

Notice Regarding the Introduction of a Performance-Linked Stock Compensation Plan (Details of the Plan)

- TOKYO, Japan, April 28, 2016 -

Seiko Epson Corporation (TSE: 6724, “Epson”) resolved at the meeting of its Board of Directors held on March 16, 2016, to introduce a new performance-linked stock compensation plan (hereinafter, the “Plan”). Epson further announces that it has resolved the details of the Plan at the meeting of its Board of Directors held on April 28, 2016, as described below.

For the introduction of the Plan, Epson intends to adopt another resolution at a meeting of the Board of Directors to be held at a later date. Subsequently, the Plan will be submitted for approval at the 74th Ordinary General Meeting of Shareholders (hereinafter, the “Shareholders Meeting”) scheduled to be held on June 28, 2016.

Epson also has resolved, at the meeting of its Board of Directors held on March 16, 2016, a policy of transitioning to a “company with an Audit & Supervisory Committee” on the condition that necessary amendments to the Articles of Incorporations and others are approved at the Shareholders Meeting. The Plan outlined below is subject to such transition.

1. Objective for introducing the Plan

- (1) Epson will introduce the Plan for the Officers (Note 1) that is highly transparent and fair, for the purpose of showing its commitment to promoting sustainable growth and increasing its mid- to long-term corporate value in addition to strengthening the sense of sharing common interests with shareholders (Notes 2 and 3).

The Plan will be designed so that numbers of shares awarded to the respective Officers fluctuates depending on the levels of achievement of the mid- to long-term operating performance targets such as Epson’s business profit, ROS and ROE.

- (2) The introduction of the Plan is subject to approval of the resolution at the Shareholders Meeting.

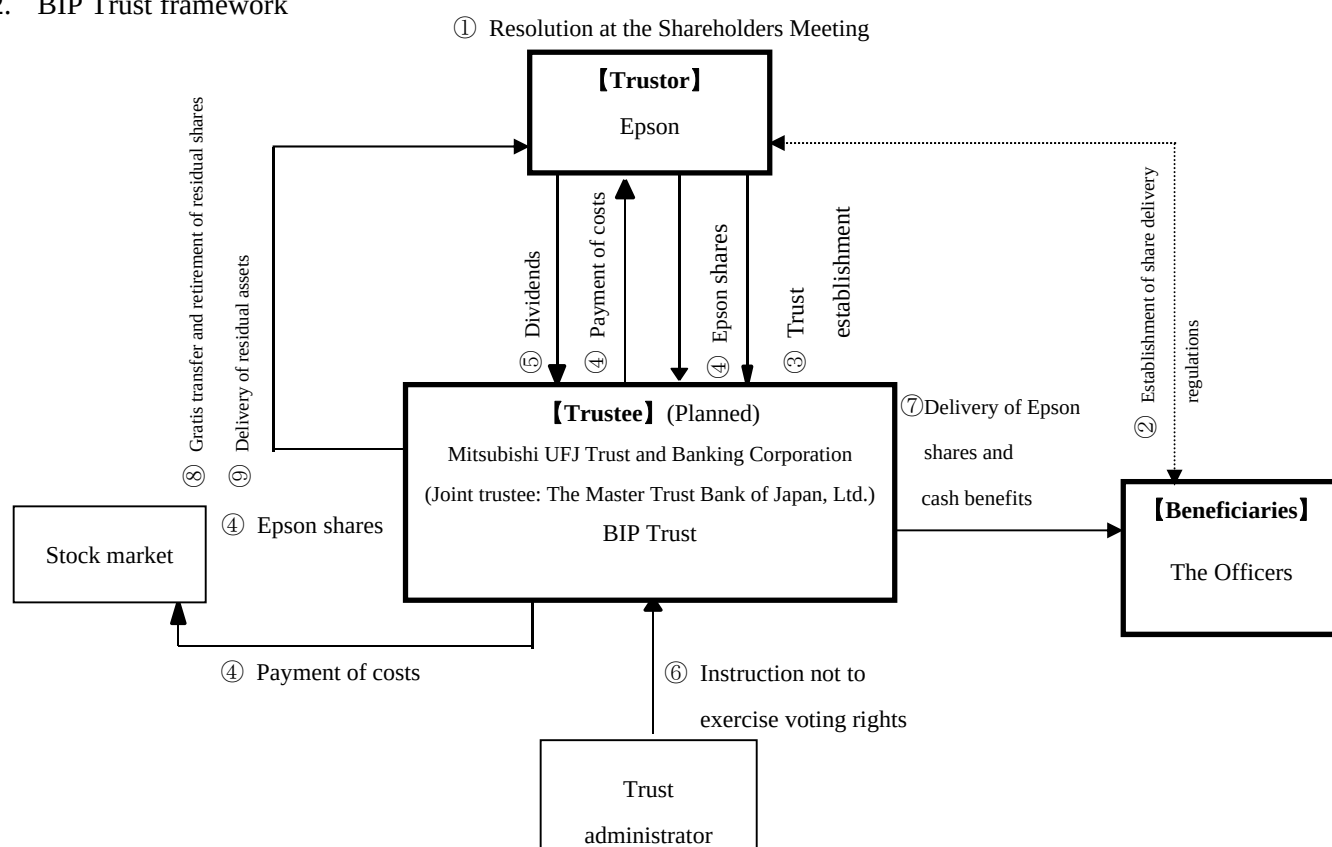
- (3) The Plan will employ a framework referred to as the officer compensation BIP (Board Incentive Plan) trust (hereinafter, the “BIP Trust”). The BIP Trust is an incentive plan for officers modeled on the U.S. Performance Share and Restricted Stock systems, and the Plan provides the Officers with Epson’s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

