(10) Election and retirement of directors

According to its Articles of Incorporation, Directors of the Company can be elected by a majority vote by at least one-third of shareholders with voting rights, and not through cumulative voting.
Provisions regarding the retirement of directors do not vary from the provisions of the Companies Act.

(11) Matters requiring resolutions of general meetings of shareholders that can be implemented by resolutions of the Board of Directors

Treasury stock acquisition

The Company's Articles of Incorporation allow the Company to acquire treasury stock through stock market trade and other means by resolution of the Board of Directors. This enables a more flexible capital policy in response to a changing business environment.

Director exemption from liability

When liability falls under the requirements stipulated in Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation allow the Company to exempt the Directors from liability for damages in Article 423, Paragraph 1 of the Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the Board of Directors so that the Directors (excluding Executive Director) to fully apply themselves to their expected roles.

Interim dividend

The Company's Articles of Incorporation allow the Company to declare an interim dividend with a date of record of September 30 every year by resolution of the board of directors. This provides the Company with flexibility in paying dividends to shareholders.

(12) Special resolution requirements of the general meeting of shareholders

The Company's Articles of Incorporation set forth the requirements for a special resolution of the general meeting of shareholders stipulated in Article 309, Paragraph 2, of the Companies Act as a two-thirds majority vote by at least one-third of shareholders with voting rights. This policy is intended to ensure smooth operation of the general meeting of shareholders by relaxing the quorum requirements for special resolutions at the general meeting of shareholders.

2. Details of audit remuneration

(1) Remuneration for audits by certified public accountants

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	149	0	152	2
Consolidated subsidiaries	65	3	61	—
Total	214	4	214	2

(2) Other important remuneration

Previous fiscal year

Total payments for audits carried out on behalf of 64 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2016, amounted to ¥590 million.

Fiscal year under review

Total payments for audits carried out on behalf of 64 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2017, amounted to ¥576 million.

(3) Non-audit work performed by certified public accountant at filing company

Previous fiscal year

Remuneration paid for non-audit work performed by the certified public accountant was for various consultancy services.

Fiscal year under review

Remuneration paid for non-audit work performed by the certified public accountant was for various consultancy services.

(4) Governing policy for audit remuneration

This does not apply because remuneration for auditing services is determined according to the nature of the audit work.

3. Basic policy regarding company control

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

(1) Overview

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

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

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

(2) Summary of measures in support of the basic policy

1) Specific actions in support of the basic policy

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

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

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

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

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

   To prevent the Epson board of directors from making arbitrary decisions about whether to activate takeover defense measures, a special committee composed entirely of highly independent outside directors shall assess the need for a defense. The special committee shall examine the nature of a proposed stock acquisition, request information from the Epson board of directors regarding alternative proposals, provide information to shareholders, and negotiate with a potential acquirer. The special committee shall recommend whether to active a defense to the Epson board of directors. The Epson board of directors shall accept the committee's recommendation (unless the board concludes that doing so would violate the directors' duty of care) and formally resolve in a prompt manner whether or not to activate a defense.

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

Specifically, the Plan guarantees fairness and objectivity, is reasonable, and supports Epson’s corporate value and the common interests of its shareholders because, among other things, a) it was introduced (and updated) after being approved by shareholders at the general meeting of shareholders; b) it contains provisions for reasonable and objective implementation; c) a special committee composed solely of outside directors with a high degree of independence from Epson management was established and activation of defensive measures is subject to the assessment of that special committee; d) the special committee may solicit expert opinions from third parties at Epson’s expense; and e) the Plan was determined to be valid for approximately three years from the introduction and update and may be abolished by the board of directors at any time. The Plan is not for keeping Epson executive officers in their posts.

Management

Directors, audit & supervisory committee members and executive officers of the Company as of the date when the annual securities report (*yukashoken-houkokusho*) was submitted and their functions are listed below.

Name	Position	Current function
Minoru Usui	President (Representative Director)	
Shigeki Inoue	Director, Senior Managing Executive Officer (Representative Director)	Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment, Chief Operating Officer, Wearable Products Operations Division, and General Administrative Manager, Corporate Planning Division
Koichi Kubota	Director, Senior Managing Executive Officer	Chief Operating Officer, Printing Solutions Operations Division
Masayuki Kawana	Director, Executive Officer	General Administrative Manager, Human Resources Division, and General Administrative Manager, CSR Management Office
Tatsuaki Seki	Director, Executive Officer	General Administrative Manager, Management Control Division
Hideaki Omiya	Outside Director	
Mari Matsunaga	Outside Director	
Noriyuki Hama	Director, Full-Time Audit & Supervisory Committee Member	
Michihiro Nara	Outside Director, Audit & Supervisory Committee Member	
Chikami Tsubaki	Outside Director, Audit & Supervisory Committee Member	

Name	Position	Current function
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member	
Tadaaki Hagata	Managing Executive Officer	President, Epson Precision (Philippines), Inc.
Motonori Okumura	Managing Executive Officer	General Administrative Manager, Technology Development Division; Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment
Junichi Watanabe	Managing Executive Officer	General Administrative Manager, Production Planning Division; Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment
Hideki Shimada	Managing Executive Officer	Deputy Chief Operating Officer, Printing Solutions Operations Division
Yasumasa Kitamatsu	Executive Officer	Deputy General Administrative Manager, Technology Development Division
Akihiro Fukaishi	Executive Officer	President, Epson (China) Co., Ltd.
Sunao Murata	Executive Officer	Deputy Chief Operating Officer, Printing Solutions Operations Division
Yoshiyuki Moriyama	Executive Officer	Chairman and President, Epson Engineering (Shenzhen) Ltd.
Toshiya Takahata	Executive Officer	General Administrative Manager, Intellectual Property Division
Tsuyoshi Kitahara	Executive Officer	Technology Development Division
Naoyuki Saeki	Executive Officer	President, Epson Sales Japan Corporation
Nobuyuki Shimotome	Executive Officer	Chief Operating Officer, Microdevices Operations Division
Kazuyoshi Yamamoto	Executive Officer	President, Epson Europe B.V.

Name	Position	Current function
Munenori Ando	Executive Officer	General Administrative Manager, Sales & Marketing Division
Hitoshi Igarashi	Executive Officer	Deputy Chief Operating Officer, Printing Solutions Operations Division
Keith Kratzberg	Executive Officer	President and Chief Executive Officer, Epson America, Inc.
Isamu Otsuka	Executive Officer	President, Epson Atmix Corporation
Yasunori Ogawa	Executive Officer	Chief Operating Officer, Visual Products Operations Division
Eiichi Abe	Executive Officer	President, P.T. Indonesia Epson Industry
Kazuhiro Ichikawa	Executive Officer	Deputy General Administrative Manager, Technology Development Division
Keijiro Naito	Executive Officer	Deputy Chief Operating Officer, Visual Products Operations Division
Taro Shigemoto	Special Audit & Supervisory Officer	General Administrative Manager, Audit & Supervisory Committee Office

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Seiko Epson Corporation and Subsidiaries

Consolidated Statement of Financial Position

Years ended March 31, 2016 and 2017:

	Notes	Millions of yen		Thousands of U.S. dollars
		March 31, 2016	March 31, 2017	March 31, 2017
Assets				
Current assets				
Cash and cash equivalents	8,36	230,498	221,782	1,976,842
Trade and other receivables	9,36	151,660	155,704	1,387,859
Inventories	10	201,608	208,512	1,858,561
Income tax receivables		1,232	2,476	22,069
Other financial assets	11,36	1,674	754	6,720
Other current assets	12	14,335	13,176	117,464
Subtotal		601,010	602,406	5,369,515
Non-current assets held for sale		441	39	357
Total current assets		601,451	602,446	5,369,872
Non-current assets				
Property, plant and equipment	13,15	244,463	275,195	2,452,936
Intangible assets	14	18,179	21,553	192,111
Investment property	17	1,967	1,288	11,480
Investments accounted for using the equity method		1,605	1,438	12,817
Net defined benefit assets	23	-	0	0
Other financial assets	11,36	21,962	20,544	183,117
Other non-current assets	12	5,122	5,486	48,939
Deferred tax assets	18	46,587	46,433	413,878
Total non-current assets		339,888	371,940	3,315,278
Total assets		941,340	974,387	8,685,150

	Notes	Millions of yen		Thousands of U.S. dollars
		March 31, 2016	March 31, 2017	March 31, 2017
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	19,36	130,624	141,633	1,262,438
Income tax payables		6,830	7,263	64,738
Bonds issued, borrowings and lease liabilities	20,36	61,654	76,200	679,204
Other financial liabilities	36	824	1,318	11,747
Provisions	21	23,019	21,981	195,926
Other current liabilities	22	102,065	102,992	918,035
Total current liabilities		325,019	351,389	3,132,088
Non-current liabilities				
Bonds issued, borrowings and lease liabilities	20,36	80,100	70,371	627,248
Other financial liabilities	36	1,640	1,586	14,136
Net defined benefit liabilities	23	54,845	45,281	403,609
Provisions	21	4,941	6,209	55,343
Other non-current liabilities	22	3,114	3,521	31,423
Deferred tax liabilities	18	1,001	1,304	11,623
Total non-current liabilities		145,644	128,275	1,143,382
Total liabilities		470,663	479,664	4,275,470
Equity				
Share capital	24	53,204	53,204	474,231
Capital surplus	24	84,321	84,321	751,591
Treasury shares	24	(20,471)	(30,812)	(274,641)
Other components of equity	24	57,989	53,176	473,990
Retained earnings		292,775	332,306	2,961,993
Equity attributable to owners of the parent company		467,818	492,196	4,387,164
Non-controlling interests		2,858	2,526	22,516
Total equity		470,676	494,722	4,409,680
Total liabilities and equity		941,340	974,387	8,685,150

Consolidated Statement of Comprehensive Income

Years ended March 31, 2016 and 2017:

	Notes	Millions of yen Year ended March 31, 2016	Millions of yen Year ended March 31, 2017	Thousands of U.S. dollars Year ended March 31, 2017
Revenue	7,26	1,092,481	1,024,856	9,135,003
Cost of sales	10,13, 14	(694,821)	(658,882)	(5,872,912)
Gross profit		397,660	365,974	3,262,091
Selling, general and administrative expenses	13,14, 27	(312,708)	(300,167)	(2,675,523)
Other operating income	29	14,807	5,421	48,319
Other operating expense	13,30	(5,732)	(3,335)	(29,736)
Profit from operating activities		94,026	67,892	605,151
Finance income	31	1,652	1,383	12,327
Finance costs	31	(4,252)	(1,858)	(16,560)
Share of profit of investments accounted for using the equity method		104	53	472
Profit before tax		91,530	67,470	601,390
Income taxes	18	(45,421)	(18,461)	(164,551)
Profit from continuing operations		46,109	49,009	436,839
Loss from discontinued operations	32	(42)	(582)	(5,197)
Profit for the period		46,067	48,426	431,642
Profit for the period attributable to:				
Owners of the parent company		45,772	48,320	430,698
Non-controlling interests		294	106	944
Profit for the period		46,067	48,426	431,642

	Notes	Millions of yen		Thousands of U.S. dollars
		Year ended March 31,		Year ended March 31,
		2016	2017	2017
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss, net of tax				
Remeasurement of net defined benefit liabilities (assets)	33	(22,161)	10,785	96,131
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	33	(2,610)	2,219	19,788
Subtotal		(24,771)	13,005	115,919
Items that may be reclassified subsequently to profit or loss, net of tax				
Exchange differences on translation of foreign operations	33	(21,309)	(5,477)	(48,809)
Net changes in fair value of cash flow hedges	33	(1,215)	47	418
Share of other comprehensive income of investments accounted for using the equity method	33	(240)	(20)	(178)
Subtotal		(22,765)	(5,450)	(48,569)
Total other comprehensive income, net of tax		(47,536)	7,555	67,350
Total comprehensive income for the period		(1,469)	55,982	498,992
Total comprehensive income for the period attributable to:				
Owners of the parent company		(1,456)	56,028	499,402
Non-controlling interests		(12)	(46)	(410)
Total comprehensive income for the period		(1,469)	55,982	498,992

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

	Notes	Yen		U.S. dollars
		Year ended March 31,		Year ended March 31,
		2016	2017	2017
Earnings per share for the period:				
Basic earnings per share for the period	34	127.94	136.82	1.22
Diluted earnings per share for the period	34	127.94	136.82	1.22
Earnings per share from continuing operations for the period:				
Basic earnings per share for the period	34	128.06	138.47	1.23
Diluted earnings per share for the period	34	128.06	138.46	1.23
Earnings per share from discontinued operations for the period:				
Basic loss per share for the period	34	(0.12)	(1.65)	(0.01)
Diluted loss per share for the period	34	(0.12)	(1.65)	(0.01)

Consolidated Statement of Changes in Equity

Years ended March 31, 2016 and 2017:

		Millions of yen											
		Equity attributable to owners of the parent company											
					Other components of equity								
	Notes	Share capital	Capital surplus	Treasury shares	Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity	Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
As of April 1, 2015		53,204	84,321	(20,464)	-	7,149	74,868	1,055	83,073	294,191	494,325	2,982	497,308
Profit for the period		-	-	-	-	-	-	-	-	45,772	45,772	294	46,067
Other comprehensive income		-	-	-	(22,160)	(2,600)	(21,252)	(1,215)	(47,229)	-	(47,229)	(307)	(47,536)
Total comprehensive income for the period		-	-	-	(22,160)	(2,600)	(21,252)	(1,215)	(47,229)	45,772	(1,456)	(12)	(1,469)
Acquisition of treasury shares	24	-	-	(6)	-	-	-	-	-	-	(6)	-	(6)
Dividends	25	-	-	-	-	-	-	-	-	(25,044)	(25,044)	(111)	(25,155)
Share-based payment transactions	35	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-
Changes in intesets in subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	-	22,160	(15)	-	-	22,145	(22,145)	-	-	-
Total transactions with the owners		-	-	(6)	22,160	(15)	-	-	22,145	(47,189)	(25,050)	(111)	(25,162)
As of March 31, 2016		53,204	84,321	(20,471)	-	4,533	53,616	(160)	57,989	292,775	467,818	2,858	470,676

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Millions of yen

	Notes	Share capital	Capital surplus	Treasury shares	Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity	Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
		Equity attributable to owners of the parent company			Other components of equity								
As of April 1, 2016		53,204	84,321	(20,471)	-	4,533	53,616	(160)	57,989	292,775	467,818	2,858	470,676
Profit for the period		-	-	-	-	-	-	-	-	48,320	48,320	106	48,426
Other comprehensive income		-	-	-	10,790	2,221	(5,351)	47	7,707	-	7,707	(152)	7,555
Total comprehensive income for the period		-	-	-	10,790	2,221	(5,351)	47	7,707	48,320	56,028	(46)	55,982
Acquisition of treasury shares	24	-	-	(10,340)	-	-	-	-	-	-	(10,340)	-	(10,340)
Dividends	25	-	-	-	-	-	-	-	-	(21,299)	(21,299)	(237)	(21,537)
Share-based payment transactions	35	-	12	-	-	-	-	-	-	-	12	-	12
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	26	26
Changes in interests in subsidiaries		-	(12)	-	-	(10)	0	-	(9)	-	(21)	(75)	(97)
Transfer from other components of equity to retained earnings		-	-	-	(10,790)	(1,720)	-	-	(12,510)	12,510	-	-	-
Total transactions with the owners		-	0	(10,340)	(10,790)	(1,730)	0	-	(12,520)	(8,789)	(31,650)	(285)	(31,936)
As of March 31, 2017		53,204	84,321	(30,812)	-	5,024	48,265	(112)	53,176	332,306	492,196	2,526	494,722

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Thousands of U.S. dollars

	Notes	Share capital	Capital surplus	Treasury shares	Remeasurement of net defined benefit liabilities (assets)	Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	Exchange differences on translation of foreign operations	Net changes in fair value of cash flow hedges	Total other components of equity	Retained earnings	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
		Equity attributable to owners of the parent company			Other components of equity								
As of April 1, 2016		474,231	751,591	(182,476)	-	40,405	477,902	(1,416)	516,891	2,609,635	4,169,872	25,466	4,195,338
Profit for the period		-	-	-	-	-	-	-	-	430,698	430,698	944	431,642
Other comprehensive income		-	-	-	96,176	19,805	(47,695)	418	68,704	-	68,704	(1,354)	67,350
Total comprehensive income for the period		-	-	-	96,176	19,805	(47,695)	418	68,704	430,698	499,402	(410)	498,992
Acquisition of treasury shares	24	-	-	(92,165)	-	-	-	-	-	-	(92,165)	-	(92,165)
Dividends	25	-	-	-	-	-	-	-	-	(189,847)	(189,847)	(2,112)	(191,959)
Share-based payment transactions	35	-	106	-	-	-	-	-	-	-	106	-	106
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	231	231
Changes in interests in subsidiaries		-	(106)	-	-	(98)	0	-	(98)	-	(204)	(659)	(863)
Transfer from other components of equity to retained earnings		-	-	-	(96,176)	(15,331)	-	-	(111,507)	111,507	-	-	-
Total transactions with the owners		-	0	(92,165)	(96,176)	(15,429)	0	-	(111,605)	(78,340)	(282,110)	(2,540)	(284,650)
As of March 31, 2017		474,231	751,591	(274,641)	-	44,781	430,207	(998)	473,990	2,961,993	4,387,164	22,516	4,409,680

