EPSON

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April 25, 2006

CONSOLIDATED RESULTS FOR YEAR ENDED MARCH 31, 2006

Consolidated Financial Highlights

<Income statements and cash flows data> (Millions of yen, thousands of U.S. dollars, except for per share data)

	Year ended March 31				Year ended March 31,
	2004	2005	**2006**	Change	**2006**
Statements of Income Data:					
Net sales	¥1,413,243	¥1,479,750	**¥1,549,568**	4.7%	**$13,191,181**
Operating income	77,401	90,967	**25,758**	(71.7%)	**219,273**
Income (loss) before income taxes and minority interest	65,058	73,647	**(20,047)**	- %	**(170,656)**
Net income (loss)	38,031	55,689	**(17,917)**	- %	**(152,524)**
Statements of Cash Flows Data:					
Cash flows from operating activities	182,669	162,489	**117,497**	(27.7%)	**1,000,230**
Cash flows from investing activities	(65,329)	(99,396)	**(95,266)**	(4.2%)	**(810,982)**
Cash flows from financing activities	(40,918)	(96,373)	**19,123**	- %	**162,790**
Cash and cash equivalents at the end of the year	265,183	234,904	**280,114**	19.2%	**2,384,558**
Per Share Data:					
Net income (loss) per share -Basic	¥204.70	¥283.60	**(¥91.24)**	- %	**($0.78)**
-Diluted	¥204.53	¥-	**¥-**	- %	**$-**

Notes

I. The consolidated figures are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated figures prepared by the Company as required by the Securities and Exchange Law of Japan.

II. Figures in ‘Change’ column are comparisons with the same period of the previous year.

III. Diluted net income per share are presented only if there are dilutive factors present.

IV. U.S. dollar amounts are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. The rate of ¥117.47 = U.S.$1 at March 31, 2006 has been used for the purpose of presentation.

<Balance sheets data> (Millions of yen, thousands of U.S. dollars, except for per share data)

	March 31		
	2005	**2006**	**2006**
Total assets	¥1,297,790	**¥1,325,206**	**$11,281,229**
Shareholders’ equity	472,870	**474,520**	**4,039,499**
Shareholders’ equity ratio (%)	36.4%	**35.8%**	**35.8%**
Shareholders’ equity per share	¥2,408.13	**¥2,416.54**	**$20.57**

Overview of the Business Group

The Epson Group's ("Epson") main business segment includes the development, manufacturing and marketing of information-related equipment, electronic devices, precision products, and other products. Research and development and product development are mainly conducted by Seiko Epson Corporation ("the Company"). Production and sales are conducted by the company and its subsidiaries and affiliates, domestic and abroad, under the management of the company's operations divisions.

The following is a brief description of each business segment and the main subsidiaries and affiliates of each business segment.

Information-related equipment business segment:

This segment includes the imaging and information products business, the visual instruments business and others. This segment develops, manufactures and sells mainly printers, 3LCD projectors, and personal computers.

<table>
<tr><th rowspan="2">Operations</th><th rowspan="2">Main products</th><th colspan="2">Main subsidiaries and affiliates</th></tr>
<tr><th>Manufacturing company</th><th>Sales company</th></tr>
<tr><td>Imaging and information products</td><td>Color inkjet printers,
laser printers,
dot matrix printers,
large format inkjet printers,
and related supplies,
color image scanners,
mini-printers,
printers for use in POS systems and others</td><td>Tohoku Epson Corporation
Orient Watch Co., Ltd.
Epson Portland Inc.
Epson El Paso, Inc.
Epson Telford Ltd.
Epson Precision (Hong Kong) Ltd.
Singapore Epson Industrial Pte. Ltd.
P.T. Indonesia Epson Industry
Epson Precision (Philippines), Inc.
Tianjin Epson Co.,Ltd.</td><td rowspan="2">Epson Sales Japan Corporation
Epson America, Inc.
Epson (U.K.) Ltd.
Epson Deutschland GmbH
Epson France S.A.
Epson Italia s.p.a.
Epson Iberica, S.A.
Epson Korea Co., Ltd.
Epson (Shanghai) Information Equipment Co., Ltd.
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.
Epson Australia Pty. Ltd.</td></tr>
<tr><td>Visual instruments</td><td>3LCD projectors,
HDTV LCD projection televisions,
LCD monitors,
label writers and others</td><td>Epson Precision (Hong Kong) Ltd.</td></tr>
<tr><td>Others</td><td>Personal computers and others</td><td>-</td><td>Epson Sales Japan Corporation
Epson Direct Corporation</td></tr>
</table>

Electronic devices business segment:

This segment includes the display business, the semiconductor business, and the quartz device business. This segment develops, manufactures and sells mainly small- and medium-sized LCDs, CMOS LSI, and crystal oscillators.

Operations	Main products	Main subsidiaries and affiliates	
		Manufacturing company	Sales company
Display	Small- and medium-sized LCDs, HTPS-TFT panels for 3LCD projectors and others	SANYO EPSON IMAGING DEVICES CORPORATION Suzhou Epson Co., Ltd. Sanyo Epson Imaging Devices (H.K.) Ltd. Sanyo Epson Imaging Devices (Phils.) Inc.	SANYO EPSON IMAGING DEVICES CORPORATION Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd.
Semiconductor	CMOS LSI and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd. Yasu Semiconductor Corporation	
Quartz device	Crystal units, crystal oscillators and others	Epson Toyocom Corporation Orient Watch Co., Ltd. Suzhou Epson Co., Ltd. Epson Toyocom Malaysia Sdn. Bhd. Epson Precision (Philippines), Inc.	

Precision products business segment:

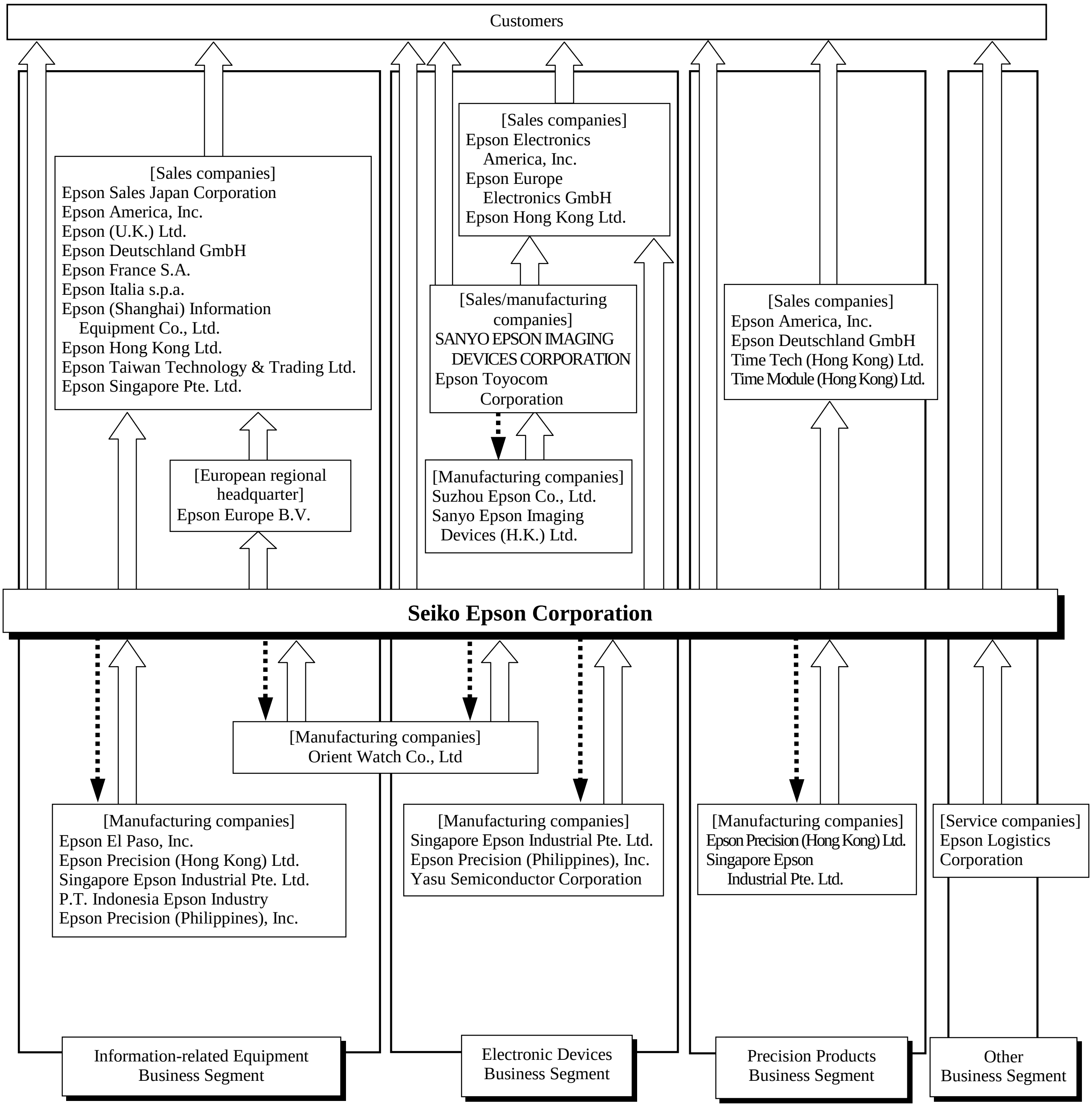
This segment includes the watch business, the optical products business, and the factory automation systems business. This segment develops, manufactures and sells mainly watches, watch movements, plastic corrective lenses, precision industrial robots and others.