Note 1: “The Officers” means Epson’s Directors and Executive Officers who have entered into delegation agreements with Epson, excluding those at positions independent from business execution such as Outside Directors and Directors who are Audit & Supervisory Committee Members, as well as overseas residents.

Note 2: Pursuant to the introduction of the Plan, the compensation for the Officers will consist of “basic remuneration,” “bonuses” and “stock compensation.” Meanwhile, the compensation for those at positions independent from business execution such as Outside Directors and Directors who are Audit & Supervisory Committee Members will consist of only the basic remuneration in light of their role of fulfilling the supervisory function on overall management.

Note 3: Epson has established the Director Compensation Committee in which Outside Directors make significant contributions, as an advisory body of the Board of Directors. The Director Compensation Committee has made deliberations on the introduction of the Plan to ensure the transparency and objectivity of the decision process and the results of discussions regarding such a compensation plan.

2. BIP Trust framework



- 1) Epson will obtain approval by resolution at the Shareholders Meeting related to the introduction of the Plan.
- 2) Epson will establish share delivery regulations related to the content of the Plan.
- 3) In accordance with the trust agreement, Epson contributes funds on the trustee's behalf within the scope of approval by resolution at the Shareholders Meeting in 1) above and establishes a trust (hereinafter, the "Trust") with beneficiaries who are the Officers who satisfy the beneficiary requirements.
- 4) According to the trust administrator's instructions, the Trust uses funds contributed as in 3) above as the source of funds to acquire Epson shares from Epson (disposal of treasury shares) or in the stock market.
- 5) The allocation of surplus funds in 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.
- 6) Throughout the trust period, voting rights are not to be exercised on Epson shares within the Trust.
- 7) During the trust period, the 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 2) 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 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 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.
- 8) 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.

- 9) 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 Shareholders Meeting.

(1) Summary of the Plan

The Plan intends to award and deliver (hereinafter, the “Delivery, etc.”) Epson shares and cash equivalent to the amounts obtained through the conversion of such shares into cash (hereinafter, the “Epson Shares, etc.”) to the Officers based on their position and the levels of achievement of operating performance targets as officer compensation for three years from the fiscal year ending March 31, 2017 to the fiscal year ending March 31, 2019 (hereinafter, the “Target Period”) (Note).

(Note) If the trust period is extended, the subsequent three fiscal years shall be the Target Period.

(2) Procedure for introducing the Plan

At the Shareholders Meeting, necessary details will be determined, such as the maximum amount of funds to be contributed in the Trust and the maximum annual total points that the Officers may be awarded (as specified in (5) below). For an extension of the trust period, Epson will determine upon resolution at the meeting of its Board of Directors, to amend the trust agreement and conduct additional contribution to the Trust at the expiry of the trust period within the scope approved by the Shareholders Meeting.

(3) Persons eligible for the Plan (beneficiary requirements)

The Officers may receive the Delivery, etc. of Epson Shares, etc. from the Trust after the lapse of three years following the awarding of basic points, on the condition that they meet the beneficiary requirements, in the number of shares corresponding to the number of points (as specified in (5) below) following a predetermined procedure for identifying eligibility.

The beneficiary requirements are as follows:

- 1) Shall be the Officer during the Target Period
(including those who newly assumed office as the Officer during the Target Period);
- 2) Must not have retired as a result of a disciplinary dismissal or have conducted certain illegal activities while in office;
- 3) The number of points specified in (5) below has been determined; and
- 4) Any other requirements necessary to achieve the purpose of the Plan as a stock compensation plan.

(Note) Provided, however, that in the event that retirement or overseas assignment of any of the Officers is decided, the Delivery, etc. of the Epson Shares, etc. will be made to said Officers at that stages.

(4) Trust period

The trust period shall be approximately three years from August 2, 2016 (planned) to August 31, 2019 (planned).

The Trust may be extended at the expiry of the trust period by amending the trust agreement and making additional contribution. In such case, the trust period shall be extended for a length of time equivalent to the initial trust period, and Epson shall make additional contribution within the scope of maximum amount of trust money approved by resolution at the Shareholders Meeting for each extended trust period, continuing awarding of points to the Officers during the extended trust period.