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

Consolidated Statement of Cash Flows

Years ended March 31, 2016 and 2017:

	Notes	Millions of yen Year ended March 31, 2016	 2017	Thousands of U.S. dollars Year ended March 31, 2017
Cash flows from operating activities				
Profit for the period		46,067	48,426	431,642
Depreciation and amortisation		45,923	43,679	389,330
Impairment loss and reversal of impairment loss		(2,210)	239	2,130
Finance (income) costs, net		2,600	475	4,233
Share of (profit) loss of investments accounted for using the equity method		(104)	(53)	(472)
Loss (gain) on sales and disposal of property, plant and equipment, intangible assets and investment property, net		(6,886)	96	855
Income taxes		45,421	18,461	164,551
Decrease (increase) in trade receivables		10,661	(3,691)	(32,899)
Decrease (increase) in inventories		6,610	(10,729)	(95,632)
Increase (decrease) in trade payables		(8,915)	10,892	97,085
Increase (decrease) in net defined benefit liabilities		1,514	156	1,390
Other, net		(3,215)	8,399	74,884
Subtotal		137,468	116,352	1,037,097
Interest and dividend income received		1,664	1,414	12,603
Interest expenses paid		(1,218)	(981)	(8,744)
Payments for loss on litigation		(4,144)	-	-
Income taxes paid		(20,715)	(19,910)	(177,484)
Net cash provided by (used in) operating activities		113,054	96,873	863,472
Cash flows from investing activities				
Proceeds from sales of investment securities		51	3,103	27,658
Purchase of property, plant and equipment		(59,614)	(70,637)	(629,619)
Proceeds from sales of property, plant and equipment		582	746	6,649
Purchase of intangible assets		(6,538)	(6,899)	(61,493)
Proceeds from sales of intangible assets		31	24	213
Proceeds from sales of investment property		13,969	1,088	9,697
Purchase of investments in subsidiaries		(500)	(2,743)	(24,449)
Other, net		460	(441)	(3,930)
Net cash provided by (used in) investing activities		(51,558)	(75,759)	(675,274)
Cash flows from financing activities				
Net increase (decrease) in current borrowings		(1,819)	(14,374)	(128,151)
Proceeds from non-current borrowings		-	500	4,456
Repayment of non-current borrowings		(86)	(500)	(4,456)
Proceeds from issuance of bonds issued		-	49,759	443,524
Redemption of bonds issued		(40,000)	(30,000)	(267,403)
Payments of lease obligations		(103)	(101)	(900)
Dividends paid	25	(25,044)	(21,299)	(189,847)
Dividends paid to non-controlling interests		(111)	(236)	(2,103)
Payments for purchase of subsidiaries’ equity from non-controlling interests		-	(97)	(863)
Purchase of treasury shares		(6)	(10,340)	(92,165)
Net cash provided by (used in) financing activities		(67,171)	(26,691)	(237,908)
Effect of exchange rate changes on cash and cash equivalents		(9,155)	(3,139)	(27,980)
Net increase (decrease) in cash and cash equivalents		(14,832)	(8,716)	(77,690)
Cash and cash equivalents at beginning of period	8	245,330	230,498	2,054,532
Cash and cash equivalents at end of period	8	230,498	221,782	1,976,842

Notes to Consolidated Financial Statements

1. Reporting Entity

Seiko Epson Corporation (the “Company”) is a stock corporation domiciled in Japan. The addresses of the Company’s registered head office and principal business offices are available on the Company’s website (http://global.epson.com/). The details of businesses and principal business activities of the Company and its affiliates (“Epson”) are stated in “7. Segment Information.”

2. Basis of Preparation

(1) Compliance with IFRS

Epson’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) as issued by the International Accounting Standards Board which are applied based on the provision of Article 93 of Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, as Epson meets the criteria of a “Specified Companies applying Designated IFRS” defined under Article 1-2 of Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

(2) Basis of Measurement

Except for the financial instruments stated in “3. Significant Accounting Policies,” Epson’s consolidated financial statements are prepared on the cost basis.

(3) Functional Currency and Presentation Currency

Epson’s consolidated financial statements are presented in Japanese yen (hereinafter referred to as “yen” or “¥”), which is the functional currency of the Company. The units are in millions of yen unless otherwise noted, and figures less than one million yen are rounded down.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112.19 to U.S. $1 as of March 31, 2017.

(4) Reporting Period of Subsidiaries

The fiscal year end date of certain overseas subsidiaries is December 31, and Epson consolidates financial results of those subsidiaries in conformity with the provisional settlement of accounts as of the consolidated fiscal year end.

(5) Changes in Presentation

The presentation of certain items in the consolidated financial statements has been changed from the fiscal year 2016. The changes are made to aim for improving the presentation clear and understandable for users of the consolidated financial statements.

Other related presentation has been changed along with the changes of the consolidated financial statements. Comparative information in respect of the preceding period of the items has also been changed in presentation.

Changes in presentation of financial liabilities in Consolidated Statement of Financial Position

Before the changes	After the changes
Other financial liabilities	Bonds issued, borrowings and lease liabilities
	Other financial liabilities

3. Significant Accounting Policies

(1) Basis of Consolidation

Consolidated financial statements of Epson include financial statements of the Company and subsidiaries, and interests in investments in associates and joint ventures.

(A) Subsidiaries
A subsidiary is an entity that is controlled by Epson. Epson controls the entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The acquisition date of a subsidiary is the date on which Epson obtains control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which Epson loses control.
All intergroup balances, transactions, unrealised profit or loss arising from intergroup transaction are eliminated on consolidation. Comprehensive income for subsidiaries is attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(B) Associates
An associate is an entity over which Epson has significant influence that is the power to participate in the financial and operating policy decisions of the entity. Investments in associates are accounted for using the equity method from the date on which Epson has the significant influence until the date on which it ceases to have the significant influence.

(C) Joint Ventures
A joint venture is a joint arrangement whereby Epson and the other parties that have joint control of the arrangement have rights to the net assets of the arrangement. The joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities, that significantly affect the returns of the arrangement, require the unanimous consent of the parties sharing control. Epson accounts for that investment using the equity method.

(2) Business Combinations
Each business combination is accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by Epson, the liabilities incurred by Epson to former owners of the acquiree and the equity interests issued by Epson. Goodwill is recognised in the consolidated statement of financial position, as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Epson’s previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the difference is a negative monetary value, the resulting gain is immediately recognised as profit in the consolidated statement of comprehensive income.
Acquisition-related costs incurred are recognised as expenses except for the costs to issue debt or equity securities.

(3) Foreign Currency Translation
Consolidated financial statements of Epson are presented in Japanese yen, which is the functional currency of the Company. Each company in Epson determines its functional currency and measures its results and financial position in that currency.
A foreign currency transaction is translated into the functional currency at a spot exchange rate at the date of the transaction or a rate that approximates the actual rate at the date of the transaction. Foreign currency monetary items are translated using the closing rate. Exchange differences arising on the settlement of monetary items or on translating monetary items are recognised in profit or loss. However, exchange differences arising on financial instruments designated as hedging instruments for net investments in foreign operations, financial assets measured at fair value through other comprehensive income, and cash flow hedges are recognised in other comprehensive income.
Assets and liabilities of foreign operations are translated into Japanese yen at the closing date, while income and expenses of foreign operations are translated into Japanese yen at exchange rates at the dates of the transactions or a rate that approximates the exchange rates at the dates of the transactions. All resulting exchange differences are recognised in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is recognised in profit or loss in the period of disposition.

(4) Financial Instruments
Epson accounts for financial instruments in accordance with IFRS 9 “Financial Instruments” (announced in November 2009, revised in October 2010), which Epson has early adopted.

(A) Financial Assets

(i) Initial Recognition and Measurement
Financial assets are classified into financial assets measured at fair value and amortised cost at initial recognition.

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

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

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

For financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income, except for equity instruments held for trading purposes that must be measured at fair value through profit or loss. Such designations are applied continuously.
All financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial assets, except when classified in the category of financial assets measured at fair value through profit or loss.
Epson recognises trade and other receivables on the date they are originated. All other financial assets are recognised on the trade date when Epson becomes a party to the contractual provisions of the instrument.

(ii) Subsequent Measurement
After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial Assets Measured at Amortised Cost
Financial assets measured at amortised cost are measured at amortised cost using the effective interest method.

(b) Financial Assets Measured at Fair Value
Financial assets other than those measured at amortised cost are measured at fair value.
Changes in fair value of financial assets measured at fair value are recognised in profit or loss. However, changes in fair value of equity instruments designated as measured at fair value through other comprehensive income are recognised in other comprehensive income and the cumulative change in fair value in other comprehensive income is transferred to retained earnings when equity instruments are derecognised or the decline in their fair value is significant. Dividends on the financial assets are recognised in profit or loss for each fiscal year.

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

(B) Impairment of Financial Assets
At the end of each fiscal year, Epson assesses whether there is any objective evidence that financial assets measured at amortised cost are impaired. Evidence of impairment includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower. Epson assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.
If there is any objective evidence that impairment losses on financial assets measured at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.
When impairment is recognised, the carrying amount of the financial asset is reduced by an allowance account and impairment loss is recognised in profit or loss. If the amount of the impairment loss provided decreases due to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in profit or loss through the allowance account.

(C) Financial Liabilities

(i) Initial Recognition and Measurement
Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortised cost. Epson determines the classification at initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortised cost are measured at cost after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement
After initial recognition, financial liabilities are measured based on the classification as follows:

(a) Financial Liabilities Measured at Fair Value through Profit or Loss
Financial liabilities measured at fair value through profit or loss include financial liabilities designated as measured at fair value through profit or loss at initial recognition.

(b) Financial Liabilities Measured at Amortised Cost
Financial liabilities measured at amortised cost are measured at amortised cost using the effective interest method.

(iii) Derecognition
Financial liabilities are derecognised when the obligation is discharged, canceled or expired.

(D) Offsetting a Financial Asset and a Financial Liability
A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and Epson intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(E) Derivatives Accounting
Epson utilizes derivatives, including forward foreign exchange contracts and non-deliverable forwards, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value.
Changes in fair value of derivatives are recognised in profit or loss in the consolidated statement of comprehensive income. However, the gains or losses on hedging instruments relating to the effective portion of cash flow hedges and hedges of net investments in foreign operations are recognised in other comprehensive income in the consolidated statement of comprehensive income.

(F) Hedge Accounting
At the inception of a hedge, Epson formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes identification of hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument’s effectiveness is assessed in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risks. Even though these hedges are expected to be highly effective in offsetting changes in fair value or cash flows, they are assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedges were designated. Epson classifies hedging relationships that meet the qualifying criteria for hedge accounting in the following categories and applies hedge accounting to the hedging relationships.

(i) Fair Value Hedge
The gain or loss on the derivative is recognised in profit or loss in the consolidated statement of comprehensive income. The hedging gain or loss on the hedged items attributable to the hedged risks adjust the carrying amount of the hedged item and is recognised in profit or loss in the consolidated statement of comprehensive income.

(ii) Cash Flow Hedge
The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognised immediately in profit or loss in the consolidated statement of comprehensive income.
The amounts of hedging instruments recognised in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognised in other comprehensive income are accounted for as adjustments to the initial carrying amount of non-financial assets or liabilities.
When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognised in other comprehensive income are reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, amounts that have been recognised in other

comprehensive income continue to be recognised in equity until the forecast transactions or firm commitments occur.

(iii) Hedges of a Net Investment in Foreign Operation
Hedges of a net investment in foreign operation are accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognised in profit or loss in the consolidated statement of comprehensive income. On the disposal of the foreign operation, the cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income is reclassified from equity to profit or loss.

(G) Fair Value of Financial Instruments
Fair value of financial instruments that are traded in an active market as of the end of fiscal year refers to quoted market prices or dealer quotations.
If there is no active market, fair value of financial instruments is determined using appropriate valuation models.

(5) Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value as such that has a short maturity of three months or less from the date of acquisition.

(6) Inventories
The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
Inventories are measured at the lower of cost or net realizable value, and the cost of inventories is assigned by using the weighted-average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment
The cost of property, plant and equipment includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs eligible for capitalisation.
After recognition as an asset, property, plant, and equipment is measured by using the cost model and is carried at its cost less any accumulated depreciation and any accumulated impairment losses.
Except for assets that are not subject to depreciation such as land, assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major assets are as follows:
• Buildings and structures: 10 to 35 years
• Machinery and vehicles: 2 to 12 years
The estimated useful lives, depreciation method and residual value are reviewed at each fiscal year end and, if expectations differ from previous estimates, the effect of changes in accounting estimates is recognised prospectively.

(8) Intangible Assets

(A) Goodwill
Goodwill acquired in a business combination is measured at the amount recognised at the acquisition date less any accumulated impairment losses.
Goodwill is not amortised and allocated to a cash-generating unit that is identified according to locations and types of businesses. The cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. An impairment loss is recognised in profit or loss in the consolidated statement of comprehensive income and not reversed in a subsequent period.

(B) Intangible Assets
The cost of a separately acquired intangible asset is measured initially at cost, and the cost of intangible asset acquired in a business combination is its fair value at the acquisition date. The cost of internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.
After initial recognition, an intangible asset is measured by using the cost model and is carried at its cost less any accumulated amortisation and any accumulated impairment losses.
An intangible asset with a finite useful life is amortised using the straight-line method over its estimated useful life.

The estimated useful life of major intangible asset with a finite useful life is as follows:
• Software: 3 to 10 years
The estimated useful lives and amortisation method are reviewed at each fiscal year end and, if expectations differ from previous estimates, the effect of changes in accounting estimates is recognised prospectively.
An intangible asset with an indefinite useful life or an intangible asset not yet available for use are not amortised and tested for impairment annually, and whenever there is an indication that the intangible asset may be impaired.

(9) Leases

Epson classifies a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset and a lease as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an asset.
At the commencement of the lease term, finance leases are recognised as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The asset is depreciated using the straight-line method over the shorter of the lease term and its estimated useful life which is consistent with that for depreciable assets that are owned. Contingent rents are recognised as expenses in the periods in which they are incurred.
Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term in the consolidated statement of comprehensive income.
Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

(10) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both.
After recognition as an asset, investment property is measured by using the cost model and is carried at its cost less any accumulated depreciation and any accumulated impairment losses.
Except for assets that are not subject to depreciation such as land, investment property is depreciated using the straight-line method over its estimated useful life. The estimated useful life of major investment properties that are subject to depreciation is 35 years.

(11) Impairment of Non-financial Assets

Epson assesses whether there is any indication that an asset may be impaired. If any such indication exists, or irrespective of whether there is any indication of impairment, where impairment testing is required, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount for each asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount is measured at the higher of an asset’s or cash-generating unit’s fair value less costs of disposal and its value in use. If carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised and the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognised in profit or loss. In determining an asset’s value in use, an estimate of the future cash flows expected to derive from the asset are discounted to the present value, using pretax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset.
An impairment loss for goodwill is recognised in profit or loss in the consolidated statement of comprehensive income and not reversed in a subsequent period. Epson assesses whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. If the recoverable amount exceeds the carrying amount of the asset, an impairment loss is reversed to the carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised for the asset in prior years.

(12) Non-current Assets Held for Sale and Discontinued Operations

Epson classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The non-current asset or disposal group as held for sale is available for immediate sale in its present condition and its sale is highly probable when Epson management commits to a plan to sell the asset or disposal group.
Epson measures the non-current asset or disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The non-current asset is not depreciated or amortised while it is classified as held for sale or while it is part of a disposal group classified as held for sale.
A discontinued operation is a component of an entity, that is a cash-generating unit or a group of cash-generating

units, that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

(13) Post-employment Benefits

Epson has defined benefit plans and defined contribution plans as post-employment benefits plans.
For each defined benefit plan, Epson calculates the present value of defined benefit obligations and the related current service cost and past service cost, using the projected unit credit method. For a discount rate, a discount period is set based on the estimated timing of benefit payments in each period, and the discount rate is determined by reference to market yields as of the end of fiscal year on high quality corporate bonds for the period corresponding to the discount period. The net defined benefit liability (asset) is measured by deducting the fair value of any plan assets (including adjustments of the net defined benefit asset and the asset ceiling, if necessary) from the present value of the defined benefit obligation. Net interest on the net defined benefit liability (asset) is recognised in profit or loss. Remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income and transferred to retained earnings immediately. Past service cost is recognised as an expense at the earlier of when a plan amendment or curtailment occurs and when any related restructuring costs or termination benefits are recognised.
The contribution payable to a defined contribution plan is recognised as an expense.

(14) Share-based Payment

The Company has employed a framework referred to as BIP (Board Incentive Plan) trust as performance-linked equity-settled share-based payment plan for eligible officers. The shares of the Company held by the trust are recognised as treasury shares. The Company measures the service received at the fair value of its shares granted at the grant date and recognises the consideration as expenses over the vesting period while the corresponding amount is recognised as an increase in equity.

(15) Provisions

Epson recognises a provision when it has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits is required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Where the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation.

(16) Revenue

(A) Sale of Goods
Epson recognises revenue from the sale of goods when the significant risks and rewards of ownership of the goods have been transferred to the buyers, Epson retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the economic benefits associated with the transaction will flow to Epson, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The risks and rewards of ownership of the goods are usually transferred at the time of delivery of the goods to customers. The amount of revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates.