Operations	Main products	Main subsidiaries and affiliates	
		Manufacturing company	Sales company
Watch	Watches, Watch movements and others	Epson Precision (Hong Kong) Ltd. Singapore Epson Industrial Pte. Ltd.	Time Tech (Hong Kong) Ltd. Time Module (Hong Kong) Ltd.
Optical products	Plastic corrective lenses and others	Seiko Lens Service Center Corporation	-
Factory automation systems	Precision industrial robots, IC handlers and others	-	Epson America, Inc. Epson Deutschland GmbH

Other business segment:

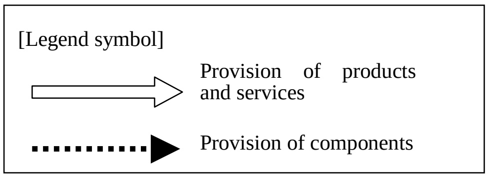
This segment comprises the businesses of subsidiaries that offer services within Epson, and new businesses still in the start-up phase that are aimed at optimizing current management resources.

The following operations system diagram describes the overview of the business group outlined above.



Note: 1. Yasu Semiconductor Corporation and Time Module (Hong Kong) Ltd. are equity method affiliates. All others are consolidated subsidiaries.

2. Epson Toyocom Corporation, a subsidiary of the Company, is listed on the first section of Tokyo Stock Exchange.



Management Policy

1. Management Policy

Epson strives to fulfill its responsibilities as a good corporate citizen on a variety of fronts. These responsibilities include paying close attention to corporate ethics and risk management, improving customer satisfaction and product quality, and managing environmental performance. With "*creativity and challenge*" as the focal point for the Group's collective capabilities, Epson is aiming to further enhance its corporate value.

This commitment is summarized in the following management philosophy:

"Epson is a progressive company, trusted throughout the world
because of our commitment to customer satisfaction,
environmental conservation, individuality, and teamwork.
We are confident of our collective skills and meet challenges
with innovative and creative solutions.

2. Mid- to Long-Range Management Strategy

Epson established a medium- to long-range corporate vision, *SE07*, as a guiding policy for achieving steady growth into the future and fully capitalizing on the Company's core competencies as a leading name in imaging solutions.

"Digital Image Innovation" is the key theme in *SE07*. Accordingly, Epson is concentrating its management resources in high-growth business domains, the so-called "*3i*" imaging fields: imaging on paper (*i1*, printers), imaging on screen (*i2*, projectors), and imaging on glass (*i3*, displays). Epson seeks to further expand each domain by leveraging teamwork and synergies between its finished product and electronic devices businesses, while at the same time creating new markets and businesses by emphasizing teamwork and convergence in the "*3i*" fields.

Epson remains committed to the original direction of *SE07* but is operating in an extremely difficult business environment. The Company is faced with intensifying price competition and shrinking product cycle times. These are largely a result of two factors. One is the escalating competition brought about by advances in digital technology that have lowered barriers to market entry. The other is product and technology maturation, which is making differentiation increasingly difficult. On the other hand, Epson's ability to achieve target costs from the design stage through a design-to-cost approach and its ability to achieve a quick return on investment have not been satisfactory. As a result, Epson has been unable to fully leverage its strengths and respond to changes in the business environment.

Given these conditions, Epson formulated a new mid-range business plan, *Creativity and Challenge 1000*, in March 2006, to initiate a business recovery and restart growth. The mid-range business plan will run for three years, starting in April 2006. It is intended to drive changes in the management structure and in management itself. It also aims to turn business around in the 2006 fiscal year and achieve income growth into fiscal 2008.

Epson is committed to achieving the planned objectives and is developing individual business actions and strategies based on the Epson Group mid-range policies shown below.

Epson Group Mid-Range Business Policies

1. Redefine & reinforce the business and product portfolio
   Reinforce and maintain No. 1 product families and further enhance capabilities in research, technology and product development to drive solid growth in the future.
2. Reorganize the device businesses
   Restructure fixed costs and drastically realign and reinforce operations to achieve a quick recovery in earnings potential.
3. Streamline costs
   Rebuild all businesses and operations around cost, driving home efficiency of all costs.
4. Reform the governance system
   Separate the "corporate management & oversight" and "business execution" responsibilities, speed up execution and the decision making process, and improve overall drive and vitality in order to follow through on Creativity and Challenge 1000 and increase management transparency.
5. Reform the corporate culture
   Everyone must go back to the fundamentals of Epson found in the spirit of "Creativity and challenge," "S&A (Start together and achieve together)" and "One Epson" to radically boost earnings potential and ensure solid future growth.

3. Basic Policy on Profit Allocation

Epson strives for the ongoing enhancement of management efficiency and profitability. These efforts are resulting in the improved cash flows required to fulfill Epson's basic policy of consistently providing a stable payment of dividends. Epson is thus committed to returning profits to shareholders, following a comprehensive analysis of the Company's funding needs in light of future business strategies, as well as its performance and financial outlook.

Epson intends to allocate an internal reserve to capital investment to strengthen its corporate structure, and to invest in research and development for new technologies to strengthen the Company's future management structure.

Following the enactment of changes in Japanese corporate law, companies will have the right to declare quarterly dividends. However, Epson currently has no plans to do so.

4. Matters Relating to the Parent Company, etc.

None applicable

Operating Performance Highlights and Financial Condition

1. Fiscal 2005 Full-Year Overview

Although crude oil prices soared and there were other elements of concern in the 2005 fiscal year (ended March 31, 2006), the global economy steadily recovered on the back of economic growth primarily in China and the United States. Meanwhile, the Japanese economy showed signs of gradual recovery, with an increase in capital spending accompanying improved corporate earnings, and an uptick in personal spending.

Epson's main markets were as follows.

The inkjet printer market remained strong in Japan, the U.S., and Asia, while demand in Europe was sluggish. Last year's trend toward multifunction (all-in-one) inkjet products continued.

In the laser printer market, sales of low-priced color laser models grew. Sales of monochrome units also remained strong.

The projector market grew on heightened demand in the education use, in addition to business presentation use in business segments, and also in home theater segments on continuing demand.

The market for electronic devices used in mobile phones remained firm. The market was buoyed by demand from two major sources. One was demand from consumers in Europe, North America and China who are upgrading to handsets with color displays and built-in cameras. The other was the continued brisk new demand in such emerging markets as Central and South America, India, Russia and Africa. Meanwhile, however, prices for products in the information-related equipment business segment and electronic devices business segment are in unrelenting decline, primarily due to intensified competition in all areas and a shift in demand toward low-priced products.

In the precision products business, the total markets for watches and corrective lenses are not growing, yet an intensified competition and a shift toward the low-price zone are underway. In factory automation systems, sales of IC handlers were driven by solid demand for semiconductors used in finished goods such as personal computers, mobile phones and digital home electronics.