(5) Number of shares delivered to the Officers

In the Plan, the basic points are awarded corresponding to the positions and other factors in July every year (except for 2016 which shall be in October) during the Target Period, and the number of points fluctuates by multiplying said basic points by the performance-based coefficient, which reflects the levels of achievement of the mid- to long-term operating performance targets such as Epson's business profit, ROS and ROE. In this scheme, one (1) point is equivalent to one (1) Epson share. However, if it is recognized that an adjustment of the number of points is required for fairness due to a stock split or a reverse stock split during the trust period, adjustment of the number of points shall be made in proportion to the ratio of said stock split or reverse stock split. In addition, the Delivery, etc. will be made to the Officers of the Epson Shares, etc. equivalent to the number of points after the performance coefficient is multiplied, in principle, after the lapse of three years from the day on which the basic points were awarded.

(6) Maximum amount and planned amount of the trust money to be contributed to the Trust

The maximum amount contributable to the Trust during the Target Period is planned to be approved by resolution at the Shareholders Meeting at 500 million yen, in which case the trust money contributable by Epson shall be subject to such limit. Said maximum trust money, which is the sum of funds for acquiring shares during the Target Period and trust fees and expenses by the Trust, is derived by taking into account factors such as future revisions to compensation levels and the compensation composition ratio, the increase in the number of Officers and the possibility of fluctuations in stock value.

The initial trust money to be contributed to the Trust is planned to be approximately 320 million yen.

If additional contributions are to be made when the trust period is extended, should some Epson shares and/or some money (hereinafter, the "Residual Shares, etc.") remain in the Trust on the final day of the trust period before its extension, the sum of the Residual Shares, etc. and the trust money to be additionally contributed shall be within the scope of the maximum amount of the trust money approved by resolution at the Shareholders Meeting.

(7) Maximum number of points awarded to the Officers

The maximum number of annual total points which may be awarded to the Officers (the result of multiplying the total number of annual basic points which may be awarded to the Officers by the maximum performance coefficient) is planned to be approved by resolution at the Shareholders Meeting at 100,000 points, in which case the number of points which may be awarded to the Officers shall be subject to such limit.

(8) Method of acquiring Epson shares by the Trust

According to the trust administrator's instructions, the Trust will acquire a maximum of 300,000 Epson shares for each Target Period from Epson (disposal of treasury shares) or in the stock market using funds contributed as the source of funds.

The initial acquisition of Epson shares by the Trust is planned to be conducted in the stock market within the scope of the funds for acquiring shares specified in (6) above and of the maximum number of shares to be acquired.

Furthermore, in the event that the number of shares in the Trust may become insufficient for the number of shares corresponding to the number of points awarded to the Officers during the trust period, due to an increase in the number of Officers or otherwise during the trust period, additional money may be contributed to the Trust for additional acquisition of Epson shares within the scope of the maximum limit of trust money and number of shares to be acquired approved by resolution at the Shareholders Meeting.

(9) Method of and period for the Delivery, etc. of the Epson Shares, etc. to the Officers

As for the Delivery, etc. of the Epson Shares, etc. to the Officers, 50% of the Epson shares equivalent to the number of points after being multiplied by the relevant performance coefficient (the number of resulting shares less than one unit to be rounded down) shall be delivered from the Trust upon the Officers taking the predetermined procedures for identifying eligibility, in principle, after the lapse of three years from the day on which the basic points were awarded. For the remaining portion of the Epson shares, the cash equivalent to the amounts obtained through the conversion of such shares into cash within the Trust shall be delivered to the Officers.

In case of the retirement of Officers during the trust period, said Officers may, in principle, receive the Delivery, etc. of the Epson Shares, etc. according to the number of accumulated points they hold at that point. Meanwhile, if any of the Officers passes away during the trust period, in principle, the successor of said Officer shall receive the delivery of cash equivalent to the amounts obtained through the conversion of such shares into cash within the Trust for the Epson shares according to the number of accumulated points held by such Officer at that point.

(10) Exercise of voting rights regarding Epson shares in the Trust

To ensure the neutrality of Epson's management, voting rights for the Epson shares in the Trust (namely Epson shares prior to the Delivery, etc. to the Officers in accordance with (5) above) shall not be exercised during the trust period.

(11) Handling of dividends of surplus regarding Epson shares in the Trust

Dividends of surplus regarding the Epson shares in the Trust will be received by the Trust and appropriated to its trust fees and expenses. Any residual assets upon the final termination of the Trust are planned to be donated to organization(s) having no interests with Epson and any of its officers.

(12) Handling of residual shares at the termination of the Trust

If there are residual shares at the termination of the Trust in the event that operating performance targets have not been met or due to any other reason, Epson plans to acquire such residual shares at such time through gratis transfer and cancel them by resolution of the Board of Directors as a measure for returning profits to shareholders.

(Reference) Overview of the trust agreement (planned)

1) Type of trust	Monetary trust other than a designated individually operated monetary trust (third party benefit trust)
2) Purpose of trust	Provide incentives to the Officers
3) Trustor	Epson
4) Trustee	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
5) Beneficiaries	The 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
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) Planned 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.

Content of trust/stock related business

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

About Epson

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