(B) Interest
Interest is recognised using the effective interest method.

(C) Dividends
Dividends are recognised when the shareholder’s right to receive payment is established.

(D) Royalties
Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(E) Rendering of Services
Revenues arising from the rendering of services are recognised by reference to the stage of completion of the transaction as of the end of fiscal year.

(17) Government Grants

A government grant is recognised at fair value when there is reasonable assurance that Epson will comply with the

conditions attaching to it, and that the grant will be received.
Grants related to assets are deducted in calculating the carrying amount of the asset.
Grants related to income are recognised in profit or loss on a systematic basis over the periods in which Epson recognises as expenses the related costs for which the grants are intended to compensate.

(18) Borrowing Costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds.
The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, that necessarily takes a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period when they are incurred.

(19) Income Taxes

Income taxes are presented as the total of current tax expense and deferred tax expense.
Current tax is the amount of income taxes payable or recoverable and is recognised as an expense or income and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognised either in other comprehensive income or directly in equity, or a business combination. For the calculation of the tax amount, Epson uses the tax rates and tax laws that have been enacted or substantively enacted by the end of fiscal year.
Deferred tax expense is calculated based on a temporary difference that is the difference between the carrying amount of the assets or liabilities in the consolidated financial statements and their tax bases. A deferred tax asset is recognised for all deductible temporary differences, the carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. A deferred tax liability is recognised for all taxable temporary differences.
A deferred tax liability is not recognised for taxable temporary differences when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.
Also a deferred tax liability is not recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and it is probable that the temporary difference will not reverse in the foreseeable future.
A deferred tax asset is not recognised for deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that it is not probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference can be utilized.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of fiscal year.

(20) Treasury Shares

Treasury shares are measured at their cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognised in equity.

(21) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares outstanding during the period, adjusting by the number of treasury shares. For the purpose of the calculation, the shares of the Company held by BIP trust are excluded because the shares are accounted as treasury shares. For the purpose of calculating diluted earnings per share, the rights for the treasury shares held by the trust to be received by eligible officers are adjusted.

(22) Dividends

Year-end dividend distributions to the shareholders of the Company are recognised as liabilities in the period in which the distribution is approved at the Annual Shareholders’ Meeting. Interim dividend distributions are recognised as liabilities in the period in which the distribution is approved by Epson’s Board of Directors.

4. Significant Accounting Estimates and Judgments

The preparation of Epson's consolidated financial statements includes management estimates and assumptions in order to measure income, expenses, assets and liabilities, and disclosed contingencies as of the fiscal year end date. These estimates and assumptions are based on the best judgment of management in light of historical experience and various factors deemed to be reasonable as of the fiscal year end date. Given their nature, actual results may differ from those estimates and assumptions.
The estimates and assumptions are continuously reviewed by management. The effects of a change in estimates and assumptions are recognised in the period of the change and subsequent periods.
Among the above estimates and assumptions, the following were items that may have a material effect on the amounts recognised in Epson's consolidated financial statements:

(1) Impairment of Property, Plant and Equipment, Goodwill, Intangible Assets and Investment Property

Epson performs an impairment test for property, plant and equipment, goodwill, intangible assets and investment property when there is any indication that the recoverable amount has fallen below the carrying amount of the assets or when it is required annually.
The impairment test is performed by comparing the carrying amount and the recoverable amount of assets. If the recoverable amount falls below the carrying amount, impairment losses are recognised. Recoverable amount is determined with certain assumptions of useful life, future cash flow of an asset, discount rate and long-term growth rate. These assumptions are based on the best estimates and judgments of management, but they could be affected by variable and uncertain future economic conditions. Any changes in these assumptions could have a material impact on Epson's consolidated financial statements in future periods.
The method for calculating the recoverable amount is stated in "13. Property, Plant and Equipment."

(2) Post-employment Benefits

Epson has several types of post-employment benefit plans, including defined benefit plans.
The present value of defined benefit obligations on each of these plans and the related service costs and others are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates.
The actuarial assumptions are determined based on the best estimates and judgments of management, but they could be affected by variable and uncertain future economic conditions. Any changes in these assumptions could have a material impact on Epson's consolidated financial statements in future periods.
These actuarial assumptions and related sensitivity analysis are stated in "23. Post-employment Benefits."

(3) Provisions

Epson recognises various provisions, including provisions for product warranties and provisions for loss on litigation, in the consolidated statement of financial position.
These provisions are recognised based on the best estimates of the expenditures required to settle the obligations, taking into account risks and uncertainty related to the obligations as of the fiscal year end date.
Expenditures necessary for settling the obligations are calculated by taking all possible future results into account; however, they may be affected by unexpected events or changes in conditions which may have a material impact on Epson's consolidated financial statements in future periods.
The nature and amount of recognised provisions are stated in "21. Provisions."

(4) Income Taxes

Epson, which conducts business around the world, makes reasonable estimates of income tax to be paid to local tax authorities in accordance with local laws and regulations, and recognises income taxes payable and current tax expense based on these estimates.
Calculating income taxes payable and current tax expense requires estimates and judgments on various factors, including, for example, the interpretation of tax regulations by taxable entities and the tax authority in the jurisdiction or experience of prior tax investigation.
Therefore, there may be differences between the amount recognised as income taxes payable and current tax expense and the amount of actual income taxes payable and current tax expense. These differences may have a material impact on Epson's consolidated financial statements in future periods.
In addition, deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. In recognising the deferred tax assets, Epson judges the possibility of future taxable income and reasonably estimate the timing and amount of future taxable income

based on the business plan. The timing and amount of taxable income may be affected by variable and uncertain future economic conditions, and changes could have a material impact on Epson's consolidated financial statements in future periods.
The content and amounts related to income taxes are stated in "18. Income Taxes."

(5) Contingencies

With regard to contingencies, any items that may have a material impact on business in the future are disclosed in light of all the available evidence as of the fiscal year end date and by taking into account the probability of these contingencies and their impact on financial reporting.
The content of contingencies is stated in "40. Contingencies."

5. Changes in Accounting Policies

There is no application of standard and interpretation newly by Epson from the fiscal year 2016.

6. New Standards and Interpretations Not Yet Applied

The new standards, amended standards and new interpretations that have been issued as of the date of approval of the consolidated financial statements, but have not yet been applied by Epson as of March 31, 2017 are as follows. The potential impacts that application of these standards and interpretations will have on the consolidated financial statements are currently evaluated by Epson.

IFRS		Date of mandatory application (from the fiscal year beginning on or after)	Reporting periods of application by Epson (The reporting period ending)	Description of new and revised standards
IFRS 9	Financial Instruments	January 1, 2018	March 31, 2019	Amendments to hedge accounting Limited changes to classification and measurement of financial assets, and introduction of an expected credit loss impairment model
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 31, 2019	Amendments to accounting treatment for recognising revenue
IFRS 16	Leases	January 1, 2019	To be determined	Amendments to the principles for the recognition, measurement, presentation and disclosure of leases Recognision of assets and liabilities for most leases by lessees Substantially unchanged in lessor accounting

7. Segment Information

(1) Outline of Reportable Segments

The reportable segments of Epson are determined based on the operating segments that are components of Epson about which separate financial information is available and are evaluated regularly by the Board of Directors in deciding how to allocate resources and in assessing performance.
The reportable segments of Epson are composed of three segments: “Printing Solutions,” “Visual Communications” and “Wearable & Industrial Products.” They are determined by types of products, nature of products, and markets.
Epson conducts development, manufacturing and sales within its reportable segments as follows:

Reportable segments	Main products
Printing Solutions	Inkjet printers, serial impact dot matrix printers, page printers, color image scanners, large-format inkjet printers, industrial inkjet printing systems, printers for use in POS systems, label printers and related consumables, office papermaking systems, personal computers and others.
Visual Communications	3LCD projectors, HTPS-TFT panels for 3LCD projectors, smart eyewear and others.
Wearable & Industrial Products	Watches, watch movements, sensing equipment, industrial robots, IC handlers, crystal units, crystal oscillators, quartz sensors, CMOS LSIs, metal powders, surface finishing and others.

(2) Revenues and Performances for Reportable Segments

Revenues and performances for reportable segments were as follows. Transactions between the segments were mainly based on prevailing market prices.

FY2015: Year ended March 31, 2016

Millions of yen

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Revenue							
External revenue	736,033	183,997	164,384	1,084,415	753	7,312	1,092,481
Inter-segment revenue	336	35	6,031	6,403	651	(7,055)	-
Total revenue	736,369	184,033	170,415	1,090,819	1,404	257	1,092,481
Segment profit (loss) (Business profit) (Note 1)	104,740	15,593	9,817	130,150	(566)	(44,632)	84,951
					Other operating income (expense)		9,074
					Profit from operating activities		94,026
					Finance income (costs), net		(2,600)
					Share of profit of investments accounted for using the equity method		104
					Profit before tax		91,530

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation expense	(24,183)	(7,420)	(8,171)	(39,775)	(21)	(5,602)	(45,399)
Impairment loss and Reversal of impairment loss on other than financial assets	(251)	(406)	(203)	(861)	-	3,071	2,210
Segment assets	348,610	108,097	130,867	587,576	638	353,125	941,340
Capital expenditures	36,623	10,763	10,293	57,680	40	11,701	69,423

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) “Other” consists of the intra-group services.

(Note 3) “Adjustments” to Segment profit (loss) (Business profit) of (¥44,632) million comprised “Eliminations” of ¥470 million and “Corporate expenses” of (¥45,102) million. “Corporate expenses” included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) “Adjustments” to Segment assets of ¥353,125 million comprised “Eliminations” of (¥3,999) million and “Corporate assets” of ¥357,124 million.

FY2016: Year ended March 31, 2017

Millions of yen

	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Revenue							
External revenue	686,353	179,642	150,674	1,016,671	787	7,398	1,024,856
Inter-segment revenue	265	39	7,873	8,179	721	(8,901)	-
Total revenue	686,619	179,682	158,548	1,024,850	1,509	(1,502)	1,024,856
Segment profit (loss) (Business profit) (Note 1)	84,127	16,142	7,813	108,084	(482)	(41,794)	65,807
Other operating income (expense)							2,085
Profit from operating activities							67,892
Finance income (costs), net							(475)
Share of profit of investments accounted for using the equity method							53
Profit before tax							67,470

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation expense	(23,079)	(7,885)	(7,956)	(38,920)	(22)	(4,272)	(43,215)
Impairment loss and Reversal of impairment loss on other than financial assets	(45)	(0)	(161)	(206)	-	(32)	(239)
Segment assets	376,782	115,024	133,982	625,790	299	348,297	974,387
Capital expenditures	43,930	10,201	9,189	63,321	2	11,995	75,319

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) “Other” consists of the intra-group services.

(Note 3) “Adjustments” to Segment profit (loss) (Business profit) of (¥41,794) million comprised “Eliminations” of ¥496 million and “Corporate expenses” of (¥42,291) million. “Corporate expenses” included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) “Adjustments” to Segment assets of ¥348,297 million comprised “Eliminations” of (¥3,992) million and “Corporate assets” of ¥352,290 million.

FY2016: Year ended March 31, 2017

	Thousands of U.S. dollars						
	Reportable segments				Other (Note 2)	Adjustments (Note 3)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Revenue							
External revenue	6,117,791	1,601,230	1,343,025	9,062,046	7,014	65,943	9,135,003
Inter-segment revenue	2,363	356	70,184	72,903	6,436	(79,339)	-
Total revenue	6,120,154	1,601,586	1,413,209	9,134,949	13,450	(13,396)	9,135,003
Segment profit (loss) (Business profit) (Note 1)	749,881	143,880	69,640	963,401	(4,305)	(372,528)	586,568
					Other operating income (expense)		18,583
					Profit from operating activities		605,151
					Finance income (costs), net		(4,233)
					Share of profit of investments accounted for using the equity method		472
					Profit before tax		601,390

Other items

	Reportable segments				Other (Note 2)	Adjustments (Note 4)	Consolidated
	Printing Solutions	Visual Communi-cations	Wearable & Industrial Products	Subtotal			
Depreciation and amortisation expense	(205,714)	(70,282)	(70,915)	(346,911)	(196)	(38,087)	(385,194)
Impairment loss and Reversal of impairment loss on other than financial assets	(401)	(0)	(1,435)	(1,836)	-	(294)	(2,130)
Segment assets	3,358,447	1,025,260	1,194,241	5,577,948	2,665	3,104,537	8,685,150
Capital expenditures	391,577	90,926	81,905	564,408	17	106,927	671,352

(Note 1) Segment profit (loss) (Business profit) is calculated by subtracting Cost of sales and Selling, general and administrative expenses from Revenue.

(Note 2) “Other” consists of the intra-group services.

(Note 3) “Adjustments” to Segment profit (loss) (Business profit) of ($372,528) thousand comprised “Eliminations” of $4,430 thousand and “Corporate expenses” of ($376,958) thousand. “Corporate expenses” included expenses relating to research and development for basic technology, new businesses and general corporate expenses which are not attributed to reportable segments.

(Note 4) “Adjustments” to Segment assets of $3,104,537 thousand comprised “Eliminations” of ($35,582) thousand and “Corporate assets” of $3,140,119 thousand.

(3) Geographic Information

The regional breakdowns of non-current assets and external revenues as of each fiscal year end were as follows:

Non-current Assets

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Japan	168,114	188,412	1,679,401
The Philippines	26,404	31,436	280,203
Indonesia	23,281	29,146	259,791
China	25,704	25,048	223,264
Other	27,833	30,918	275,624
Total	271,338	304,962	2,718,283

(Note) Non-current assets, excluding Other financial assets, Deferred tax assets and retirement benefits assets, are segmented by the location of the assets.

External Revenue

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Japan	264,012	251,395	2,240,796
The United States	227,849	202,416	1,804,224
China	144,466	129,834	1,157,268
Other	456,152	441,210	3,932,715
Total	1,092,481	1,024,856	9,135,003

(Note) Revenue is segmented by country based on the location of the customers.

(4) Major Customers Information

Epson had no transactions with a single external customer amounting to 10% or more of total external revenue.

8. Cash and Cash Equivalents

The breakdown of "Cash and cash equivalents" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Cash and deposits	102,404	105,188	937,588
Short-term investments	128,093	116,593	1,039,254
Total	230,498	221,782	1,976,842

9. Trade and Other Receivables

The breakdown of "Trade and other receivables" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Notes and trade receivables	140,623	143,060	1,275,158
Other receivables	12,463	14,071	125,420
Allowance account for credit losses	(1,426)	(1,427)	(12,719)
Total	151,660	155,704	1,387,859

Trade and other receivables are presented net of the allowance account for credit losses in the consolidated statement of financial position.
Trade and other receivables are classified as financial assets measured at amortised cost.

10. Inventories

The breakdown of "Inventories" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Merchandise and finished goods	122,013	123,050	1,096,800
Work in process	52,256	55,366	493,502
Raw materials	20,363	22,403	199,688
Supplies	6,975	7,692	68,571
Total	201,608	208,512	1,858,561

The amount of inventories included in cost of sales recognised as an expense totaled (¥687,289) million and (¥644,777) million (($5,747,187) thousand) for the years ended March 31, 2016 and 2017, respectively. Losses recognised as cost of sales as a result of valuations for the years ended March 31, 2016 and 2017 were (¥29,158) million and (¥31,275) million (($278,768) thousand), respectively. In addition, Epson has no inventories pledged as collateral.

11. Other Financial Assets

(1) The breakdown of "Other financial assets"

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Derivative assets	1,383	449	4,002
Equity securities	16,060	15,809	140,903
Bonds receivable	88	75	668
Time deposits	37	37	329
Other	6,119	4,985	44,443
Allowance account for credit losses	(53)	(57)	(508)
Total	23,637	21,298	189,837
Current assets	1,674	754	6,720
Non-current assets	21,962	20,544	183,117
Total	23,637	21,298	189,837

Derivative assets are classified as financial assets measured at fair value through profit or loss, excluding a case where hedge accounting is applied. Equity securities held for other than trading purposes are classified as financial assets measured at fair value through other comprehensive income, and bonds receivables and time deposits are classified as financial assets measured at amortised cost.

(2) Names of major equity securities measured at fair value through other comprehensive income, their fair values and dividends received

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2016		March 31, 2017		March 31, 2017	
	Fair value	Dividends received (Note)	Fair value	Dividends received (Note)	Fair value	Dividends received (Note)
NGK Insulators, Ltd.	7,810	123	6,317	100	56,306	891
Mizuho Financial Group, Inc.	2,522	116	3,061	112	27,284	998

(Note) Dividends received from the derecognised financial assets during the reporting periods are not included.

Equity securities are held mainly for strengthening relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

In order to pursue the efficiency of assets held, sales of financial assets measured at fair value through other comprehensive income have been carried out (derecognition). The major description is as follows.

FY2015: Year ended March 31, 2016

	Millions of yen			
	Fair value at the date of sale	Accumulated gains	Dividends received	Accumulated gains transferred into retained earnings (net of tax) (Note)
NGK Insulators, Ltd.	-	-	-	-

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

FY2016: Year ended March 31, 2017

	Millions of yen			
	Fair value at the date of sale	Accumulated gains	Dividends received	Accumulated gains transferred into retained earnings (net of tax) (Note)
NGK Insulators, Ltd.	2,884	2,183	50	1,591

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

FY2016: Year ended March 31, 2017

	Thousands of U.S. dollars			
	Fair value at the date of sale	Accumulated gains	Dividends received	Accumulated gains transferred into retained earnings (net of tax) (Note)
NGK Insulators, Ltd.	25,706	19,458	445	14,181

(Note) Accumulated gain or loss recognised as other comprehensive income is transferred to retained earnings when an equity instrument is sold or the decline in its fair value is significant.