In response to these difficult market conditions and a deterioration in financial performance, Epson established “Creativity and Challenge 1000,” a new mid-range business plan designed to initiate a business recovery and restart growth. The Company recorded reorganization costs totaling ¥45,532 million ($387,605 thousand) in the year under review. The charges are associated primarily with a restructuring of fixed costs in the electronic devices business segment in accordance with the mid-range business plan. On October 1, 2005, Epson Toyocom Corporation, a subsidiary formed by merging Epson's quartz device business with the operations of Toyo Communication Equipment Co., Ltd., opened its doors for business.

On the product strategy end, the inkjet printer business launched the *PictureMate Deluxe Viewer Edition* (*Colorio Me E-200* in Japan). Heading into the year-end shopping season, Epson promoted the technologies in its “Epson Color” portfolio and launched inkjet products that boast new features. One such feature is *Epson Easy Photo Fix*™, image editing software that automatically adjusts portrait photos to correct backlighting, color cast and other undesirable artifacts, allowing users to obtain prints with realistic colors every time. Moreover, like last year, Epson once again enhanced its line of all-in-one machines. In home projectors, Epson released the *EMP-TWD1* (*MovieMate 25* in the United States), a portable projector with integrated DVD player and speakers for maximum simplicity and convenience. In HDTV

LCD projection televisions, Epson also rolled out two new true-HDTV models in the Livingstation G series.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year under review were ¥113.31 and ¥137.86, respectively. This represents a 5% depreciation in the value of the yen against the dollar and a 2% depreciation in the value of the yen against the euro compared to the same period last year.

As a result of the foregoing factors, net sales for the full fiscal year were ¥1,549,568 million ($13,191,181 thousand), up 4.7% from the prior year. Operating income was ¥25,758 million ($219,273 thousand), down 71.7% from the prior year. Loss before income taxes and minority interest was ¥20,047 million ($170,656 thousand), compared to income of ¥73,647 million in the prior year. And net loss was ¥17,917 million ($152,524 thousand), compared to net income of ¥55,689 million in the prior year.

Operating Performance Highlights by Business Segments

A segment-by-segment breakdown of financial results is provided below.

Information-related equipment:

Full-year net sales in the information-related equipment business segment were ¥976,443 million ($8,312,276 thousand), up 3.2% from the prior year, while operating income was ¥45,021 million ($383,256 thousand), down 26.9% from the prior year.

The decline in operating income is attributed primarily to price erosion in inkjet printers, though revenues from products such as dot matrix printers, laser printers and 3LCD projectors grew.

In the imaging and information products business, total revenue grew slightly. Although inkjet printer revenue (including supplies, as in all printer discussions below) was adversely affected by price erosion and by lower volume in single-function printers, revenue benefited from higher unit shipments of all-in-ones (multifunction printers) and a weaker yen. Dot matrix printer and terminal module volume grew. Laser printer prices continued their downward trajectory, while unit shipments increased.

In the visual instruments business, total revenue was sharply higher. Although 3LCD projector revenue was affected by price erosion, business projector unit shipments increased.

Electronic devices:

Full-year net sales in the electronic devices business segment were ¥526,967 million ($4,485,971 thousand), up 9.2% from the prior year, while operating loss was ¥9,759 million ($83,077 thousand), as compared to operating income of ¥38,553 million in the prior year.

The decline in operating income was due to various factors, including lower revenue from HTPS-TFT panels for 3LCD projectors, higher costs accompanying the launch of operations at the *Chitose Plant*, and lower revenue from color STN LCDs for mobile phones, system LSIs and LCD drivers.

In the display business, total revenue increased due to soaring volume in amorphous TFT LCDs and LTPS-TFT LCDs. Total revenue growth in the business was tempered by price erosion in a fiercely competitive market for color STN LCDs and MD-TFD LCDs to mobile phone manufacturers, as well as by price erosion and a decline in demand and volume in HTPS-TFT panels for 3LCD projectors.

In the semiconductor business, total revenue declined sharply, as system LSI and LCD driver prices and unit shipments declined due to fierce competition.

In the quartz device business, revenue was sharply higher as a result of the business merger with Toyo Communication Equipment Co., Ltd., though there was price erosion across all products.

Precision products:

Full-year net sales in the precision products business segment were ¥85,778 million ($730,212 thousand), up 5.7% from the prior year, while operating income was ¥2,351 million ($20,014 thousand), down 3.5% from the prior year.

Net sales grew primarily due to increased demand for IC handlers from a strong semiconductor market and increased volume in corrective lens.

Operating income declined despite increased revenue in the businesses that make up the segment. The decline is attributed primarily to an increase in expenses associated with investment in additional optical device production capacity.

Operating Performance Highlights by Geographic Segments

A region-by-region breakdown of financial results is provided below.

Japan:

Amorphous-silicon TFT LCD, LTPS LCD and inkjet printer revenues grew, while STN LCD and MD-TFD LCD revenues declined. As a result, net sales were ¥1,307,531 million ($11,130,765 thousand), up 5.9% from the prior year, while operating loss was ¥16,327 million ($138,989 thousand) as compared to operating income of ¥42,931 million in the prior year.

The Americas:

Inkjet printer, 3LCD projector and terminal module revenues grew, while system LSI revenue decreased. As a result, net sales were ¥308,897 million ($2,629,582 thousand), up 8.6% from the prior year, while operating income was ¥12,630 million ($107,517 thousand), down 4.0% from the prior year.

Europe:

Laser printer revenue increased, while MD-TFD LCD, inkjet printer and system LSI revenues declined. As a result, net sales were ¥313,686 million ($2,670,350 thousand), down 4.5% from the prior year, while operating income was ¥7,676 million ($65,345 thousand), down 33.4% from the prior year.

Asia / Oceania:

Amorphous-silicon TFT LCD, LTPS LCD and inkjet printer revenues grew. As a result, net sales were ¥839,645 million ($7,147,740 thousand), up 20.3% from the prior year, while operating income was ¥25,425 million ($216,438 thousand), up 26.2% from the prior year.

Cash Flow Performance

Cash inflows from operating activities for the full year were ¥117,497 million ($1,000,230 thousand). Net loss was ¥17,917 million ($152,524 thousand). Depreciation and amortization, principally in the electronic devices business segment, was ¥109,662 million ($933,532 thousand). As for changes to assets and liabilities, notes and accounts receivable decreased by ¥23,987 million ($204,197 thousand), while notes and accounts payable decreased by ¥20,526 million ($174,734 thousand). Inventories increased by ¥1,695 million ($14,429 thousand). Income taxes paid were ¥18,496 million ($157,453 thousand).

Cash outflows from investment activities were ¥95,266 million ($810,982 thousand). Payments for purchases of fixed assets, principally in the electronic devices business, were ¥105,371 million ($897,004 thousand). There was also ¥12,204 million ($103,890 thousand) in revenue accompanying an increase in cash and deposits with the acquistition of a new subsidiary company, Epson Toyocom Corporation.

Cash inflows from financing activities were ¥19,123 million ($162,790 thousand). There was a ¥50,000 million ($425,641 thousand) increase from a new issue of corporate bonds. Short-term loans and long-term loans were reduced by ¥27,015 million ($229,974 thousand) through corporate bond refinancing and repayment at maturity.

As a result of the foregoing factors, year-end cash and cash equivalents was ¥280,114 million ($2,384,558 thousand).

2. Fourth-Quarter Operating Performance

Fourth-quarter net sales grew 2.1% year-on-year, to ¥374,204 million ($3,185,528 thousand). Although net sales were moderated by price erosion in the fiercely competitive markets for MD-TFD LCDs, color STN LCDs for mobile phones, and amorphous-silicon TFT LCDs, growth was enabled primarily by a net increase in sales due to the quartz device business merger with Toyo Communication Equipment Co., Ltd., and by increased unit volume in 3LCD projectors, inkjet printers, and dot matrix printers. Operating income was ¥2,632 million ($22,406 thousand), compared to an operating loss of ¥5,876 million in the year-ago period. Although squeezed by price erosion in color STN LCDs and MD-TFD LCDs for mobile phones, income grew primarily as a result of a strong market and a more profitable model mix in the semiconductor business, improved profitability and unit volume growth in LTPS LCDs, and increased volume in the quartz device business.

Loss before income taxes and minority interest was ¥39,978 million ($340,325 thousand), as compared to a loss of ¥12,100 million in the year-ago period. Net loss was ¥25,848 million ($220,039 thousand), as compared to a loss of ¥4,264 million in the year-ago period. The loss is due to the posting of ¥28,298 million ($240,896 thousand) in reorganization costs associated primarily with a restructuring of fixed costs in the electronic devices business segment.

3. Fiscal 2006 forecast

Although the economic impact of crude oil prices remains a source of uncertainty that will need to be monitored, the global economy is expected to continue to recover and expand. Driving this expansion will be the United States, where growth will be fueled by increases in personal spending and investment, and China, where capital investment will continue to grow at a high rate. A gradually rebounding European economy should contribute to a steady business recovery, as should a sustained economic recovery in Japan, where strength in the corporate sector is spreading to the consumer sector.

The expectations in Epson's core markets are summarized below.

The inkjet printer market is expected to steadily expand, but demand is projected to continue shifting away from single-function printers and toward multifunction printers (all-in-ones) and photo printers. In the laser printer market sales of low-priced color models are expected to expand, especially overseas. The total projector market is expected to grow, but prices will likely continue to slide under the weight of heavy market competition.

The small- and medium-sized color display market is expected to see both strong unit volume growth and steep price erosion. The semiconductor market, meanwhile, is registering signs of a gradual recovery, but prices are expected to further decline in a fiercely competitive marketplace.

Given this environment, Epson projects the situation in each of its three business segments to be as follows. In the information-related equipment business segment, total sales are expected to decline. The decline, which will be primarily due to a strategic reduction in the number of low added value models in Epson's inkjet printer line, will be partially offset by strong dot matrix printer volume and sales growth in markets such as China.

In the electronic devices business segment, total sales are expected to increase. Although sales revenue will suffer downward pressure from severe price erosion in the display business, they are expected to rise chiefly as a result of the quartz device business merger.

In the precision products business segment, sales are expected to increase. The increase will be driven by higher volume in high added value watches and increased sales of factory automation equipment.

The figures in the forecast are based on assumed exchange rates of ¥112 to the U.S. dollar and ¥135 to the euro.

Taking into account the foregoing factors, Epson is forecasting results for the 2006 fiscal year ending March 31, 2007, as follows.

Consolidated Half-Year Results Outlook

	FY2005	**Current Outlook**	Change
Net sales	¥720.2 billion	**¥706.0 billion**	-¥14.2 billion (- 2.0%)
Operating income	¥6.0 billion	**¥2.0 billion**	- ¥4.0 billion (- 66.7%)
Income (loss) before income taxes and minority interest	¥7.7 billion	**(¥4.0 billion)**	-¥11.7 billion (-%)
Net loss	(¥1.2 billion)	**(¥11.0 billion)**	- ¥9.8 billion (-%)

Consolidated Full-Year Results Outlook

	FY2005	**Current Outlook**	Change
Net sales	¥1,549.6 billion	**¥1,555.0 billion**	+ ¥5.4 billion (+ 0.4%)
Operating income	¥25.8 billion	**¥40.0 billion**	+¥14.2 billion (+ 55.3%)
Income (loss) before income taxes and minority interest	(¥20.0 billion)	**¥33.0 billion**	+¥53.0 billion (-%)
Net income (loss)	(¥17.9 billion)	**¥14.0 billion**	+¥31.9 billion (-%)

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 involve 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 timely introduce new products and services in markets, consumption trend, competition, technology trend, exchange rate fluctuations.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	**2006**	**2006**
ASSETS			
Current assets:			
Cash and cash equivalents	¥234,904	**¥280,114**	**$2,384,558**
Time deposits	272	**2,363**	**20,116**
Short-term investments	-	**2,000**	**17,026**
Notes and accounts receivable, trade	256,177	**244,770**	**2,083,681**
Inventories	176,656	**192,015**	**1,634,587**
Deferred income taxes	36,849	**34,952**	**297,540**
Other current assets	45,495	**42,865**	**364,902**
Allowance for doubtful accounts	(3,641)	**(3,677)**	**(31,302)**
Total current assets	746,712	**795,402**	**6,771,108**
Property, plant and equipment:			
Buildings and structures	419,780	**450,071**	**3,831,370**
Machinery and equipment	521,113	**568,293**	**4,837,771**
Furniture and fixtures	188,249	**208,944**	**1,778,701**
Land	58,836	**66,874**	**569,286**
Construction in progress	7,633	**6,060**	**51,587**
Other	122	**140**	**1,192**
	1,195,733	**1,300,382**	**11,069,907**
Accumulated depreciation	(754,378)	**(874,264)**	**(7,442,445)**
	441,355	**426,118**	**3,627,462**
Investments and other assets:			
Investment securities	38,444	**47,479**	**404,180**
Investments in affiliates	11,450	**2,331**	**19,843**
Deferred income taxes	6,478	**11,142**	**94,850**
Intangible assets	26,530	**24,287**	**206,751**
Other assets	27,557	**18,901**	**160,900**
Allowance for doubtful accounts	(736)	**(454)**	**(3,865)**
	109,723	**103,686**	**882,659**
Total assets	¥1,297,790	**¥1,325,206**	**$11,281,229**

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	**2006**	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	¥30,236	**¥49,804**	**$423,972**
Current portion of long-term debt	104,642	**113,731**	**968,171**
Notes and accounts payable, trade	145,036	**128,605**	**1,094,790**
Accounts payable, other	119,039	**102,341**	**871,210**
Income taxes payable	12,499	**12,274**	**104,486**
Deferred income taxes	794	**609**	**5,184**
Accrued bonuses	18,587	**11,833**	**100,732**
Accrued warranty costs	15,327	**17,974**	**153,009**
Accrued litigation and related expenses	-	**6,191**	**52,703**
Other current liabilities	58,441	**64,009**	**544,897**
Total current liabilities	504,601	**507,371**	**4,319,154**
Long-term liabilities:			
Bonds	-	**52,700**	**448,625**
Long-term debt	259,919	**212,859**	**1,812,029**
Accrued pension and severance costs	14,835	**31,397**	**267,277**
Accrued directors' and statutory auditors' retirement allowances	1,921	**2,096**	**17,843**
Accrued recycle costs	310	**554**	**4,716**
Accrued litigation and related expenses	-	**2,349**	**19,996**
Deferred income taxes	9,765	**1,143**	**9,730**
Other long-term liabilities	6,912	**8,512**	**72,461**
Total long-term liabilities	293,662	**311,610**	**2,652,677**
Minority interest in subsidiaries	26,657	**31,705**	**269,899**
Shareholders' equity:			
Common stock			
Authorized - 607,458,368 shares, Issued - 196,364,592 shares	53,204	**53,204**	**452,916**
Additional paid-in capital	79,501	**79,501**	**676,777**
Retained earnings	350,944	**327,324**	**2,786,448**
Net unrealized gains on other securities	3,743	**10,567**	**89,955**
Translation adjustments	(14,519)	**3,929**	**33,446**
Treasury stock, at cost 2005 - 689 shares, 2006 - 1,307 shares	(3)	**(5)**	**(43)**
Total shareholders' equity	472,870	**474,520**	**4,039,499**
Commitments and contingent liabilities			
Total liabilities and shareholders' equity	¥1,297,790	**¥1,325,206**	**$11,281,229**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income
Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	**2006**	**2006**
Net sales	¥1,413,243	¥1,479,750	**¥1,549,568**	**$13,191,181**
Cost of sales	1,013,959	1,070,011	**1,194,781**	**10,170,946**
Gross profit	399,284	409,739	**354,787**	**3,020,235**
Selling, general and administrative expenses:				
Salaries and wages	77,748	76,917	**78,381**	**667,243**
Advertising	30,854	32,522	**31,643**	**269,371**
Sales promotion	31,740	31,556	**31,538**	**268,477**
Research and development costs	41,139	42,903	**44,570**	**379,416**
Provision for doubtful accounts	414	112	**66**	**562**
Other	139,988	134,762	**142,831**	**1,215,893**
	321,883	318,772	**329,029**	**2,800,962**
Operating income	77,401	90,967	**25,758**	**219,273**
Other income:				
Interest and dividend income	1,684	2,457	**3,751**	**31,932**
Net gain on foreign exchange	-	-	**425**	**3,618**
Rental income	1,455	1,531	**1,469**	**12,505**
Gain on change in interest due to business combination	-	-	**12,424**	**105,763**
Other	4,926	4,041	**6,752**	**57,479**
	8,065	8,029	**24,821**	**211,297**
Other expenses:				
Interest expenses	6,478	5,816	**6,730**	**57,291**
Net loss on foreign exchange	500	3,905	**-**	**-**
Loss on disposal of fixed assets	3,711	3,312	**2,331**	**19,844**
Reorganization costs	2,044	4,608	**45,532**	**387,605**
Provision for litigation and related expenses	-	-	**8,540**	**72,699**
Prior pension costs for foreign subsidiaries	-	2,285	**-**	**-**
Other	7,675	5,423	**7,493**	**63,787**
	20,408	25,349	**70,626**	**601,226**
Income (loss) before income taxes and minority interest	65,058	73,647	**(20,047)**	**(170,656)**
Income taxes:				
Current	15,210	21,394	**16,564**	**141,007**
Deferred	11,363	(1,493)	**(7,377)**	**(62,799)**
	26,573	19,901	**9,187**	**78,208**
Income (loss) before minority interest	38,485	53,746	**(29,234)**	**(248,864)**
Minority interest in subsidiaries	454	(1,943)	**(11,317)**	**(96,340)**
Net income (loss)	¥38,031	¥55,689	**(¥17,917)**	**($152,524)**
	Yen			U.S. dollars
Per share:				
Net income (loss)	¥204.70	¥283.60	**(¥91.24)**	**($0.78)**
Cash dividends	¥18.00	¥22.00	**¥29.00**	**$0.25**