12. Other Assets

The breakdown of “Other current assets” and “Other non-current assets” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Prepaid expense	13,887	13,840	123,362
Advances to suppliers	1,724	1,502	13,388
Other	3,845	3,319	29,653
Total	19,457	18,663	166,403
Current assets	14,335	13,176	117,464
Non-current assets	5,122	5,486	48,939
Total	19,457	18,663	166,403

13. Property, Plant and Equipment

(1) Schedule of Property, Plant and Equipment

The schedules of the cost, accumulated depreciation and accumulated impairment losses, and carrying amount of "Property, plant and equipment" were as follows:

Millions of yen

Cost	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2015	468,469	460,050	184,611	4,143	3,137	1,120,412
Individual acquisition	3,997	7,658	8,787	43,874	764	65,083
Acquisition of subsidiary	717	253	62	-	-	1,033
Transfer from (to) investment property	(182)	-	-	-	-	(182)
Transfer from (to) non-current assets held for sale	(1,267)	(40)	(111)	-	-	(1,418)
Sale or disposal	(17,675)	(10,000)	(9,699)	(79)	(187)	(37,641)
Exchange differences on translation of foreign operations	(5,173)	(11,160)	(7,430)	(901)	(11)	(24,678)
Transfer from construction in progress	9,267	16,038	6,112	(31,418)	-	-
Other	195	(1,230)	85	(534)	(1,210)	(2,694)
As of March 31, 2016	458,348	461,570	182,418	15,084	2,492	1,119,913
Individual acquisition	3,477	7,019	8,842	50,638	516	70,494
Acquisition of subsidiary	317	49	126	-	29	523
Transfer from (to) investment property	(100)	-	-	-	-	(100)
Sale or disposal	(6,222)	(11,908)	(12,524)	(120)	(64)	(30,840)
Exchange differences on translation of foreign operations	(1,693)	(4,707)	(1,244)	286	(9)	(7,368)
Transfer from construction in progress	9,756	18,115	10,832	(38,704)	-	-
Other	620	(1,812)	(558)	(440)	(28)	(2,219)
As of March 31, 2017	464,504	468,327	187,891	26,744	2,935	1,150,402

Thousands of U.S. dollars

Cost	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2016	4,085,462	4,114,181	1,625,973	134,450	22,213	9,982,279
Individual acquisition	30,992	62,563	78,812	451,359	4,618	628,344
Acquisition of subsidiary	2,825	436	1,123	-	277	4,661
Transfer from (to) investment property	(891)	-	-	-	-	(891)
Sale or disposal	(55,459)	(106,141)	(111,632)	(1,069)	(589)	(274,890)
Exchange differences on translation of foreign operations	(15,090)	(41,955)	(11,088)	2,549	(90)	(65,674)
Transfer from construction in progress	86,959	161,467	96,550	(344,976)	-	-
Other	5,535	(16,142)	(4,981)	(3,932)	(259)	(19,779)
As of March 31, 2017	4,140,333	4,174,409	1,674,757	238,381	26,170	10,254,050

Accumulated Depreciation and Accumulated Impairment Losses	Millions of yen					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2015	(340,803)	(391,441)	(159,629)	-	(1,280)	(893,155)
Depreciation expense (Note)	(8,797)	(15,443)	(13,888)	-	(38)	(38,168)
Impairment losses	(725)	(149)	(357)	(161)	-	(1,395)
Acquisition of subsidiary	(43)	(79)	(47)	-	-	(169)
Transfer to (from) investment property	136	-	-	-	-	136
Transfer to (from) non-current assets held for sale	832	40	106	-	-	979
Sale or disposal	17,454	9,555	9,373	55	27	36,466
Exchange differences on translation of foreign operations	2,337	8,718	6,393	-	9	17,459
Other	2	1,184	84	-	1,124	2,396
As of March 31, 2016	(329,606)	(387,615)	(157,965)	(105)	(157)	(875,449)
Depreciation expense (Note)	(8,090)	(16,441)	(13,154)	-	(21)	(37,708)
Impairment losses	(78)	(33)	(74)	(20)	-	(206)
Acquisition of subsidiary	(42)	(42)	(62)	-	(17)	(165)
Transfer to (from) investment property	84	-	-	-	-	84
Sale or disposal	5,883	11,735	12,266	105	21	30,011
Exchange differences on translation of foreign operations	887	3,888	1,032	-	9	5,818
Other	217	1,758	437	0	(5)	2,406
As of March 31, 2017	(330,744)	(386,751)	(157,520)	(20)	(170)	(875,207)

Accumulated Depreciation and Accumulated Impairment Losses	Thousands of U.S. dollars					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2016	(2,937,926)	(3,454,987)	(1,408,013)	(935)	(1,410)	(7,803,271)
Depreciation expense (Note)	(72,109)	(146,546)	(117,247)	-	(206)	(336,108)
Impairment losses	(705)	(294)	(659)	(178)	-	(1,836)
Acquisition of subsidiary	(374)	(374)	(552)	-	(170)	(1,470)
Transfer to (from) investment property	748	-	-	-	-	748
Sale or disposal	52,437	104,599	109,332	935	198	267,501
Exchange differences on translation of foreign operations	7,906	34,655	9,198	-	99	51,858
Other	1,953	15,662	3,895	0	(46)	21,464
As of March 31, 2017	(2,948,070)	(3,447,285)	(1,404,046)	(178)	(1,535)	(7,801,114)

(Note) Depreciation expense for Property, plant and equipment was included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of comprehensive income.

Carrying Amount	Millions of yen					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of April 1, 2015	127,665	68,609	24,982	4,143	1,856	227,257
As of March 31, 2016	128,741	73,955	24,452	14,978	2,335	244,463
As of March 31, 2017	133,759	81,575	30,371	26,723	2,764	275,195

Carrying Amount	Thousands of U.S. dollars					
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Other	Total
As of March 31, 2016	1,147,536	659,194	217,960	133,515	20,803	2,179,008
As of March 31, 2017	1,192,263	727,124	270,711	238,203	24,635	2,452,936

The carrying amount of property, plant and equipment includes the carrying amount of the following leased assets:

Leased Assets	Millions of yen			
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2015	109	98	76	284
As of March 31, 2016	63	188	46	298
As of March 31, 2017	57	178	30	267

Leased Assets	Thousands of U.S. dollars			
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2016	561	1,685	410	2,656
As of March 31, 2017	508	1,604	267	2,379

(2) Impairment Losses

Epson’s business assets are generally grouped by business segment under the Company’s management accounting system, and their cash flows are continuously monitored. Assets planned to be sold and idle assets are separately assessed for impairment on the individual asset level.

Impairment losses recognised in the years ended March 31, 2016 and 2017, represent the losses related to idle assets that Epson has no plan to use in the future, and the carrying amounts were reduced to the recoverable amounts. They were recognised as Other operating expense in the consolidated statement of comprehensive income.

The recoverable amounts of these assets are determined using their fair values less disposal cost, which were assessed on the basis of reasonable estimates such as a valuation by an external real estate appraiser. The valuation is made in accordance with the income approach using Level 3 inputs which include the future cash flow.

14. Intangible Assets

The schedules of the cost, accumulated amortisation and accumulated impairment losses, and carrying amount of "Intangible assets" were as follows:

	Millions of yen					
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of April 1, 2015	41,586	16,306	7,421	2,326	4,104	71,744
Individual acquisition	5,809	273	571	-	11	6,665
Acquisition of subsidiary	1	-	2	313	2	320
Sale or disposal	(1,544)	-	(0)	-	(33)	(1,578)
Exchange differences on translation of foreign operations	(792)	-	(11)	(57)	(320)	(1,182)
Other	(303)	0	(2)	-	(1,770)	(2,075)
As of March 31, 2016	44,756	16,580	7,980	2,582	1,994	73,894
Individual acquisition	4,957	11	1,332	-	325	6,627
Acquisition of subsidiary	4	-	-	2,105	594	2,704
Sale or disposal	(1,794)	(0)	-	-	(7)	(1,803)
Exchange differences on translation of foreign operations	(285)	-	(0)	74	17	(194)
Other	11	459	10	-	11	494
As of March 31, 2017	47,651	17,050	9,323	4,761	2,936	81,723

	Thousands of U.S. dollars					
Cost	Software	Patent rights	Product development assets	Goodwill	Other	Total
As of March 31, 2016	398,930	147,785	71,129	23,014	17,791	658,649
Individual acquisition	44,183	98	11,872	-	2,916	59,069
Acquisition of subsidiary	35	-	-	18,763	5,303	24,101
Sale or disposal	(15,990)	(0)	-	-	(80)	(16,070)
Exchange differences on translation of foreign operations	(2,540)	-	(0)	659	152	(1,729)
Other	116	4,091	99	-	98	4,404
As of March 31, 2017	424,734	151,974	83,100	42,436	26,180	728,424

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
	Millions of yen					
As of April 1, 2015	(30,678)	(13,255)	(5,130)	-	(3,509)	(52,574)
Amortisation expense (Note)	(4,666)	(1,037)	(1,363)	-	(382)	(7,449)
Impairment losses	(31)	-	-	-	(0)	(32)
Acquisition of subsidiary	(0)	-	(0)	-	(0)	(0)
Sale or disposal	1,538	-	0	-	8	1,546
Exchange differences on translation of foreign operations	563	-	9	-	308	881
Other	142	(0)	-	-	1,771	1,913
As of March 31, 2016	(33,132)	(14,293)	(6,484)	-	(1,805)	(55,715)
Amortisation expense (Note)	(3,714)	(739)	(1,362)	-	(79)	(5,896)
Impairment losses	(5)	(1)	(23)	-	(1)	(32)
Acquisition of subsidiary	(2)	-	-	-	-	(2)
Sale or disposal	1,688	0	-	-	-	1,689
Exchange differences on translation of foreign operations	209	-	0	-	7	217
Other	40	(459)	-	-	(10)	(429)
As of March 31, 2017	(34,916)	(15,493)	(7,870)	-	(1,888)	(60,169)

Accumulated Amortisation and Accumulated Impairment Losses	Software	Patent rights	Product development assets	Goodwill	Other	Total
	Thousands of U.S. dollars					
As of March 31, 2016	(295,320)	(127,399)	(57,794)	-	(16,099)	(496,612)
Amortisation expense (Note)	(33,104)	(6,587)	(12,121)	-	(741)	(52,553)
Impairment losses	(44)	(8)	(233)	-	(0)	(285)
Acquisition of subsidiary	(17)	-	-	-	-	(17)
Sale or disposal	15,054	0	-	-	-	15,054
Exchange differences on translation of foreign operations	1,862	-	0	-	72	1,934
Other	347	(4,102)	-	-	(79)	(3,834)
As of March 31, 2017	(311,222)	(138,096)	(70,148)	-	(16,847)	(536,313)

(Note) Amortisation expense for Intangible assets was included in Cost of sales and Selling, general and administrative expenses in the consolidated statement of comprehensive income.

Carrying Amount	Software	Patent rights	Product development assets	Goodwill	Other	Total
	Millions of yen					
As of April 1, 2015	10,907	3,050	2,291	2,326	594	19,170
As of March 31, 2016	11,624	2,286	1,496	2,582	188	18,179
As of March 31, 2017	12,734	1,556	1,453	4,761	1,047	21,553

Carrying Amount	Software	Patent rights	Product development assets	Goodwill	Other	Total
	Thousands of U.S. dollars					
As of March 31, 2016	103,610	20,386	13,335	23,014	1,692	162,037
As of March 31, 2017	113,512	13,878	12,952	42,436	9,333	192,111

15. Finance Lease Transactions

Epson leases host computers and computer terminals as a lessee.
The total of future minimum lease payments, future finance costs and their present value for leased assets recognised based on the finance lease contracts by maturity were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Not later than 1 year			
Total of future minimum lease payments	92	89	793
Future finance costs	(3)	(2)	(12)
Present value	88	87	781
Later than 1 year and not later than 5 years			
Total of future minimum lease payments	150	131	1,156
Future finance costs	(5)	(2)	(12)
Present value	145	128	1,144
Later than 5 years			
Total of future minimum lease payments	0	0	0
Future finance costs	(0)	(0)	(0)
Present value	0	0	0
Total			
Total of future minimum lease payments	242	221	1,949
Future finance costs	(9)	(5)	(24)
Present value	233	216	1,925

16. Operating Lease Transactions

(1) Future Minimum Lease Payments under Non-cancellable Operating Leases

The total of future minimum lease payments under non-cancellable operating leases was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Not later than 1 year	5,277	5,581	49,745
Later than 1 year and not later than 5 years	11,926	9,989	89,047
Later than 5 years	1,046	903	8,048
Total	18,251	16,474	146,840

(2) Total of Minimum Lease Payments and Contingent Rents

The total of minimum lease payments and contingent rents of operating lease contracts recognised as an expense was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Total of minimum lease payments	8,264	8,611	76,753
Contingent rents	120	112	998

17. Investment Property

(1) Schedule of Investment Property

The schedule of the carrying amount of “Investment property” was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Balance at the beginning of the year	4,758	1,967	17,532
Expenditure after acquisition	-	-	-
Transfer from (to) property, plant and equipment	45	15	143
Depreciation expense	(90)	(75)	(668)
Impairment losses and reversal of impairment losses	3,637	-	-
Sale or disposal	(6,335)	(610)	(5,456)
Exchange differences on translation of foreign operations	(46)	(8)	(71)
Balance at the end of the year	1,967	1,288	11,480
Breakdown of “Balance at the beginning of the year”			
Cost	11,595	4,173	37,186
Accumulated depreciation and accumulated impairment losses	(6,837)	(2,205)	(19,654)
Total	4,758	1,967	17,532
Breakdown of “Balance at the end of the year”			
Cost	4,173	2,694	24,003
Accumulated depreciation and accumulated impairment losses	(2,205)	(1,405)	(12,523)
Total	1,967	1,288	11,480

(2) Fair Value

The carrying amount and the fair value of “Investment property” were as follows:

	Millions of yen				Thousands of U.S. dollars	
	March 31, 2016		March 31, 2017		March 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment property	1,967	1,468	1,288	990	11,480	8,824

The fair value of Investment property is determined on the basis of a valuation conducted by an external real estate appraiser. The valuation is made in accordance with the income approach using Level 3 inputs which include the future cash flow.

18. Income Taxes

(1) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown of "Deferred tax assets" and "Deferred tax liabilities" by major causes of their occurrence were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Inter-company profits and write downs on inventories	18,995	19,533	174,106
Carryforward of unused tax losses	9,032	10,828	96,514
Net defined benefit liabilities	7,983	7,237	64,506
Fixed assets (Note 1)	6,113	5,912	52,696
Other	22,947	21,582	192,390
Total deferred tax assets	65,073	65,093	580,212
Undistributed profit	(12,922)	(13,590)	(121,133)
Fixed assets (Note 1)	(3,078)	(2,668)	(23,781)
Other	(3,486)	(3,705)	(33,043)
Total deferred tax liabilities	(19,488)	(19,965)	(177,957)
Net deferred tax assets (Note 2)	45,585	45,128	402,255

(Note 1) "Fixed assets" include impairment losses and excess of depreciation of property, plant and equipment, intangible assets and investment property.

(Note 2) The difference between the net amount of deferred tax assets recognised in the years ended March 31, 2016 and 2017, less the respective net amounts of deferred tax assets recognised directly in equity and in other comprehensive income, is mainly attributable to the impact of foreign exchange movements.

Epson assesses its ability to utilize carryforward of unused tax losses in future periods based on the Mid-Range Business Plan and financial forecasts approved by the Board of Directors annually. This takes account of Epson's medium and long-term strategy and financial plans and the expected future economic outlook. The ability to utilize carryforward of unused tax losses in future periods for recognising deferred tax assets also takes account of material tax adjusting items, the expected future taxable income and the period (if any) in which carryforward of unused tax losses might expire. Epson believes that the recognised deferred tax assets are probable and the tax benefits can be realised based on the prior taxable income and the expected future taxable income when the deferred tax assets can be recognised.
Epson does not recognise deferred tax assets for some carryforward of unused tax losses and some deductible temporary differences. Epson reduces the amount of the deferred tax assets to the extent that it is no longer probable that the tax benefits can be realised based on an individual analysis of each company's condition as a result of assessing the recoverability of the deferred tax assets.
The amounts of carryforward of unused tax losses, for which deferred tax assets have not been recognised, as of March 31, 2016 and 2017, were ¥64,751 million and ¥57,903 million ($516,115 thousand), respectively. The amounts of deductible temporary differences, for which deferred tax assets have not been recognised, as of March 31, 2016 and 2017, were ¥324,150 million and ¥143,599 million ($1,279,962 thousand), respectively. The deductible temporary differences are not expired under present tax laws. The expiration schedule of carryforward of unused tax losses was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
1st year	-	-	-
2nd year	-	-	-
3rd year	-	-	-
4th year	-	-	-
5th year and thereafter	64,751	57,903	516,115
Total	64,751	57,903	516,115

Epson has no taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised as of March 31, 2016 and 2017.