The accompanying notes are an integral part of these financial statements.

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2005	**2006**	**2006**
Net sales	¥366,602	**¥374,204**	**$3,185,528**
Cost of sales	287,065	**287,355**	**2,446,199**
Gross profit	79,537	**86,849**	**739,329**
Selling, general and administrative expenses:			
Salaries and wages	19,325	**19,584**	**166,715**
Advertising	8,980	**6,633**	**56,465**
Sales promotion	8,691	**8,006**	**68,154**
Research and development costs	12,096	**11,570**	**98,493**
Provision for doubtful accounts	(93)	**(144)**	**(1,226)**
Other	36,414	**38,568**	**328,322**
	85,413	**84,217**	**716,923**
Operating income (loss)	(5,876)	**2,632**	**22,406**
Other income:			
Interest and dividend income	667	**1,212**	**10,318**
Rental income	443	**374**	**3,184**
Gain on change in interest due to business combination	-	**133**	**1,132**
Other	615	**2,395**	**20,388**
	1,725	**4,114**	**35,022**
Other expenses:			
Interest expenses	1,283	**2,047**	**17,426**
Net loss on foreign exchange	30	**1,862**	**15,851**
Loss on disposal of fixed assets	784	**941**	**8,011**
Reorganization costs	4,608	**28,298**	**240,896**
Provision for litigation and related expenses	-	**8,540**	**72,699**
Other	1,244	**5,036**	**42,870**
	7,949	**46,724**	**397,753**
Loss before income taxes and minority interest	(12,100)	**(39,978)**	**(340,325)**
Income taxes	(5,622)	**(180)**	**(1,532)**
Loss before minority interest	(6,478)	**(39,798)**	**(338,793)**
Minority interest in subsidiaries	(2,214)	**(13,950)**	**(118,754)**
Net loss	(¥4,264)	**(¥25,848)**	**($220,039)**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Year ended March 31:

	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Translation adjustments	Treasury stock, at cost	Total
		Millions of yen						
Balance at March 31, 2003	151,864,592	¥12,531	¥10,259	¥264,874	¥167	(¥6,515)	(¥0)	¥281,316
Net income	-	-	-	38,031	-	-	-	38,031
Issuance of common stock under public offering	44,500,000	40,673	69,242	-	-	-	-	109,915
Cash dividends	-	-	-	(3,134)	-	-	-	(3,134)
Bonuses to directors and statutory auditors	-	-	-	(196)	-	-	-	(196)
Net unrealized gains on other securities	-	-	-	-	2,920	-	-	2,920
Translation adjustments	-	-	-	-	-	(14,484)	-	(14,484)
Changes in treasury stock	-	-	-	-	-	-	(1)	(1)
Balance at March 31, 2004	196,364,592	53,204	79,501	299,575	3,087	(20,999)	(1)	414,367
Net income	-	-	-	55,689	-	-	-	55,689
Cash dividends	-	-	-	(4,320)	-	-	-	(4,320)
Net unrealized gains on other securities	-	-	-	-	656	-	-	656
Translation adjustments	-	-	-	-	-	6,480	-	6,480
Changes in treasury stock	-	-	-	-	-	-	(2)	(2)
Balance at March 31, 2005	196,364,592	53,204	79,501	350,944	3,743	(14,519)	(3)	472,870
Net loss	-	-	-	**(17,917)**	-	-	-	**(17,917)**
Cash dividends	-	-	-	**(5,695)**	-	-	-	**(5,695)**
Decrease due to affiliates excluded under the equity method	-	-	-	**(8)**	-	-	-	**(8)**
Net unrealized gains on other securities	-	-	-	-	**6,824**	-	-	**6,824**
Translation adjustments	-	-	-	-	-	**18,448**	-	**18,448**
Changes in treasury stock	-	-	-	-	-	-	**(2)**	**(2)**
Balance at March 31, 2006	**196,364,592**	**¥53,204**	**¥79,501**	**¥327,324**	**¥10,567**	**¥3,929**	**(¥5)**	**¥474,520**

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Translation adjustments	Treasury stock, at cost	Total
	Thousands of U.S. dollars						
Balance at March 31, 2005	$452,916	$676,777	$2,987,520	$31,863	($123,597)	($26)	$4,025,453
Net loss	-	-	**(152,524)**	-	-	-	**(152,524)**
Cash dividends	-	-	**(48,480)**	-	-	-	**(48,480)**
Decrease due to affiliate excluded under the equity method	-	-	**(68)**	-	-	-	**(68)**
Net unrealized gains on other securities	-	-	-	**58,092**	-	-	**58,092**
Translation adjustments	-	-	-	-	**157,043**	-	**157,043**
Changes in treasury stock	-	-	-	-	-	**(17)**	**(17)**
Balance at March 31, 2006	**$452,916**	**$676,777**	**$2,786,448**	**$89,955**	**$33,446**	**($43)**	**$4,039,499**

The accompanying notes are an integral part of these financial statements.

Three months ended March 31:

	Millions of yen							
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Translation adjustments	Treasury stock, at cost	Total
Balance at December 31, 2004	196,364,592	¥53,204	¥79,501	¥355,208	¥3,477	(¥18,277)	(¥2)	¥473,111
Net loss for the three months ended March 31, 2005	-	-	-	(4,264)	-	-	-	(4,264)
Net unrealized gains on other securities	-	-	-	-	266	-	-	266
Translation adjustments	-	-	-	-	-	3,758	-	3,758
Changes in treasury stock	-	-	-	-	-	-	(1)	(1)
Balance at March 31, 2005	196,364,592	¥53,204	¥79,501	¥350,944	¥3,743	(¥14,519)	(¥3)	¥472,870
Balance at December 31, 2005	196,364,592	¥53,204	¥79,501	¥353,173	¥10,128	¥4,286	(¥4)	¥500,288
Net loss for the three months ended March 31, 2006	-	-	-	**(25,848)**	-	-	-	**(25,848)**
Decrease due to affiliate excluded under the equity method	-	-	-	**(1)**	-	-	-	**(1)**
Net unrealized gains on other securities	-	-	-	-	**439**	-	-	**439**
Translation adjustments	-	-	-	-	-	**(357)**	-	**(357)**
Changes in treasury stock	-	-	-	-	-	-	**(1)**	**(1)**
Balance at March 31, 2006	**196,364,592**	**¥53,204**	**¥79,501**	**¥327,324**	**¥10,567**	**¥3,929**	**(¥5)**	**¥474,520**