(2) Tax Expense

"Tax expense" recognised as an expense was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Current tax expense	(19,720)	(18,433)	(164,301)
Deferred tax expense	(25,700)	(27)	(250)
Total	(45,421)	(18,461)	(164,551)

Deferred tax expense increased by ¥1,575 million and decreased by ¥1,791 million ($15,963 thousand) mainly due to the effect of changes in Japanese applicable tax rates for the years ended March 31, 2016 and 2017, respectively. Deferred tax expense includes the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period, and expenses or benefits arising from write-downs of deferred tax assets or the reversal of previous write-downs of deferred tax assets. Due to these effects, the deferred tax expense increased by ¥11,740 million and decreased by ¥5,737 million ($51,136 thousand) for the years ended March 31, 2016 and 2017, respectively.

(3) Reconciliation of the Effective Tax Rate

The breakdown of major items that caused differences between the effective statutory tax rate and the actual tax rate was as follows.
Epson is subject mainly to corporate tax, inhabitant tax, and enterprise tax, and the effective statutory tax rates calculated based on these taxes were 32.8% and 30.7% for the years ended March 31, 2016 and 2017, respectively. Foreign subsidiaries are subject to income tax at their locations.

	%	
	Year ended March 31, 2016	Year ended March 31, 2017
Effective statutory tax rate	32.8	30.7
Different tax rates applied to foreign subsidiaries	(3.4)	(2.7)
Expenses not deductible for tax purposes	1.0	(0.3)
Reassessment of recoverability of deferred tax assets	16.7	(2.5)
Other	2.5	2.2
Actual tax rate	49.6	27.4

19. Trade and Other Payables

The breakdown of "Trade and other payables" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Notes and trade payables	69,972	81,651	727,792
Other payables	60,651	59,981	534,646
Total	130,624	141,633	1,262,438

Trade and other payables are classified as financial liabilities measured at amortised cost.

20. Bonds issued, Borrowings and Lease liabilities

The breakdown of "Bonds issued, borrowings and lease liabilities" was as follows:

	Millions of yen		Thousands of U.S. dollars	%	Due
	March 31,		March 31,	Average interest rate (Note 1)	
	2016	2017	2017		
Current borrowings	31,104	16,118	143,666	1.42	-
Current portion of non-current borrowings	500	50,000	445,672	0.56	-
Current portion of bonds issued (Note 2)	29,989	9,995	89,089	-	-
Non-current borrowings	50,000	499	4,447	0.28	2022
Bonds issued (Note 2)	29,928	69,742	621,653	-	-
Lease liabilities	233	216	1,925	2.40	2017 to 2022
Total	141,755	146,572	1,306,452		
Current liabilities	61,654	76,200	679,204		
Non-current liabilities	80,100	70,371	627,248		
Total	141,755	146,572	1,306,452		

(Note 1) The average interest rate is calculated using the interest rate and outstanding balance as of March 31, 2017.
(Note 2) The summary of issuing conditions of the bonds issued was as follows:

Company	Name of bonds issued	Issue date	% interest rate	Collateral	Maturity date	Millions of yen March 31, 2016	Millions of yen March 31, 2017	Thousands of U.S. dollars March 31, 2017
The Company	The 7th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jun 14, 2011	0.72	Non	Jun 14, 2016	20,000 (20,000)	-	-
The Company	The 9th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 12, 2012	0.67	Non	Sep 12, 2017	10,000	10,000 (10,000)	89,134 (89,134)
The Company	The 10th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 11, 2013	0.33	Non	Sep 9, 2016	10,000 (10,000)	-	-
The Company	The 11th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 11, 2013	0.57	Non	Sep 11, 2018	10,000	10,000	89,134
The Company	The 12th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Jun 13, 2014	0.35	Non	Jun 13, 2019	10,000	10,000	89,134
The Company	The 13th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 21, 2016	0.10	Non	Sep 21, 2021	-	20,000	178,269
The Company	The 14th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 21, 2016	0.27	Non	Sep 21, 2023	-	20,000	178,269
The Company	The 15th Series unsecured straight bonds issued (with inter-bond pari passu clause)	Sep 21, 2016	0.34	Non	Sep 18, 2026	-	10,000	89,134
						60,000 (30,000)	80,000 (10,000)	713,074 (89,134)

*The figures in parentheses represent the current portion of bonds issued.

Bonds issued, borrowings and lease liabilities were classified as financial liabilities measured at amortised cost. There were no financial covenants on bonds issued and borrowings that had a significant impact on Epson’s financing activities.

21. Provisions

The breakdown and the schedule of “Provisions” were as follows:

FY2015: Year ended March 31, 2016

	Millions of yen					
	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2015	11,376	7,823	1,474	3,326	6,461	30,463
Arising during the year	11,729	10,037	824	19	5,154	27,765
Utilised	(10,831)	(7,823)	(66)	(3,265)	(6,038)	(28,025)
Unused amounts reversed	(514)	-	-	-	(94)	(608)
Exchange differences on translation of foreign operations	(575)	(965)	(21)	52	(124)	(1,634)
As of March 31, 2016	11,185	9,072	2,211	133	5,358	27,960
Current liabilities	9,806	9,072	299	5	3,835	23,019
Non-current liabilities	1,378	-	1,911	127	1,522	4,941
Total	11,185	9,072	2,211	133	5,358	27,960

FY2016: Year ended March 31, 2017

	Millions of yen					
	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2016	11,185	9,072	2,211	133	5,358	27,960
Arising during the year	11,103	9,395	1,149	21	4,461	26,131
Utilised	(10,725)	(9,072)	(499)	-	(3,708)	(24,005)
Unused amounts reversed	(460)	-	(320)	-	(171)	(951)
Exchange differences on translation of foreign operations	(203)	(434)	(16)	(8)	(281)	(944)
As of March 31, 2017	10,899	8,960	2,524	146	5,658	28,190
Current liabilities	9,295	8,960	26	26	3,671	21,981
Non-current liabilities	1,604	-	2,498	119	1,986	6,209
Total	10,899	8,960	2,524	146	5,658	28,190

FY2016: Year ended March 31, 2017

	Thousands of U.S. dollars					
	Provision for product warranties	Provision for rebates	Asset retirement obligations	Provision for loss on litigation	Other provisions	Total
As of April 1, 2016	99,696	80,862	19,707	1,185	47,770	249,220
Arising during the year	98,956	83,732	10,231	187	39,811	232,917
Utilised	(95,596)	(80,862)	(4,447)	-	(33,062)	(213,967)
Unused amounts reversed	(4,100)	-	(2,852)	-	(1,524)	(8,476)
Exchange differences on translation of foreign operations	(1,809)	(3,868)	(142)	(71)	(2,535)	(8,425)
As of March 31, 2017	97,147	79,864	22,497	1,301	50,460	251,269
Current liabilities	82,850	79,864	231	231	32,750	195,926
Non-current liabilities	14,297	-	22,266	1,070	17,710	55,343
Total	97,147	79,864	22,497	1,301	50,460	251,269

(1) Provision for product warranties
Epson recognises an accrual for estimated future warranty costs based on the rate of historical service contract expenses to sales. Other specific warranty provisions are made for those products where future warranty expenses can be specifically estimated. Most of these expenses are expected to be incurred in the next fiscal year.

(2) Provision for rebates
Epson recognises provisions for rebates, related to sales made on or prior to the fiscal year end, that are paid to distributors or customers based on direct outcomes such as the sales performance or early payment. These expenses are expected to be paid in the next fiscal year.

(3) Asset retirement obligations
Epson recognises a provision for retirement costs of property, plant and equipment for which Epson is required to bear, and which derive from the acquisition, construction, development or normal use of such assets to the amount that it is probable that Epson will pay in light of historical experience. These expenses are expected to be paid mainly after five years or more. However, they may be affected by future business plans.

(4) Provision for loss on litigation
Epson recognises a provision for loss on litigation based on the estimated future compensation payment and litigation expenses which need to be provided at each fiscal year end. These expenses are expected to be paid after three years or more.

22. Other Liabilities

The breakdown of “Other current liabilities” and “Other non-current liabilities” was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Accrued expense	25,948	28,948	258,026
Accrued bonus to employees	28,564	25,543	227,676
Accrued employee’s unused paid vacations	25,052	24,847	221,472
Other	25,615	27,175	242,284
Total	105,179	106,514	949,458
Current liabilities	102,065	102,992	918,035
Non-current liabilities	3,114	3,521	31,423
Total	105,179	106,514	949,458

23. Post-employment Benefits

The Company and some Japanese subsidiaries have the following defined benefit plans: defined benefit corporate pension plans and lump-sum severance plans. In addition, they also have defined contribution plans.
Some overseas subsidiaries have defined benefit plans and defined contribution plans.
Epson's major defined benefit plans are administrated by the Corporate Pension Fund (the "Fund") in accordance with the Defined-Benefit Corporate Pension Act (Act No. 50 of 2001).
The benefits of defined benefit plans are determined based on conditions, such as years of service, the salary proportional method based on average employee salaries for services or final base salaries for retirement benefits and a funded method based on the points employees have earned for each year of service.
The Fund has a Board of Representatives consisting of representatives of the Company and its Japanese subsidiaries and representatives of the plan participants in accordance with the rules of the Fund. The Board of Representatives is responsible for changes in the rules of the Fund, dismissal of the board members including members who execute operations related to the administration and investment of pension reserves for the Fund, and resolutions of the business report and the closing of account.

(1) Schedule of Defined Benefit Obligations

The schedule of the defined benefit obligations was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Balance at the beginning of the year	293,035	311,452	2,776,111
Service cost	10,480	11,550	102,950
Interest cost	3,673	2,284	20,358
Remeasurement			
Actuarial gains and losses arising from changes in demographic assumptions	(2,811)	1,341	11,952
Actuarial gains and losses arising from changes in financial assumptions	20,008	(4,502)	(40,128)
Past service cost and losses (gains) arising from settlements	(2,270)	(290)	(2,584)
Exchange differences on translation of foreign operations	(2,039)	(2,567)	(22,890)
Benefits paid	(8,625)	(10,358)	(92,325)
Effects of business combinations and disposals	-	26	231
Balance at the end of the year	311,452	308,935	2,753,675

(2) Schedule of Plan Assets

The schedule of the plan assets was as follows.

Epson's major defined benefit plans are regulated by maintaining a balance between the pension obligations and plan assets through reviewing the financial condition of the fund that affects future benefits.

Epson plans to pay contributions of ¥8,567 million ($76,361 thousand) for the year ending March 31, 2018.

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Balance at the beginning of the year	261,808	256,606	2,287,244
Interest income	2,972	1,579	14,083
Remeasurement			
Return on plan assets	(4,993)	7,498	66,833
Gains (losses) arising from settlements	(2,270)	-	-
Exchange differences on translation of foreign operations	(1,310)	(1,974)	(17,585)
Contributions by the employer	7,342	7,149	63,722
Contributions by plan participants	1,177	1,169	10,419
Benefits paid	(8,119)	(8,375)	(74,650)
Balance at the end of the year	256,606	263,654	2,350,066

(3) Schedule of Right to Reimbursement

As Epson's major defined benefit plans are corporate defined benefit pension plans, there are no contributions from third parties.

(4) Effect of Asset Ceiling

There was no effect from the asset ceiling.

(5) Reconciliation of Defined Benefit Obligations and Plan Assets

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities or assets recognised in the consolidated statement of financial position were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Funded defined benefit obligations	305,438	303,459	2,704,856
Plan assets	(256,606)	(263,654)	(2,350,066)
Subtotal	48,831	39,804	354,790
Unfunded defined benefit obligations	6,014	5,476	48,819
Net defined benefit liabilities or assets recognised in the consolidated statement of financial position	54,845	45,281	403,609
Net defined benefit liabilities	54,845	45,281	403,609
Net defined benefit assets	-	0	0
Net defined benefit liabilities and assets recognised in the consolidated statement of financial position	54,845	45,281	403,609

(6) Breakdown of Plan Assets

The breakdown of plan assets by major category was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Investments quoted in active markets			
Equity securities	19,923	16,319	145,458
Bonds receivable	48	6,795	60,566
Alternative investments (Note 1)	6,926	2,990	26,651
Cash and deposits	4,630	3,477	30,992
Other	3,196	3,223	28,747
Total	34,725	32,806	292,414
Investments unquoted in active markets			
Pooled funds (Equity securities)	29,647	33,011	294,241
Pooled funds (Bonds receivable)	62,220	57,939	516,436
General accounts of life insurance companies (Note 2)	93,829	102,648	914,947
Alternative investments (Note 1)	36,183	36,840	328,371
Other	-	408	3,657
Total	221,881	230,848	2,057,652

(Note 1) Alternative investments are the investments through hedge funds, multi-asset funds, securitization funds and other funds.

(Note 2) A certain interest rate and principal for the general accounts of life insurance companies are guaranteed by life insurance companies.

(Note 3) In plan assets, there are no transferable financial instruments, real estate held by Epson or other assets used by Epson.

The investment strategy for Epson’s plan assets was as follows:
Epson’s plan assets under defined benefit plans are managed in accordance with the rules of the Fund for securing stable returns in the middle- and long-term in order to ensure the redemption of the defined benefit obligations. Epson sets a best qualified asset mix policy through performing pension ALM, which is combined management of assets and liabilities by an external agency to secure stable returns. Epson invests plan assets consistently with the asset mix policy which includes setting of the risk, target rate of return and composition ratio of plan assets by asset category.

(7) Matters Related to Actuarial Assumptions

The major item of actuarial assumptions was as follows:

	%	
	March 31, 2016	March 31, 2017
Discount rate	0.8	0.9

The valuation of defined benefit obligations reflects judgments on uncertain future events. The sensitivities of defined benefit obligations due to changes of 1% in the discount rate as of March 31, 2017 were as follows. Each of these sensitivities assumes that other variables remain fixed. Negative figures show a decrease in the defined benefit obligations, while positive figures show an increase.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2017	March 31, 2017
Discount rate (1% increase)	(45,403)	(404,697)
Discount rate (1% decrease)	54,313	484,116

The weighted-average duration of the defined benefit obligations at March 31, 2017 was 15.5 years.

(8) Defined Contribution Plans

Expenses for the defined contribution plans were ¥19,340 million and ¥18,781 million ($167,403 thousand) for the years ended March 31, 2016 and 2017, respectively.

24. Equity and Other Equity Items

(1) Share Capital and Capital Surplus

(A) Authorised Shares
The number of authorised shares as of March 31, 2016 and 2017 was 1,214,916,736 ordinary shares.

(B) Fully Paid Issued Shares
The schedule of the number of issued shares, the amount of "Share capital" and "Capital surplus" was as follows:

	a share	Millions of yen		Thousands of U.S. dollars	
	Number of ordinary issued shares (Note1)	Share capital	Capital surplus	Share capital	Capital surplus
As of April 1, 2015	199,817,389	53,204	84,321		
Increase (decrease) (Note2)	199,817,389	-	-		
As of March 31, 2016	399,634,778	53,204	84,321	474,231	751,591
Increase (decrease)	-	-	0	-	0
As of March 31, 2017	399,634,778	53,204	84,321	474,231	751,591

(Note1) The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(Note2) Increase in the number of ordinary issued shares during the year ended March 31, 2016 resulted from the Company's common shares split with an effective date of April 1, 2015.

(2) Treasury Shares

The schedule of the number of treasury shares and the corresponding amount was as follows:

	a share	Millions of yen	Thousands of U.S. dollars
	Number of shares	Amount	Amount
As of April 1, 2015	20,928,657	20,464	
Increase (decrease) (Note1)	20,931,739	6	
As of March 31, 2016	41,860,396	20,471	182,476
Increase (decrease) (Note2)	5,551,261	10,340	92,165
As of March 31, 2017 (Note3)	47,411,657	30,812	274,641

(Note1) Increase in the number of treasury shares during the year ended March 31, 2016 resulted from the purchase of odd shares and the Company's common shares split with an effective date of April 1, 2015.

(Note2) Increase in the number of treasury shares during the year ended March 31, 2017 resulted from:

the purchase by the resolution of the board of directors	5,370,000 shares
the purchase by BIP trust	180,000 shares
the purchase of odd shares	1,261 shares

(Note3) The number of treasury shares as of March 31, 2017 includes 180,000 shares held by BIP trust.

(3) Other Components of Equity

(A) Remeasurement of net defined benefit liabilities (assets)
Remeasurement of net defined benefit liabilities (assets) comprise actuarial gain and loss on the present value of defined benefit obligations and the return on plan assets excluding amounts included in net interest. The amount is recognised as other comprehensive income when occurred and is transferred immediately from other components of equity to retained earnings.

(B) Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
This is the valuation difference in fair value of financial assets measured at fair value through other comprehensive income.

(C) Exchange differences on translation of foreign operations
This is a foreign currency translation difference that occurs when consolidating financial statements of foreign operations are prepared in foreign currencies.

(D) Net changes in fair value of cash flow hedges
Epson uses derivatives for hedging to avoid the risk of fluctuation in future cash flows. This is the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.

25. Dividends

Dividends paid were as follows:

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 25, 2015)	Ordinary shares	14,311	80	March 31, 2015	June 26, 2015
Board of Directors (October 29, 2015)	Ordinary shares	10,733	30	September 30, 2015	December 4, 2015

FY2016: Year ended March 31, 2017

(Resolution)	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 28, 2016)	Ordinary shares	10,733	30	March 31, 2016	June 29, 2016
Board of Directors (October 27, 2016)	Ordinary shares	10,572	30	September 30, 2016	November 30, 2016

FY2016: Year ended March 31, 2017

(Resolution)	Class of shares	Thousands of U.S. dollars Total dividends	U.S. dollars Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 28, 2016)	Ordinary shares	95,668	0.26	March 31, 2016	June 29, 2016
Board of Directors (October 27, 2016)	Ordinary shares	94,232	0.26	September 30, 2016	November 30, 2016

(Note) The Company completed the Company’s ordinary shares split with an effective date of April 1, 2015 based on the resolution by the Company’s Board of Directors on January 30, 2015. Dividends per share for the dividends with a basis date on or before March 31, 2015 was stated by the actual dividends paid without adjusting the effect of the shares split.

Dividends whose basis dates were during the years ended March 31, 2016 and 2017, but whose effective dates were subsequent to March 31, 2016 and 2017 were as follows:

FY2015: Year ended March 31, 2016

(Resolution)	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 28, 2016)	Ordinary shares	10,733	30	March 31, 2016	June 29, 2016

FY2016: Year ended March 31, 2017

(Resolution)	Class of shares	Millions of yen Total dividends	Yen Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 28, 2017)	Ordinary shares	10,572	30	March 31, 2017	June 29, 2017

FY2016: Year ended March 31, 2017

(Resolution)	Class of shares	Thousands of U.S. dollars Total dividends	U.S. dollars Dividends per share	Basis date	Effective date
Annual Shareholders Meeting (June 28, 2017)	Ordinary shares	94,232	0.26	March 31, 2017	June 29, 2017

26. Revenue

The breakdown of “Revenue” was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Sale of goods	1,080,551	1,012,810	9,027,631
Royalty income	4,137	4,174	37,204
Other	7,793	7,871	70,168
Total	1,092,481	1,024,856	9,135,003

27. Selling, General and Administrative Expenses

The breakdown of "Selling, general and administrative expenses" was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Employee benefit expense	(98,355)	(95,939)	(855,147)
Research and development expense	(53,172)	(52,735)	(470,050)
Promotion expense	(32,284)	(29,361)	(261,707)
Advertising expense	(22,624)	(21,053)	(187,654)
Service contract expense	(21,269)	(19,291)	(171,949)
Transportation expense	(16,590)	(16,097)	(143,479)
Other	(68,410)	(65,687)	(585,537)
Total	(312,708)	(300,167)	(2,675,523)

28. Employee Benefit Expenses

The employee benefit expenses included in the consolidated statement of comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Salaries and wages	(211,849)	(203,531)	(1,814,163)
Legal welfare expense	(19,519)	(18,401)	(164,016)
Welfare expense	(11,188)	(10,372)	(92,450)
Expenses of post-employment benefits			
Expense for defined contribution plans	(19,340)	(18,781)	(167,403)
Expense for defined benefit plans	(32,334)	(1,140)	(10,180)
Total	(294,232)	(252,227)	(2,248,212)

29. Other Operating Income

The breakdown of "Other operating income" was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Foreign exchange gain	931	1,258	11,213
Gain on sales of property, plant and equipment, intangible assets and investment property	7,733	680	6,061
Income from reversal of impairment loss	3,828	-	-
Other	2,314	3,482	31,045
Total	14,807	5,421	48,319

30. Other Operating Expense

The breakdown of “Other operating expense” was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Loss on the disposal of property, plant and equipment and intangible assets	(755)	(750)	(6,685)
Other	(4,977)	(2,584)	(23,051)
Total	(5,732)	(3,335)	(29,736)

31. Finance Income and Finance Costs

The breakdowns of “Finance income” and “Finance costs” were as follows:

Finance Income	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Interest income	1,275	1,007	8,985
Dividend income	340	364	3,244
Other	36	11	98
Total	1,652	1,383	12,327

Finance Costs	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Interest expense	(1,319)	(826)	(7,381)
Employee benefit expense	(700)	(704)	(6,275)
Foreign exchange loss (Note)	(2,177)	(301)	(2,682)
Other	(55)	(25)	(222)
Total	(4,252)	(1,858)	(16,560)

(Note) The increase or decrease in the fair value of currency derivatives is included in the foreign exchange gain (loss).

32. Discontinued Operations

As of April 1, 2010, Epson transferred a part of its business and some assets in the field of small- and medium-sized liquid crystal displays to Sony Corporation and Sony Mobile Display Corporation and terminated the production operation at the end of December, 2010. The profit and loss related to allegations concerning a LCD price-fixing cartel that occurred during the years ended March 31, 2016 and 2017 was classified into "Discontinued operations."

(1) Reportable Segments

Small- and medium-sized liquid crystal displays business: Other

(2) The analysis of profit and loss of discontinued operations

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Selling, general and administrative expenses	(42)	(16)	(142)
Other operating expense	-	(565)	(5,055)
Loss from operating activities	(42)	(582)	(5,197)
Loss before tax	(42)	(582)	(5,197)
Loss from discontinued operations	(42)	(582)	(5,197)

(3) The analysis of cash flow of discontinued operations

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Net cash provided by (used in) operating activities	(1,060)	(14)	(124)
Total	(1,060)	(14)	(124)

33. Other Comprehensive Income

The amount arising during the year, reclassification adjustments to profit or loss and tax effects for each component of "Other comprehensive income" were as follows:

FY2015: Year ended March 31, 2016

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	(22,465)	-	(22,465)	304	(22,161)
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	(3,547)	-	(3,547)	937	(2,610)
Exchange differences on translation of foreign operations	(21,309)	-	(21,309)	-	(21,309)
Net changes in fair value of cash flow hedges	175	(1,953)	(1,777)	561	(1,215)
Share of other comprehensive income of investments accounted for using the equity method	(240)	-	(240)	-	(240)
Total	(47,386)	(1,953)	(49,340)	1,803	(47,536)

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2016: Year ended March 31, 2017

	Millions of yen				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	9,959	-	9,959	826	10,785
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	2,768	-	2,768	(548)	2,219
Exchange differences on translation of foreign operations	(5,477)	-	(5,477)	-	(5,477)
Net changes in fair value of cash flow hedges	1,726	(1,658)	67	(20)	47
Share of other comprehensive income of investments accounted for using the equity method	(20)	-	(20)	-	(20)
Total	8,956	(1,658)	7,297	257	7,555

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

FY2016: Year ended March 31, 2017

	Thousands of U.S. dollars				
	Amount arising	Reclassification adjustments	Before tax effects	Tax effects	Net of tax effects
Remeasurement of net defined benefit liabilities (assets)	88,769	-	88,769	7,362	96,131
Net gain (loss) on revaluation of financial assets measured at FVTOCI (Note)	24,681	-	24,681	(4,893)	19,788
Exchange differences on translation of foreign operations	(48,809)	-	(48,809)	-	(48,809)
Net changes in fair value of cash flow hedges	15,375	(14,778)	597	(179)	418
Share of other comprehensive income of investments accounted for using the equity method	(178)	-	(178)	-	(178)
Total	79,838	(14,778)	65,060	2,290	67,350

(Note) FVTOCI: Fair Value Through Other Comprehensive Income

34. Earnings per Share

(1) Basis of calculating basic earnings per share

(A) Profit attributable to ordinary shareholders of the parent company

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Profit from continuing operations attributable to owners of the parent company	45,815	48,903	435,895
Loss from discontinued operations attributable to owners of the parent company	(42)	(582)	(5,197)
Profit used for calculation of basic earnings per share	45,772	48,320	430,698

(B) Weighted-average number of ordinary shares outstanding during the period

	Thousands of shares	
	Year ended March 31, 2016	Year ended March 31, 2017
Weighted-average number of ordinary shares	357,775	353,160

(2) Basis of calculating diluted earnings per share

(A) Profit attributable to ordinary shareholders of the parent company

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Profit from continuing operations attributable to owners of the parent company	45,815	48,903	435,895
Adjustments	-	-	-
Profit from continuing operations attributable to owners of the parent company used for calculation of diluted earnings per share	45,815	48,903	435,895
Loss from discontinued operations attributable to owners of the parent company	(42)	(582)	(5,197)
Adjustments	-	-	-
Loss from discontinued operations attributable to owners of the parent company used for calculation of diluted earnings per share	(42)	(582)	(5,197)
Profit attributable to owners of the parent company	45,772	48,320	430,698
Adjustments	-	-	-
Profit used for calculation of diluted earnings per share	45,772	48,320	430,698

(B) Weighted-average number of ordinary shares outstanding during the period

	Thousands of shares	
	Year ended March 31, 2016	Year ended March 31, 2017
Weighted-average number of ordinary shares	357,775	353,160
Effect of dilutive securities		
BIP trust for eligible officers	-	20
Diluted outstanding shares	357,775	353,181

(Note) In the calculation of basic earnings per share and diluted earnings per share, because the shares of the Company held by BIP trust are accounted as treasury shares, the number of those shares are deducted from weighted-average number of common shares outstanding during the year.

35. Share-based Payment

(1) Summary of Performance-Linked Stock Compensation Plan

The Company has employed a framework referred to as BIP (Board Incentive Plan) trust as performance-linked equity-settled share-based payment plan for the Company's directors and executive officers who have been engaged by the Company (collectively referred to hereafter as "Eligible Officers," and excluding outside directors and persons such as Audit and Supervisory Committee members who are not directly engaged in the operations of the Company, and persons residing outside Japan) from the year ended March 31, 2017. The plan is intended to heighten directors' sense of shared interest with shareholders and to show a commitment to sustaining growth and increasing corporate value over the mid- to long-term.
The Eligible Officers are awarded a specific number of points each year based on their position and other factors (1 point = 1 share). Such points fluctuate depending on the levels of achievement of the mid- to long-term operating performance targets of Epson. The vesting condition is basically for the Eligible Officers to render services for three years to a vesting date after a grant date of points.

(2) Number of Granted Points and Weighted Average Fair Value

The fair values of granted points at the grant date are measured based on observable market prices. Moreover, the expected dividends are incorporated into the measurement of fair values. The number of granted points and weighted average fair value at the grant date were as follows:

	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Number of granted points	-	41,954	-
Weighted average fair value at the grant date	-	¥1,754	$16

(3) Stock Compensation Expenses

The total expense recognised from the performance-linked stock compensation plan was ¥12 million ($106 thousand) for the years ended March 31, 2017.

36. Financial Instruments

(1) Capital Management

Epson selects the most effective fund management method focusing on the preservation of funds in view of safeness and flexibility. In addition, Epson obtains financing from bank loans and bonds issued. Epson has a policy not to transact derivatives for speculation purposes, but for avoiding the risks stated below.
Epson manages net interest-bearing debt, where cash and cash equivalents are deducted from interest-bearing debt, and capital (equity attributable to owners of the parent company). The amounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Interest-bearing debt	141,755	146,572	1,306,452
Cash and cash equivalents	(230,498)	(221,782)	(1,976,842)
Net interest-bearing debt	(88,743)	(75,209)	(670,390)
Capital (equity attributable to owners of the parent company)	467,818	492,196	4,387,164

Epson monitors financial indicators in order to maintain a well-balanced capital structure that ensures an appropriate return on equity and a sound and flexible financial condition for future investment. Epson monitor credit ratings for financial soundness and flexibility, and ROE (return on equity) for profitability, while focusing on changes in the domestic and overseas environment.

(2) Financial Risk Management

Epson is exposed to financial risks (credit risks, liquidity risks, foreign exchange risks, interest rate risks, and market price fluctuation risks) in the process of its business activities; and it manages risks based on a specific policy in order to avoid or reduce said risks. The results of risk management are regularly reported by the financial and general accounting department to the Executive Committee of the Company.
Epson’s policy limits derivatives to transactions for the purpose of mitigating risks from transactions based on actual demand. Therefore, Epson do not transact derivatives for speculation purposes or trading purposes.

(3) Credit Risk

Receivables, such as notes and trade receivables, resulting from the operating activities of Epson are exposed to customer credit risks.
Epson holds mainly bonds receivable as investments of surplus funds and equity securities of customers and suppliers to strengthen relationships with them; those securities are exposed to the issuers' credit risks.
In addition, through derivative transactions that Epson conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks, Epson is exposed to the credit risks of the financial institutions which are counterparties to these transactions.
In principle, Epson sets credit lines or transaction conditions with respect to trade receivables for counterparties based on Epson's Credit Control Regulation in order to prevent credit risks relating to counterparties. In addition, the receivable balances of counterparties are monitored in order to mitigate the credit risks. The financial and general accounting department of the Company regularly monitors the status of the occurrence and collection of bad debts, and reports them to the Executive Committee of the Company. There is no over-concentrated credit risk for a single customer.
With regard to the investment of cash surpluses and derivatives, Epson invests in bonds receivable and other financial instruments with a certain credit rating and transacts with financial institutions with a high credit rating in principle in order to prevent credit risks based on Epson's Capital Management Regulation. In addition, the financial and general accounting department of the Company regularly monitors the performances of these transactions and reports the results to the Executive Committee of the Company.

The analysis of the aging of "Trade and other receivables" and "Other Financial Assets" that are past due but not impaired as of March 31, 2017 was as follows. It includes amounts considered recoverable by credit insurance and collateral.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2017	March 31, 2017
Within 30 days	8,034	71,621
Over 30 days, within 60 days	533	4,750
Over 60 days, within 90 days	48	427
Over 90 days	273	2,433
Total	8,889	79,231

Epson uses an allowance account for credit losses to record impairment losses on the uncollectible amounts of individually significant trade receivables at the end of the reporting period and to record impairment losses on trade receivables that are not individually significant at an amount based on the historical loan loss ratio at the end of the reporting period. The allowance account for credit losses against the financial assets is included in "Trade and other receivables" and "Other Financial Assets" in the consolidated statement of financial position.
The schedule of the allowance account for credit losses of "Trade and other receivables" and "Other Financial Assets" was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Balance as of April 1	1,586	1,479	13,182
Addition (Note)	669	401	3,556
Decrease (utilised)	(724)	(355)	(3,164)
Decrease (reversal)	(12)	(11)	(98)
Other	(39)	(28)	(249)
Balance as of March 31	1,479	1,485	13,227

(Note) "Trade and other receivables" and "Other Financial Assets" for which impairment was recognised individually at March 31, 2016 and 2017 were ¥45 million and ¥33 million ($294 thousand), respectively; and their corresponding allowance account for credit losses were ¥45 million and ¥33 million ($294 thousand), respectively.

(4) Liquidity Risk

Epson raises funds by borrowings and bonds issued; however, these liabilities are exposed to the liquidity risk that it would not be able to repay liabilities on the due date due to the deterioration of the financing environment. Epson establishes a financing plan based on the annual business plan and the financial and general accounting department of the Company regularly monitors and collects information on the balance of liquidity-in-hand and interest-bearing debt and reports it to the Executive Committee of the Company. In addition, Epson manages liquidity risks with the balance of liquidity-in-hand maintained at a proper level by working out the financing plan on a timely basis, and by taking into consideration the financial environment.

The financial liability balance (including derivative financial instruments) by maturity was as follows:

FY2015: As of March 31, 2016

Millions of yen

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	130,624	130,624	130,624	-	-	-	-	-
Borrowings	81,604	81,604	31,604	50,000	-	-	-	-
Bonds issued	59,917	60,000	30,000	10,000	10,000	10,000	-	-
Lease obligations	233	242	92	76	48	19	4	0
Other	1,641	1,641	0	63	337	34	94	1,111
Total	274,021	274,112	192,322	60,140	10,386	10,053	98	1,111
Derivative financial liabilities								
Foreign exchange forward contract	823	823	823	-	-	-	-	-
Total	823	823	823	-	-	-	-	-

FY2016: As of March 31, 2017

Millions of yen

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	141,633	141,633	141,633	-	-	-	-	-
Borrowings	66,618	66,618	66,118	-	-	-	500	-
Bonds issued	79,738	80,000	10,000	10,000	10,000	-	20,000	30,000
Lease obligations	216	221	89	69	38	18	4	0
Other	1,792	1,792	206	69	42	106	84	1,282
Total	289,998	290,265	218,047	10,138	10,081	125	20,588	31,282
Derivative financial liabilities								
Foreign exchange forward contract	1,112	1,112	1,112	-	-	-	-	-
Total	1,112	1,112	1,112	-	-	-	-	-

FY2016: As of March 31, 2017

Thousands of U.S. dollars

	Carrying amount	Contractual cash flow	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Non-derivative financial liabilities								
Trade and other payables	1,262,438	1,262,438	1,262,438	-	-	-	-	-
Borrowings	593,785	593,785	589,338	-	-	-	4,447	-
Bonds issued	710,742	713,074	89,134	89,134	89,134	-	178,269	267,403
Lease obligations	1,925	1,949	793	615	342	164	35	0
Other	15,979	15,979	1,848	615	380	950	759	11,427
Total	2,584,869	2,587,225	1,943,551	90,364	89,856	1,114	183,510	278,830
Derivative financial liabilities								
Foreign exchange forward contract	9,911	9,911	9,911	-	-	-	-	-
Total	9,911	9,911	9,911	-	-	-	-	-

(5) Foreign Exchange Risk

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

(A) The risk that the profit or loss and cash flow in each functional currency of Epson is influenced by foreign exchange fluctuation as a result of external transactions and intergroup transactions, including the payment and receipt of dividends, in currencies that are different from each functional currency of Epson.