	Thousands of U.S. dollars						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Translation adjustments	Treasury stock, at cost	Total
Balance at December 31, 2005	$452,916	$676,777	$3,006,496	$86,218	$36,485	($34)	$4,258,858
Net loss for the three months ended March 31, 2006	-	-	**(220,039)**	-	-	-	**(220,039)**
Decrease due to affiliate excluded under the equity method	-	-	**(9)**	-	-	-	**(9)**
Net unrealized gains on other securities	-	-	-	**3,737**	-	-	**3,737**
Translation adjustments	-	-	-	-	**(3,039)**	-	**(3,039)**
Changes in treasury stock	-	-	-	-	-	**(9)**	**(9)**
Balance at March 31, 2006	**$452,916**	**$676,777**	**$2,786,448**	**$89,955**	**$33,446**	**($43)**	**$4,039,499**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows
Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	**2006**	**2006**
Cash flows from operating activities:				
Net income (loss)	¥38,031	¥55,689	**(¥17,917)**	**($152,524)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities -				
Depreciation and amortization	111,018	105,006	**109,662**	**933,532**
Reorganization costs	2,044	4,608	**45,532**	**387,605**
Accrual for net pension and severance costs, less payments	(13,338)	9,188	**9,917**	**84,421**
Net loss on sales and disposal of fixed assets	5,511	3,566	**2,250**	**19,154**
Gain on change in interest due to business combination	-	-	**(12,424)**	**(105,763)**
Equity in net gains under the equity method	(172)	(232)	**(168)**	**(1,430)**
Deferred income taxes	11,363	(1,493)	**(7,377)**	**(62,799)**
Decrease in allowance for doubtful accounts	(261)	(214)	**(537)**	**(4,571)**
Provision for litigation and related expenses	-	-	**8,540**	**72,699**
(Increase) decrease in notes and accounts receivable, trade	6,224	(43,371)	**23,987**	**204,197**
(Increase) decrease in inventories	4,042	(6,063)	**(1,695)**	**(14,429)**
Increase (decrease) in notes and accounts payable, trade	13,247	11,221	**(20,526)**	**(174,734)**
Increase (decrease) in accrued income taxes	(1,826)	5,748	**(1,932)**	**(16,447)**
Other	6,786	18,836	**(19,815)**	**(168,681)**
Net cash provided by operating activities	182,669	162,489	**117,497**	**1,000,230**
Cash flows from investing activities:				
Proceeds from maturities of short-term investments	-	-	**1,000**	**8,513**
Payments for purchases of property, plant and equipment	(65,416)	(92,441)	**(96,099)**	**(818,073)**
Proceeds from sales of property, plant and equipment	4,309	1,978	**1,315**	**11,194**
Payments for purchases of intangible assets	(7,917)	(7,439)	**(9,272)**	**(78,931)**
Payments of long-term prepaid expenses	(441)	(1,009)	**(3,296)**	**(28,058)**
Payments for purchases of subsidiaries' stock	-	-	**(1,034)**	**(8,802)**
Proceeds from business combination, net of payment	-	140	**12,204**	**103,890**
Other	4,136	(625)	**(84)**	**(715)**
Net cash used in investing activities	(65,329)	(99,396)	**(95,266)**	**(810,982)**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(76,076)	(40,577)	**18,471**	**157,240**
Proceeds from long-term debt	92,530	2,000	**66,300**	**564,399**
Repayments of long-term debt	(164,304)	(52,745)	**(111,786)**	**(951,613)**
Proceeds from issuance of bonds	-	-	**50,000**	**425,641**
Issuance of common stock	109,915	-	**-**	**-**
Proceeds from issuance of subsidiaries' stock	-	-	**2,674**	**22,763**
Cash dividends	(3,134)	(4,320)	**(5,694)**	**(48,472)**
Other	151	(731)	**(842)**	**(7,168)**
Net cash provided by (used in) financing activities	(40,918)	(96,373)	**19,123**	**162,790**
Effect of exchange rate fluctuations on cash and cash equivalents	(3,527)	3,001	**3,687**	**31,387**
Net increase (decrease) in cash and cash equivalents	72,895	(30,279)	**45,041**	**383,425**
Cash and cash equivalents at the beginning of the year	192,288	265,183	**234,904**	**1,999,694**
Cash and cash equivalents increased by merger of unconsolidated subsidiaries	-	-	**169**	**1,439**
Cash and cash equivalents at the end of the year	¥265,183	¥234,904	**¥280,114**	**$2,384,558**
Supplemental disclosures of cash flow information:				
Cash received and paid during the year for -				
Interest and dividend received	¥1,681	¥2,594	**¥3,794**	**$32,298**
Interest paid	(¥6,610)	(¥5,854)	**(¥6,678)**	**($56,849)**
Income taxes paid	(¥17,036)	(¥15,646)	**(¥18,496)**	**($157,453)**

The accompanying notes are an integral part of these financial statements.

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2005	**2006**	**2006**
Cash flows from operating activities:			
Net loss	(¥4,264)	**(¥25,848)**	**($220,039)**
Adjustments to reconcile net loss to net cash provided by operating activities -			
Depreciation and amortization	29,081	**28,746**	**244,709**
Reorganization costs	4,608	**28,298**	**240,896**
Accrual for net pension and severance costs, less payments	1,603	**1,611**	**13,714**
Net loss on sales and disposal of fixed assets	758	**1,059**	**9,015**
Gain on change in interest due to business combination	-	**(133)**	**(1,132)**
Equity in net gains under the equity method	(49)	**(27)**	**(230)**
Deferred income taxes	(8,303)	**(12,461)**	**(106,078)**
Decrease in allowance for doubtful accounts	(218)	**(503)**	**(4,282)**
Provision for litigation and related expenses	-	**8,540**	**72,699**
Decrease in notes and accounts receivable, trade	16,389	**69,733**	**593,624**
Decrease in inventories	23,948	**30,300**	**257,938**
Decrease in notes and accounts payable, trade	(26,472)	**(62,539)**	**(532,383)**
Increase in accrued income taxes	448	**9,986**	**85,009**
Other	(1,272)	**(18,783)**	**(159,896)**
Net cash provided by operating activities	36,257	**57,979**	**493,564**
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(24,088)	**(21,995)**	**(187,239)**
Proceeds from sales of property, plant and equipment	56	**96**	**817**
Payments for purchases of intangible assets	(1,798)	**(2,318)**	**(19,733)**
Payments of long-term prepaid expenses	(189)	**(2,202)**	**(18,745)**
Other	(52)	**330**	**2,809**
Net cash used in investing activities	(26,071)	**(26,089)**	**(222,091)**
Cash flows from financing activities:			
Decrease in short-term borrowings	(14,496)	**(12,937)**	**(110,130)**
Proceeds from long-term debt	2,000	**26,300**	**223,887**
Repayments of long-term debt	(937)	**(96,711)**	**(823,282)**
Other	(143)	**(142)**	**(1,209)**
Net cash used in financing activities	(13,576)	**(83,490)**	**(710,734)**
Effect of exchange rate fluctuations on cash and cash equivalents	(156)	**(1,007)**	**(8,572)**
Net decrease in cash and cash equivalents	(3,546)	**(52,607)**	**(447,833)**
Cash and cash equivalents at the beginning of the period	238,450	**332,721**	**2,832,391**
Cash and cash equivalents at the end of the period	¥234,904	**¥280,114**	**$2,384,558**
Supplemental disclosures of cash flow information:			
Cash received and paid during the period for -			
Interest and dividend received	¥662	**¥1,240**	**$10,556**
Interest paid	(¥1,518)	**(¥2,317)**	**($19,724)**
Income taxes paid	(¥2,233)	**(¥2,296)**	**($19,545)**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

(1) Background -

Seiko Epson Corporation (the "Company") was originally established as a manufacturer of watches but later expanded its business to provide key devices and solutions for the digital color imaging markets through the application of its proprietary technologies. The Company operates its manufacturing and sales business mainly in Japan, the Americas, Europe and Asia/Oceania.

(2) Basis of presenting consolidated financial statements -

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively "Epson") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles in Japan, but which is provided herein as additional information. However, none of the reclassifications nor rearrangements have a material effect on the financial statements.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates -

The accompanying consolidated financial statements include the accounts of the Company and those of its subsidiaries that are controlled by Epson. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation.

Investments in affiliates in which Epson has significant influence are accounted for using the equity method. Consolidated income includes Epson's current equity in net income or loss of affiliates after elimination of unrealized inter-company profits.

The excess/less of the cost over/under the underlying net equity of investments in subsidiaries is recognized as a "consolidation adjustment" included in intangible assets account or in other long-term liabilities account and is amortized on a straight-line basis over a period of five years.