(B) The risk that the equity of Epson is influenced by foreign exchange fluctuation when equity denominated in each functional currency of Epson is translated into Japanese yen and consolidated.

(C) The risk that the profit or loss of Epson is influenced by foreign exchange fluctuation when profit or loss denominated in each functional currency of Epson is translated into Japanese yen and consolidated.

Epson hedges against risk (A) using derivatives or foreign currency-denominated interest-bearing debt when future cash flow is projected or when receivables and payables are fixed. As a rule, the net of foreign currency-denominated operating receivables and payables is hedged mainly using forward foreign exchange contracts.

Epson does not hedge against risk (B) and (C), in principle.
In order to mitigate risks mentioned above resulting from the foreign exchange fluctuation, in accordance with Epson's Foreign Exchange Management Regulation, Epson establishes a foreign currency hedge policy based on the current conditions and forecast of the foreign exchange market, implements the aforementioned hedges under the supervision of the Foreign Exchange Management Committee of the Company. The financial and general accounting department of the Company regularly reports the performances to the Executive Committee of the Company.
The breakdown of currency derivatives was follows:

Derivative transactions to which hedge accounting is not applied

	Millions of yen						Thousands of U.S. dollars		
	March 31,						March 31,		
	2016			2017			2017		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contract									
Buying	4,146	-	57	6,456	-	(9)	57,545	-	(80)
Selling	32,978	-	732	31,577	-	(345)	281,460	-	(3,094)
Non-Deliverable Forward									
Selling	2,754	-	(24)	3,761	-	(163)	33,523	-	(1,452)
Total	39,879	-	765	41,794	-	(519)	372,528	-	(4,626)

Derivative transactions to which hedge accounting is applied

	Millions of yen						Thousands of U.S. dollars		
	March 31,						March 31,		
	2016			2017			2017		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value (Note)
Foreign exchange forward contract									
Selling	35,755	-	28	31,171	-	113	277,841	-	1,007
Non-Deliverable Forward									
Selling	7,504	-	(240)	7,231	-	(256)	64,453	-	(2,281)
Total	43,259	-	(212)	38,402	-	(143)	342,294	-	(1,274)

(Note) Cash flow hedge is applied, and derivative transactions are measured at fair value in the consolidated statement of financial position.

Foreign Exchange Sensitivity Analysis
In cases where each currency other than the functional currency that denominates the financial instruments held by Epson as of March 31, 2017 increases by 10% in value against the functional currency, the impact on profit before tax in the consolidated statement of comprehensive income was as follows.
The impact from the translation of functional currency-denominated financial instruments, and assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, it is based on the assumption that currencies other than the currencies used for the calculation do not fluctuate.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2017	March 31, 2017
Profit before tax	2,679	23,879

(6) Interest Rate Risk

Epson’s interest rate risk arises from cash equivalents and interest-bearing debt. Borrowings and bonds issued with floating rates are subject to the effects of changes in future cash flows caused by the fluctuation of market interest rates; while, borrowings and bonds issued with fixed rates are subject to the effects of changes in the fair value caused by the fluctuation of market interest rates.
In response to the fluctuation of market interest rates, Epson reduces the interest rate risk by implementing an interest rate swap and adjusting appropriate proportion of financing between floating rates and fixed rates.
In accordance with Epson’s Capital Management Regulation, the interest rate swap is approved by the finance officer of the Company.

Interest Rate Sensitivity Analysis
In cases where the interest rate of financial instruments held by Epson as of March 31, 2017 increases by 100bp, the impact on profit before tax in the consolidated statement of comprehensive income was as follows:
The analysis included financial instruments affected by interest rate fluctuation and based on the assumption that other factors, including the impacts of foreign exchange fluctuation, were constant.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2017	March 31, 2017
Profit before tax	661	5,891

(7) Market Price Fluctuation Risk

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

Epson intends to hold equity instruments not for short-term trading but for long-term investment. Therefore, Epson does not sell the instruments actively. The equity price fluctuation risks are calculated based on the price of equity instruments at the fiscal year end. In cases where the equity price changes by 5% in value, the impact on other comprehensive income before tax effects as of March 31, 2017 was ¥793 million ($7,068 thousand) due to the changes in the fair value.

(8) Fair Value of Financial Instruments

(A) Fair value measurement
The fair values of financial assets and liabilities are determined as follows:

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

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

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

(Bonds issued)
The fair values are calculated based on prices obtained from financial institutions.

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

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

(B) Fair value hierarchy
The fair value hierarchy of financial instruments is categorized from Level 1 to Level 3 as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities
Level 2: Fair value calculated using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
Level 3: Fair value calculated using valuation techniques including unobservable inputs for the assets and liabilities
Epson does not have any financial instruments for which there is significant measurement uncertainty and subjectivity which needs to subdivide each level stated above for disclosure.
The transfers between levels in the fair value hierarchy are deemed to have occurred at the end of the reporting period.

(i) Financial instruments measured at amortised cost
The carrying amounts and the fair value hierarchy of financial instruments measured at amortised cost were as follows. The fair values of financial instruments that are not listed on the table below approximate the carrying amounts.

FY2015: As of March 31, 2016

	Millions of yen				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortised cost					
Borrowings (Note)	81,604	-	81,728	-	81,728
Bonds issued (Note)	59,917	-	60,297	-	60,297
Total	141,521	-	142,025	-	142,025

FY2016: As of March 31, 2017

	Millions of yen				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortised cost					
Borrowings (Note)	66,618	-	66,674	-	66,674
Bonds issued (Note)	79,738	-	79,838	-	79,838
Total	146,356	-	146,512	-	146,512

FY2016: As of March 31, 2017

	Thousands of U.S. dollars				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortised cost					
Borrowings (Note)	593,785	-	594,295	-	594,295
Bonds issued (Note)	710,742	-	711,632	-	711,632
Total	1,304,527	-	1,305,927	-	1,305,927

There were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy at the end of each reporting period.

(Note) Current portion is included.

(ii) Financial instruments measured at fair value

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

FY2015: As of March 31, 2016

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	1,383	-	1,383
Equity securities	14,006	-	2,054	16,060
Total	14,006	1,383	2,054	17,444
Financial liabilities measured at fair value				
Derivative financial liabilities	-	823	-	823
Total	-	823	-	823

FY2016: As of March 31, 2017

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	449	-	449
Equity securities	13,310	-	2,498	15,809
Total	13,310	449	2,498	16,258
Financial liabilities measured at fair value				
Derivative financial liabilities	-	1,112	-	1,112
Total	-	1,112	-	1,112

FY2016: As of March 31, 2017

	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial assets	-	4,002	-	4,002
Equity securities	118,638	-	22,265	140,903
Total	118,638	4,002	22,265	144,905
Financial liabilities measured at fair value				
Derivative financial liabilities	-	9,911	-	9,911
Total	-	9,911	-	9,911

There were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy at the end of each reporting period.

The movement of financial instruments categorized within Level 3 of the fair value hierarchy was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Balance as of April 1	2,406	2,054	18,308
Gains and losses			
Other comprehensive income	(319)	550	4,902
Sales	(32)	(54)	(481)
Other	-	(51)	(464)
Balance as of March 31	2,054	2,498	22,265

37. Principal Subsidiaries

Principal subsidiaries as of March 31, 2017 were as follows:

Company name	Location	Main business	Ownership percentage of voting rights (%) (Note)
Epson Sales Japan Corporation	Shinjuku-ku, Tokyo	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Direct Corporation	Matsumoto-shi, Nagano	Printing solutions	100.0 (100.0)
Orient Watch Co., Ltd.	Shinjuku-ku, Tokyo	Wearable & Industrial products	100.0
Miyazaki Epson Corporation	Miyazaki-shi, Miyazaki	Wearable & Industrial products	100.0
Tohoku Epson Corporation	Sakata-shi, Yamagata	Printing solutions, Wearable & Industrial products	100.0
Akita Epson Corporation	Yuzawa-shi, Akita	Printing solutions, Wearable & Industrial products	100.0
Epson Atmix Corporation	Hachinohe-shi, Aomori	Wearable & Industrial products	100.0
U.S. Epson, Inc.	Long Beach, U.S.A.	Holding company	100.0
Epson America, Inc.	Long Beach, U.S.A.	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Electronics America, Inc.	San Jose, U.S.A.	Wearable & Industrial products	100.0 (100.0)
Epson Portland Inc.	Portland, U.S.A.	Printing solutions	100.0 (100.0)
Epson El Paso, Inc.	El Paso, U.S.A.	Printing solutions	100.0 (100.0)
Epson Europe B.V.	Amsterdam, the Netherlands	Regional headquarters, Printing solutions, Visual communications	100.0
Epson (U.K.) Ltd.	Hemel Hempstead, UK	Printing solutions, Visual communications	100.0 (100.0)
Epson Deutschland GmbH	Dusseldorf, Germany	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Europe Electronics GmbH	Munich, Germany	Wearable & Industrial products	100.0 (100.0)
Epson France S.A.	Levallois-Perret, France	Printing solutions, Visual communications	100.0 (100.0)
Epson Italia S.p.A.	Milan, Italy	Printing solutions, Visual communications	100.0 (100.0)
For.Tex S.r.l.	Como, Italy	Printing solutions	100.0 (100.0)

Company name	Location	Main business	Ownership percentage of voting rights (%) (Note)
Epson Iberica, S.A.	Cerdanyola, Spain	Printing solutions, Visual communications	100.0 (100.0)
Epson Telford Ltd.	Telford, UK	Printing solutions	100.0 (100.0)
Fratelli Robustelli S.r.l.	Como, Italy	Printing solutions	100.0 (100.0)
Epson (China) Co., Ltd.	Beijing, China	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Korea Co., Ltd.	Seoul, Korea	Printing solutions, Visual communications	100.0
Epson Hong Kong Ltd.	Hong Kong, China	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	Printing solutions, Visual communications, Wearable & Industrial products	100.0
Epson Singapore Pte. Ltd.	Singapore	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0
P.T. Epson Indonesia	Jakarta, Indonesia	Printing solutions, Visual communications	100.0 (100.0)
Epson (Thailand) Co., Ltd.	Bangkok, Thailand	Printing solutions, Visual communications	100.0 (100.0)
Epson Philippines Corporation	Pasig, the Philippines	Printing solutions, Visual communications	100.0 (100.0)
Epson Australia Pty. Ltd.	North Ryde, Australia	Printing solutions, Visual communications	100.0
Epson India Pvt. Ltd.	Bangalore, India	Printing solutions, Visual communications	100.0 (100.0)
Tianjin Epson Co., Ltd.	Tianjin, China	Printing solutions	80.0 (80.0)
Epson Precision (Hong Kong) Ltd.	Hong Kong, China	Printing solutions, Visual communications	100.0
Epson Engineering (Shenzhen) Ltd.	Shenzhen, China	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	Wearable & Industrial products	100.0 (100.0)
Orient Watch (Shenzhen) Ltd.	Shenzhen, China	Wearable & Industrial products	100.0 (100.0)
Singapore Epson Industrial Pte. Ltd.	Singapore	Wearable & Industrial products	100.0
P.T. Epson Batam	Batam, Indonesia	Printing solutions	100.0 (100.0)

Company name	Location	Main business	Ownership percentage of voting rights (%) (Note)
P.T. Indonesia Epson Industry	Bekasi, Indonesia	Printing solutions	100.0
Epson Precision (Philippines), Inc.	Lipa, the Philippines	Printing solutions, Visual communications	100.0
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	Wearable & Industrial products	100.0
Epson Precision (Johor) Sdn. Bhd.	Johor, Malaysia	Wearable & Industrial products	100.0 (100.0)

(Note) Ownership percentage of voting rights indicated inside parentheses refers to indirect ownership percentage.

38. Related Parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated in consolidation and are not disclosed in this note. There were no significant transactions between the Company, its subsidiaries and other related parties.

The remuneration for directors and other members of key management personnel was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31,		Year ended March 31,
	2016	2017	2017
Short-term remuneration	550	475	4,234
Stock compensation	-	6	53
Total	550	481	4,287

(Note 1) The Company has introduced an officers' shareholding association system to link compensation more closely to shareholders' value. The acquisition of the Company's shares accounts for a portion of the short-term remuneration.

(Note 2) A statutory auditor (outside statutory auditor) who retired at the closing of the general shareholders' meeting held on June 28, 2016 received a retirement benefit of ¥15 million ($133 thousand) based on the abolition of the retirement allowance system for executives resolved at the general shareholders' meeting held on June 23, 2006.

39. Commitments

Commitments for the acquisition of assets after the fiscal year end were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2016	2017	2017
Acquisition of property, plant and equipment	6,048	25,994	231,706
Acquisition of intangible assets	1,682	613	5,463
Total	7,730	26,608	237,169

40. Contingencies

Material litigation
In general, litigation has uncertainties and it is difficult to make reliable judgments for the possibility of an outflow of resources embodying economic benefits and to estimate the financial effect.
Provisions are not recognised either if an outflow of resources embodying economic benefits is not probable or to estimate the financial effect is not practicable. Epson was contending the following material actions.

(1) The liquid crystal display price-fixing cartel

The Company is currently under investigation by a certain anti-monopoly-related authority, regarding allegations of involvement in a liquid crystal display price-fixing cartel.

(2) The civil action on copyright fee of ink-jet printers

In June 2010, Epson Europe B.V. ("EEB"), a consolidated subsidiary of the Company, brought a civil suit against La SCRL Reprobel ("Reprobel"), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. After that, Reprobel also brought a civil suit against EEB. As a result, these two lawsuits were adjoined. EEB's claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

41. Subsequent Events

No material subsequent events were identified.

42. Approval of Consolidated Financial Statements

The consolidated financial statements were approved by Minoru Usui (President and Representative Director) and Tatsuaki Seki (Director and General Administrative Manager, Management Control Division) on June 28, 2017.

Report of Independent Auditors

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
Seiko Epson Corporation

We have audited the accompanying consolidated financial statements of Seiko Epson Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 28, 2017

Additional Information

1. Principal subsidiaries and affiliates

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
(Consolidated subsidiaries)					
Epson Sales Japan Corporation *	Shinjuku-ku, Tokyo	4,000 (million JPY)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of the Company's products, Interlocking directors, Financial assistance, Rental of assets
Epson Direct Corporation	Matsumoto-shi, Nagano	150 (million JPY)	Printing solutions	100.0 (100.0)	Sales of PCs, etc., Rental of assets
Orient Watch Co., Ltd.	Shinjuku-ku, Tokyo	100 (million JPY)	Wearable & Industrial products	100.0	Sales of watches, Interlocking directors, Rental and borrowing of assets
Miyazaki Epson Corporation	Miyazaki-shi, Miyazaki	100 (million JPY)	Wearable & Industrial products	100.0	Manufacture of crystal devices
Tohoku Epson Corporation	Sakata-shi, Yamagata	100 (million JPY)	Printing solutions, Wearable & Industrial products	100.0	Manufacture of printer components and semiconductors
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Printing solutions, Wearable & Industrial products	100.0	Manufacture of printer components, watch movements and sensing equipment, Financial assistance
Epson Atmix Corporation	Hachinohe-shi, Aomori	450 (million JPY)	Wearable & Industrial products	100.0	Manufacture and sales of metal powders, etc., Rental and borrowing of assets
U.S. Epson, Inc. *	Long Beach, U.S.A.	126,941 (thousand USD)	Holding company	100.0	Holding company in Americas, Interlocking directors
Epson America, Inc. *	Long Beach, U.S.A.	40,000 (thousand USD)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Regional headquarters in Americas, Sales of printers, 3LCD projectors, and factory automation products, etc., Interlocking directors
Epson Electronics America, Inc.	San Jose, U.S.A.	10,000 (thousand USD)	Wearable & Industrial products	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc.	Portland, U.S.A.	31,150 (thousand USD)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables
Epson El Paso, Inc.	El Paso, U.S.A.	51,000 (thousand USD)	Printing solutions	100.0 (100.0)	Distribution of printer consumables

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Europe B.V. *	Amsterdam, the Netherlands	95,000 (thousand EUR)	Regional headquarters, Printing solutions, Visual communications	100.0	Regional headquarters in Europe, Sales of printers and 3LCD projectors, etc., Interlocking directors, Guaranty of liabilities
Epson (U.K.) Ltd.	Hemel Hempstead, UK	1,600 (thousand GBP)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Guaranty of liabilities
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Sales of printers, 3LCD projectors, and factory automation products, etc., Guaranty of liabilities
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Wearable & Industrial products	100.0 (100.0)	Sales of electronic devices, Interlocking directors, Guaranty of liabilities
Epson France S.A.	Levallois-Perret, France	4,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Italia S.p.A.	Milan, Italy	3,000 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Guaranty of liabilities
For.Tex S.r.l.	Como, Italy	80 (thousand EUR)	Printing solutions	100.0 (100.0)	Sales, etc. of printer consumables
Epson Iberica, S.A.	Cerdanyola, Spain	1,900 (thousand EUR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Guaranty of liabilities
Epson Telford Ltd.	Telford, UK	8,000 (thousand GBP)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Fratelli Robustelli S.r.l.	Como, Italy	90 (thousand EUR)	Printing solutions	100.0 (100.0)	Manufacture, etc. of printers
Epson (China) Co., Ltd. *	Beijing, China	1,211 (million CNY)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in China, Sales of printers, 3LCD projectors and factory automation products, etc., Interlocking directors
Epson Korea Co., Ltd.	Seoul, Korea	1,466 (million KRW)	Printing solutions, Visual communications	100.0	Sales of printers and 3LCD projectors, etc.
Epson Hong Kong Ltd.	Hong Kong, China	2,000 (thousand HKD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of printers, 3LCD projectors, watch movements, factory automation products and electronic devices, etc.

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	25,000 (thousand TWD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0	Sales of printers, 3LCD projectors, factory automation products and electronic devices, etc., Interlocking directors, Guaranty of liabilities
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, Printing solutions, Visual communications, Wearable & Industrial products	100.0	Regional headquarters in Asia-Pacific, Sales of printers, 3LCD projectors, and electronic devices, etc., Interlocking directors, Guaranty of liabilities
P.T. Epson Indonesia	Jakarta, Indonesia	918,000 (thousand IDR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson (Thailand) Co., Ltd.	Bangkok, Thailand	103,000 (thousand THB)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Philippines Corporation	Pasig, Philippines	50,000 (thousand PHP)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc.
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (thousand AUD)	Printing solutions, Visual communications	100.0	Sales of printers and 3LCD projectors, etc., Interlocking directors, Guaranty of liabilities
Epson India Pvt. Ltd.	Bangalore, India	108,628 (thousand INR)	Printing solutions, Visual communications	100.0 (100.0)	Sales of printers and 3LCD projectors, etc., Interlocking directors, Guaranty of liabilities
Tianjin Epson Co., Ltd.	Tianjin, China	172,083 (thousand CNY)	Printing solutions	80.0 (80.0)	Manufacture of printer consumables, Interlocking directors
Epson Precision (Hong Kong), Ltd. *	Hong Kong, China	81,602 (thousand USD)	Printing solutions, Visual communications	100.0	Management of components of printers and 3LCD projectors, etc. used for contract services
Epson Engineering (Shenzhen) Ltd. *	Shenzhen, China	56,641 (thousand USD)	Printing solutions, Visual communications, Wearable & Industrial products	100.0 (100.0)	Manufacture of printers, 3LCD projectors and factory automation products, etc.
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	25,000 (thousand USD)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watches, etc., Interlocking directors
Orient Watch (Shenzhen) Ltd.	Shenzhen, China	37,748 (thousand CNY)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watches, etc.

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Singapore Epson Industrial Pte. Ltd.	Singapore	71,700 (thousand SGD)	Wearable & Industrial products	100.0	Manufacture of semiconductors, and surface finishing, Guaranty of liabilities
P.T. Epson Batam	Batam, Indonesia	7,000 (thousand USD)	Printing solutions	100.0 (100.0)	Manufacture of printer consumables, Guaranty of liabilities
P.T. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD	Printing solutions	100.0	Manufacture of printers, Interlocking directors, Guaranty of liabilities
Epson Precision (Philippines), Inc. *	Lipa, Philippines	157,533 (thousand USD)	Printing solutions, Visual communications	100.0	Manufacture of printers and 3LCD projectors, Guaranty of liabilities
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Wearable & Industrial products	100.0	Manufacture of crystal devices, Interlocking directors
Epson Precision (Johor) Sdn. Bhd.	Johor, Malaysia	22,800 (thousand MYR)	Wearable & Industrial products	100.0 (100.0)	Manufacture of watch components, Guaranty of liabilities
42 other companies	–	–	–	–	–
(Equity method affiliates) Two companies					

Notes

1. Ownership percentage of voting rights indicated inside parentheses refers to indirect ownership percentage.
2. * indicates a specified subsidiary (*tokutei-kogaisha*).
3. The revenue (excluding revenues among consolidated subsidiaries) of Epson Sales Japan Corporation and Epson America, Inc. each amounts to more than 10% of the consolidated revenue. Key information on the operations of these subsidiaries is as follows.

(Millions of yen)

Company name	Revenue	Profit before tax	Profit for the period	Total equity	Total assets
Epson Sales Japan Corporation	182,091	3,208	2,289	15,297	65,498
Epson America, Inc.	284,341	9,990	7,298	39,714	126,100

The amounts for Epson America, Inc. are included in consolidated business results.

2. Distribution of ownership among shareholders

As of March 31, 2017

Category	Share ownership (100 shares per unit)								Shares less than one unit (Shares)
	Government and regional public bodies	Japanese financial institutions	Japanese securities companies	Other Japanese corporations	Foreign institutions and others		Japanese individuals and others	Total	
					Institutions	Individuals			
Number of shareholders (Persons)	–	96	45	300	547	21	34,674	35,683	–
Number of shares owned (Units)	–	935,190	138,340	546,946	1,206,892	192	1,167,565	3,995,125	122,278
Percentage of shares owned (%)	–	23.41	3.46	13.69	30.21	0.01	29.22	100.00	–

Notes

1. 47,231,657 shares of treasury stock are included as 472,316 units under “Japanese individuals and others” and 57 shares under “Shares less than one unit.” Treasury shares do not include the Company’s shares (180,000 shares) owned by the officer compensation BIP (Board Incentive Plan) trust.
2. Six units in the name of Japan Securities Depository Center, Inc. are included under “Other Japanese corporations.”

3. Major shareholders

As of March 31, 2017

Name	Address	Number of shares held	Shareholding ratio (%)
Sanko Kigyo Kabushiki Kaisha	6-1 Ginza 5-chome, Chuo-ku, Tokyo	20,000,000	5.00
Japan Trustee Services Bank, Ltd. (Trustee Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	16,797,700	4.20
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	13,957,500	3.49
Seiko Holdings Corporation	5-11 Ginza 4-chome, Chuo-ku, Tokyo	12,000,000	3.00
Yasuo Hattori	Minato-ku, Tokyo	11,932,612	2.98
Noboru Hattori	Minato-ku, Tokyo	11,199,936	2.80
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo)	8,736,000	2.18
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the re-trust, Trust & Custody Services Bank, Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo	8,153,800	2.04
Seiko Epson Corporation Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	7,564,504	1.89
Ichigo Trust Pte. Ltd. (Standing proxy: Custody Service Department, Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	1 North Bridge Road, 06-08 High Street Centre, Singapore 179094 (11-1 Nihonbashi 3-chome, Chuo-ku, Tokyo)	6,766,200	1.69
Total	−	117,108,252	29.30

Notes

1. Although the Company holds 47,231,657 shares of treasury stock, the Company is excluded from the above list of major shareholders. (The ratio of the treasury shares held by the Company to the total number of shares issued is 11.81%.) Treasury shares do not include the Company's shares (180,000 shares) owned by the officer compensation BIP trust.
2. The shares held by Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the re-trust, Trust & Custody Services Bank, Ltd., were contributed by Mizuho Bank, Ltd. to the trust assets of the Retirement benefit trust.
3. Mizuho Bank, Ltd. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of October 21, 2016, claiming that they hold the Company's shares as follows as of October 14, 2016.

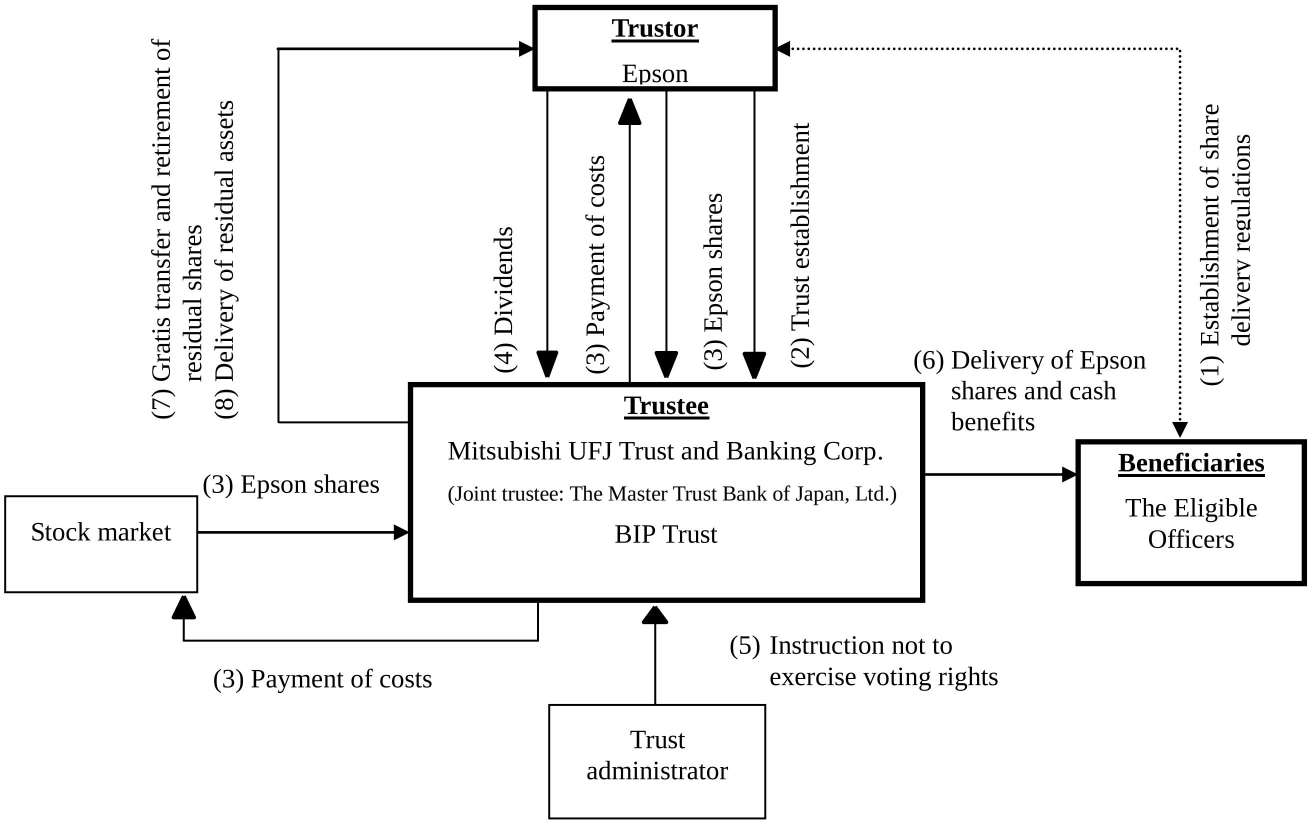
However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
Mizuho Bank, Ltd.	5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo	13,894,000	3.48
Mizuho Securities Co., Ltd.	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	1,108,500	0.28
Mizuho Trust & Banking Co., Ltd.	2-1, Yaesu 1-chome, Chuo-ku, Tokyo	400,000	0.10
Asset Management One Co., Ltd.	8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo	11,155,300	2.79
Total	–	26,557,800	6.65

4. Employee stock ownership plans

<Performance-Linked Stock Compensation Plan>
The Company has introduced a transparent & fair performance-linked stock compensation plan (hereinafter referred to as the “Plan”) for the Company’s directors and executive officers who have been engaged by the Company (hereinafter collectively referred to as the “Eligible Officers,” and excluding outside directors and persons such as Audit and Supervisory Committee members who are not directly engaged in the operations of the Company, and persons residing outside Japan). The Plan is intended to heighten directors’ sense of shared interest with shareholders and to show a commitment to sustaining growth and increasing corporate value over the mid- to long-term.

(1) Summary of the Plan
The Plan has employed a framework referred to as the officer compensation BIP (Board Incentive Plan) trust (hereinafter referred to as the “BIP Trust”). The BIP Trust is an incentive plan for officers modeled on the U.S. Performance Share and Restricted Stock systems. The Plan provides the officers with Epson’s own shares, which will be acquired through the BIP Trust based on the levels of achievement of operating performance targets.



1) Epson will establish share delivery regulations related to the content of the Plan.
2) In accordance with the trust agreement, Epson contributes funds on the trustee’s behalf within the scope of approval by resolution at the General Meeting of Shareholders and establishes a trust with beneficiaries who are the Officers who satisfy the beneficiary requirements (hereinafter referred to as the “Trust”).
3) According to the trust administrator’s instructions, the Trust uses funds contributed as in 2) above as the source of funds to acquire Epson shares from Epson (disposal of treasury shares) or in the stock market.
4) The allocation of surplus funds for the Epson shares within the Trust for the Epson shares is handled in the same manner as for other Epson shares, and is appropriated for necessary expenses for the Plan.
5) Throughout the trust period, voting rights are not to be exercised on Epson shares within the Trust.
6) During the trust period, the Eligible Officers are awarded a specific number of points each year based on their position and other factors, in accordance with the share delivery regulations established in 1) above. Such points fluctuate depending on the levels of achievement of the mid- to long-term operating performance targets of Epson. Furthermore, Epson shares, which correspond to a certain proportion of such points, will be delivered to

the Eligible Officers, in principle, after the lapse of three years following the awarding of points. As regards Epson shares corresponding to the remaining portion of points, the Eligible Officers will receive cash equivalent to the amounts obtained through the conversion of such shares into cash within the Trust as prescribed in the trust agreement.

7) If residual shares remain in the Trust at the expiry of the trust period in the event that operating performance targets are not met during the trust period, Epson may continue to use the Trust by amending the trust agreement and making additional contribution. Otherwise, Epson will acquire such residual shares, through gratis transfer, and retire them by resolution of the Board of Directors.
8) Upon the termination of the Trust, residual assets remaining after allocation to beneficiaries are to be attributed to Epson within the scope of trust expense reserve after subtracting funds for acquiring shares from the trust money. The portion exceeding the trust expense reserve is planned to be donated to organization(s) having no interests with Epson and any of its officers.

Note: The Trustor may continue the Plan by contributing additional money as funds for acquiring its own shares for the Trust within the scope of the funds for acquiring shares, of which the amount is subject to approval by resolution at the General Meeting of Shareholders.

(2) Overview of the trust agreement

1) Type of Trust	Monetary trust other than a designated individually operated monetary trust (third party benefit trust)
2) Purpose of the Trust	Provide incentives to the Eligible Officers
3) Trustor	Epson
4) Trustee	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
5) Beneficiaries	The Eligible Officers who meet the beneficiary requirements
6) Trust administrator	A third-party specialist without relationship with Epson
7) Date of trust agreement	August 2, 2016
8) Trust period	August 2, 2016 through August 31, 2019 (planned)
9) Plan launch date	October 1, 2016
10) Exercise of voting rights	Voting rights not to be exercised
11) Class of shares to be acquired	Common stock of Epson
12) Amount of initial trust money	320 million yen (including trust fees and expenses)
13) Maximum amount of trust money	500 million yen (including trust fees and expenses)
14) Method of acquiring shares	Acquisition in the stock market
15) Period for acquiring shares	August 4, 2016 through August 31, 2016
16) Vested rightholder	Epson
17) Residual assets	Residual assets that Epson may receive as the vested rightholder shall be within the scope of trust expense reserve after subtracting funds for acquiring shares from the trust money.

(3) Content of trust/stock related business

1) Trust-related business	Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. handle the trust-related business as trustees of the BIP Trust.
2) Stock-related business	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. handles the business related to the delivery of Epson shares to the beneficiaries in accordance with a business consignment agreement.

(4) Total number or total amount of shares to be acquired by the Eligible Officers

180,000 shares

(5) Scope of beneficiaries and persons entitled to other rights under the Plan

The Eligible Officers who meet the beneficiary requirements

5. Epson stock price

(1) High and low stock prices for the previous five years

Year	71st year	72nd year	73rd year	74th year	75th year
Fiscal year	March 2013	March 2014	March 2015	March 2016	March 2017
High (¥)	1,183	3,390	5,970 ☐2,333	2,357	2,657
Low (¥)	431	795	2,752 ☐2,120	1,492	1,543

Notes

1. High and low stock prices noted above are based on Tokyo Stock Exchange (First Section) data.
2. The ☐ mark indicates the highest and lowest ex-rights prices after a stock split (the 2-for-1 stock split implemented on April 1, 2015).

(2) High and low stock prices for the previous six months

Month	October 2016	November	December	January 2017	February	March
High (¥)	2,137	2,318	2,511	2,579	2,657	2,594
Low (¥)	1,912	1,994	2,208	2,282	2,289	2,344

Note

High and low stock prices noted above are based on Tokyo Stock Exchange (First Section) data.

6. Corporate data and investor information

(1) Company name	Seiko Epson Corporation
(2) Founded	May 1942
(3) Head office	3-5 Owa 3-chome, Suwa, Nagano 392-8502, Japan Tel: +81-266-52-3131(main)
(4) Tokyo office	JR Shinjuku Miraina Tower, 4-1-6 Shinjuku, Tokyo 160-8801, Japan Tel: +81 3-5368-0700(main)
(5) Investor information	
Closing of accounts	March 31
Regular general shareholders' meeting	June
Date for confirmation to shareholders of the cash dividend payment date	March 31
Date for confirmation to shareholders of the interim cash dividend payment date	September 30
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Agent's business address	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 10-11, Higashisuna 7-chome, Koto-ku, Tokyo Tel: +81-3-6701-5000 http://www.tr.mufg.jp/english/
Intermediary offices	Head Office and Branches of Mitsubishi UFJ Trust and Banking Corporation
Posting of public notices	Public notices will be posted electronically. In the event of accidents or other circumstances preventing the electronic posting of information, such information will be made available through the *Nihon Keizai Shimbun* newspaper (Japanese)
Web address	http://www.pronexus.co.jp/koukoku/6724/6724.html (Japanese)

EPSON
EXCEED YOUR VISION

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