(2) Foreign currency translation and transactions -

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates and the resulting transaction gains or losses are taken into income currently.

All the assets and liabilities of foreign subsidiaries and affiliates are translated at the foreign exchange rates prevailing at the respective balance sheet dates, and all the income and expense accounts are translated at the average foreign exchange rates for the respective periods. Foreign currency financial statement translation differences are recorded in the consolidated balance sheets as a separate component of shareholders' equity and minority interest in subsidiaries.

(3) Cash and cash equivalents -

Cash and cash equivalents included in the consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which present low risk of fluctuation in value.

(4) Financial instruments -

(a) Investments in debt and equity securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities. These categories are treated differently for purposes of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost computed based on the straight-line method in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving average cost method. Other than temporary declines in the value of other securities are reflected in current income.

(b) Derivative financial instruments:

Derivative instruments (i.e., forward exchange contracts, interest rate swaps and currency options) are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

For interest rate swaps, if certain hedging criteria are met, interest rate swaps are not recognized at their fair values as an alternative method under Japanese accounting standards. The amounts received or paid for such interest rate swap arrangements are charged or credited to income as incurred.

(c) Allowance for doubtful accounts:

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(5) Inventories -

Inventories are stated at the lower of cost or market value, where cost is primarily determined using the weighted average cost method.

(6) Property, plant and equipment -

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Depreciation of property, plant and equipment is mainly computed based on the declining-balance method for the Company and its Japanese subsidiaries and on the straight-line method for foreign subsidiaries at rates based on the estimated useful lives. For buildings acquired by the Company and its Japanese subsidiaries on or after April 1, 1998, depreciation is computed based on the straight-line method, which is prescribed by Japanese income tax laws.

The estimated useful lives of depreciable assets principally range from eight to fifty years for buildings and structures and principally range from two to eleven years for machinery and equipment.

(7) Intangible assets -

Amortization of intangible assets is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method over its estimated useful life, ranging from three to five years.

(8) Impairment of long-lived assets -

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 - "Application Guidance on Accounting Standards for Impairment of Fixed Assets". Effective as of March 31, 2004, Epson has elected to early adopt these new accounting standards for impairment of fixed assets.

As a result of adopting the new accounting standards, property, plant and equipment at March 31, 2004 decreased by ¥1,671 million, and income before income taxes and minority interest for the year ended March 31, 2004 decreased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently.

(9) Accrued bonuses -

Accrued bonuses to employees are provided for the estimated amounts which Epson is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

Accrued bonuses to directors and statutory auditors are provided for the estimated amounts which Epson is obligated to pay to directors and statutory auditors subject to the resolution of general shareholders' meeting subsequent to the fiscal year-end.

(10) Accrued warranty costs -

Epson provides an accrual for estimated future warranty costs based on the historical relationship of warranty costs to net sales. Specific warranty provisions are made for those products where warranty expenses can be specifically estimated.

(11) Accrued litigation and related expenses -

Accrued litigation and related expenses are provided for estimated future compensation payment and litigation expenses.

(12) Income taxes -

The provision for income taxes is computed based on income before income taxes and minority interest in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

The Company adopts the consolidated tax return system for the calculation of income taxes. Under the consolidated tax return system, the Company consolidates all wholly owned domestic subsidiaries based on the Japanese tax regulations.

(13) Pension and severance costs -

The Company and some of its Japanese subsidiaries recognize accrued pension and severance costs to employees based on the actuarial valuation of projected benefit obligation and plan assets at fair value. Other Japanese subsidiaries above recognize accrued pension and severance costs to employees based on the voluntary retirement benefit payable at the year end.

Pension benefits are determined based on years of service, basic rates of pay and conditions under which the termination occurs, and are payable at the option of the retiring employee either in a lump-sum amount or as an annuity. Contributions to the plans are funded through several financial institutions in accordance with the applicable laws and regulations.

Unrecognized prior service costs are amortized based on the straight-line method over a period of five years beginning at the date of adoption of the plan amendment. Actuarial gains and losses are amortized based on the straight-line method over a period of five years starting from the beginning of the subsequent year.

Most of the Company's foreign subsidiaries have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. Epson's funding policy for these defined contribution plans is to contribute annually an amount equal to a certain percentage of the participants' annual salaries.

With respect to the Company's directors and statutory auditors, who are not covered by the benefit plans for employees described above, provision is made for retirement benefits based on internal rules regarding directors' and statutory auditors' retirement benefits. In accordance with the Commercial Code of Japan, payments of retirement benefits for directors and statutory auditors are subject to approval by a resolution at the Company's shareholders' meeting.

(14) Accrued recycle costs -

At the time of sale, accrued recycle costs are provided for estimated future returns of consumer personal computers.

(15) Revenue recognition -

Revenue from sale of goods is recognized at the time when goods are shipped. Revenue from services is recognized when services are rendered and accepted by customers.

(16) Research and development costs -

Research and development costs are expensed as incurred.

(17) Leases -

Epson leases certain office space, machinery and equipment and computer equipment from third parties.

Under Japanese accounting standards, capital leases, other than those under which ownership of the assets will be transferred to the lessee at the end of the lease term, are allowed to be accounted for as operating leases with footnote disclosure of the estimated acquisition cost, estimated accumulated depreciation and future estimated lease payments.

Epson has recorded substantially all leases as operating leases in the manner described in the preceding paragraph.

(18) Net income per share -

Net income per share is computed based on the weighted average number of common shares outstanding during each fiscal period.

(19) Appropriations of retained earnings -

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Commercial Code of Japan. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the shareholders of record as of September 30 of each year.

(20) Reclassifications -

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2006.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers and are not audited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥117.47 = U.S.$1, the rate of exchange prevailing at March 31, 2006, has been used.

4. Acquisitions:

(1) Business combination with SANYO Electric Co., Ltd. -

On October 1, 2004, the Company and SANYO Electric Co., Ltd. ("SANYO"), including its subsidiaries Tottori SANYO Electric Co., Ltd. and SANYO LCD Engineering Co., Ltd. transferred their liquid crystal businesses to a joint venture company called SANYO EPSON IMAGING DEVICES CORPORATION ("SANYO EPSON"). The paid-in capital of SANYO EPSON was ¥15,000 million and it is owned 55% and 45% by the Company and by SANYO, respectively. SANYO EPSON is a consolidated subsidiary of Seiko Epson Corporation.

Epson transferred its D-TFD LCD and STN LCD businesses. SANYO and its subsidiaries ("SANYO Group") transferred its LTPS-TFT LCD and Amorphous-silicon TFT LCD businesses. The HTPS-TFT LCD business and Organic Light-Emitting displays LCD business of Epson, and Organic Light-Emitting displays LCD business of SANYO Group was not transferred to SANYO EPSON.

Upon acquisition, net cash proceeds of ¥140 million represented cash and cash equivalents of ¥340 million held by the SANYO Group at the date of the integration, offset by the cash consideration of ¥200 million for the integration. Net cash proceeds from acquisition of ¥140 million was included in cash flows from investing activities in the consolidated statements of cash flows for the year ended March 31, 2005.

The composition of the assets and liabilities acquired from the SANYO Group in the year ended March 31, 2005 was as follows:

	Millions of yen
	Year ended March 31, 2005
Current assets	¥17,004
Fixed assets	40,930
Short-term borrowings	(10,365)
Current portion of long-term debt	(5,022)
Current liabilities	(1,618)
Long-term debt	(16,040)
Long-term liabilities	(2,759)
Consolidation adjustment	5,115
Minority interest in subsidiaries	(27,045)
Consideration for acquisition	¥200

(2) Business combination with Toyo Communication Equipment Co., Ltd. -

On October 1, 2005, the Company and Toyo Communication Equipment Co., Ltd. ("Toyo") combined their respective quartz device businesses and commenced operation as the succeeding company, Epson Toyocom Corporation ("Epson Toyocom"). Under business merger agreement and corporate split agreement, the Company split-off its quartz device business (excluding optical devices) and contributed these assets to Epson Toyocom.

The Company acquired 99,000,000 shares of common stock and 20,000,000 shares of subordinate common stock with voting rights issued by Epson Toyocom as a result of the business split and business merger transactions. As a result, Epson Toyocom is owned 67.9% by the Company (without considering dilutive shares). Epson Toyocom is a consolidated subsidiary of the Company.

The composition of the assets and liabilities acquired from the Toyo Group in the year ended March 31, 2006 was as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ended March 31, 2006	Year ended March 31, 2006
Current assets	¥32,128	$273,500
Fixed assets	31,224	265,804
Short-term borrowings	(100)	(851)
Current portion of long-term debt	(7,144)	(60,816)
Current liabilities	(8,773)	(74,683)
Bonds	(5,400)	(45,969)
Long-term debt	(273)	(2,324)
Long-term liabilities	(8,402)	(71,525)
Consolidation adjustment	(6,840)	(58,228)
Minority interest in subsidiaries	(13,996)	(119,145)
Change in interest due to business combination	(12,424)	(105,763)
Cash and cash equivalents held by the Toyo Group	12,204	103,890
Proceeds from business combination, net of payment	¥12,204	$103,890

5. Inventories:

Losses recognized and charged to cost of sales as a result of valuation at the lower of cost or market value at March 31, 2005 and 2006 were ¥12,845 million and ¥14,383 million ($122,440 thousand), respectively.

6. Investments in debt and equity securities:

Epson's management determined that all investments in debt and equity securities were either held-to-maturity debt securities or other securities.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥3,743 million and ¥10,567 million ($89,955 thousand) as at March 31, 2005 and 2006, respectively, were recorded as a component of shareholders' equity. A related deferred income tax liability thereon of ¥1,384 million and ¥5,908 million ($50,293 thousand) was recorded against deferred income tax assets relating to other temporary differences as at March 31, 2005 and 2006, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities account at March 31, 2005 and 2006 were as follows:

	Millions of yen			
	March 31, 2005			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥10,670	¥5,184	(¥70)	¥15,784
Debt securities	52	3	(-)	55
Other	175	-	(-)	175
Total	¥10,897	¥5,187	(¥70)	¥16,014

	Millions of yen			
	March 31, 2006			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥11,044	¥16,726	(¥22)	¥27,748
Debt securities	53	1	(-)	54
Other	222	-	(-)	222
Total	¥11,319	¥16,727	(¥22)	¥28,024

	Thousands of U.S. dollars			
	March 31, 2006			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	$94,015	$142,385	($187)	$236,213
Debt securities	451	9	(-)	460
Other	1,890	-	(-)	1,890
Total	$96,356	$142,394	($187)	$238,563

The carrying amount of unlisted equity securities, unlisted debt securities and unlisted other securities, which were included in investment securities account at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Unlisted securities	2005	2006	2006
Equity securities	¥19,505	¥19,328	$164,536
Debt securities	2,700	-	-
Other	225	127	1,081
Total	¥22,430	¥19,455	$165,617

The carrying amount of held-to-maturity debt securities, which were included in cash and cash equivalents account and short-term investments account at March 31, 2005 and 2006 were disclosed as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Held-to-maturity debt securities	2005	2006	2006
Commercial paper	¥-	¥39,984	$340,376
Unlisted debt securities	-	2,000	17,026
Total	¥-	¥41,984	$357,402

For the year ended March 31, 2006, other-than-temporary impairments of securities with an aggregate market value of ¥4 million ($34 thousand) were charged to current income. For the years ended March 31, 2004 and 2005, there were no other-than-temporary impairments of securities. Impairments are principally recorded in cases where the fair value of other securities with determinable market values has declined in excess of 30% of cost. Those securities are written down to the fair value and the resulting losses are included in current income for the period.

7. Intangible assets:

A consolidation adjustment account, representing the excess of cost over net equity of investments in subsidiaries as at March 31, 2005, included in intangible assets account, was ¥4,619 million. A consolidation adjustment account, representing the less of cost under net equity of investments in subsidiaries as at March 31, 2006, included in other long-term liabilities account, was ¥3,968 million ($33,779 thousand).

8. Derivative financial instruments:

Epson enters into forward exchange contracts, currency options and interest rate swaps. Forward exchange contracts and currency options are utilized to hedge currency risk exposures. Interest rate swaps are utilized to hedge against possible future changes in interest rates on borrowings. Epson uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

Epson management believes that credit risk relating to derivative instruments that Epson uses is relatively low since all of its counterparties to the derivative instruments are creditworthy financial institutions.

Forward exchange transactions are approved by the Company's Forward Exchange Committee (composed of representatives of Epson management) and executed based on authorization of the general manager of Epson in charge of the finance function in accordance with internal rules and policies developed regarding derivative transaction management.

Interest rate swap transactions are approved and executed based on authorization of the director of Epson in charge of the finance function based on the above-mentioned internal rules and policies. Execution and management of transactions are done by the responsible section in financial department and reported to the general manager.

The table below lists contract amounts and fair values of derivatives as at March 31, 2005 and 2006 by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

	Millions of yen		
	March 31, 2005		
Instruments	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥7,017	¥7,225	(¥208)
Euro (purchased Japanese yen)	26,438	26,705	(267)
Sterling pound (purchased Japanese yen)	1,029	1,045	(16)
Australian dollar (purchased Japanese yen)	1,730	1,787	(57)
Thai baht (purchased U.S. dollar)	171	167	4
Japanese yen (purchased Euro)	301	301	0
U.S. dollar (purchased Euro)	642	643	(1)
Polish zloty (purchased Euro)	168	170	(2)
Purchased -			
U.S. dollar (sold Japanese yen)	87	89	2
Euro (sold Japanese yen)	31	31	(0)
U.S. dollar (sold Korean won)	546	539	(7)
U.S. dollar (sold Taiwan dollar)	556	533	(23)
Total unrealized losses from forward exchange contracts			(¥575)

There were no interest rate swap transactions outstanding at March 31, 2005 other than derivatives eligible for hedge accounting.

Instruments	Millions of yen March 31, 2006 Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥7,791	¥7,873	(¥82)
Euro (purchased Japanese yen)	15,928	16,515	(587)
Sterling pound (purchased Japanese yen)	971	980	(9)
Australian dollar (purchased Japanese yen)	1,070	1,053	17
Thai baht (purchased U.S. dollar)	195	194	1
Philippine peso (purchased U.S. dollar)	114	115	(1)
Japanese yen (purchased Euro)	707	702	5
U.S. dollar (purchased Euro)	919	921	(2)
Polish zloty (purchased Euro)	144	145	(1)
U.S. dollar (purchased Sterling pound)	649	649	0
Purchased -			
U.S. dollar (sold Japanese yen)	746	741	(5)
Euro (sold Japanese yen)	134	135	1
Sterling pound (sold Euro)	369	369	0
U.S. dollar (sold Taiwan dollar)	467	469	2
Total unrealized losses from forward exchange contracts			(¥661)

There were no interest rate swap transactions outstanding at March 31, 2006 other than derivatives eligible for hedge accounting.

Instruments	Thousands of U.S. dollars March 31, 2006 Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	$66,323	$67,021	($698)
Euro (purchased Japanese yen)	135,592	140,589	(4,997)
Sterling pound (purchased Japanese yen)	8,266	8,343	(77)
Australian dollar (purchased Japanese yen)	9,109	8,964	145
Thai baht (purchased U.S. dollar)	1,660	1,651	9
Philippine peso (purchased U.S. dollar)	970	979	(9)
Japanese yen (purchased Euro)	6,019	5,976	43
U.S. dollar (purchased Euro)	7,823	7,840	(17)
Polish zloty (purchased Euro)	1,226	1,235	(9)
U.S. dollar (purchased Sterling pound)	5,525	5,525	0
Purchased -			
U.S. dollar (sold Japanese yen)	6,351	6,308	(43)
Euro (sold Japanese yen)	1,140	1,149	9
Sterling pound (sold Euro)	3,141	3,141	0
U.S. dollar (sold Taiwan dollar)	3,975	3,992	17
Total unrealized losses from forward exchange contracts			($5,627)

There were no interest rate swap transactions outstanding at March 31, 2006 other than derivatives eligible for hedge accounting.

These forward exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these contracts are recognized in earnings. Forward exchange contracts assigned individually to monetary items denominated in foreign currencies are excluded from the above table.

9. Credit agreements:

In the year ended March 31, 2006, the Company entered into line of credit agreements with eleven banks for an aggregate maximum amount of ¥80,000 million ($681,025 thousand). As at March 31, 2006, there were unused credit lines of ¥80,000 million ($681,025 thousand) outstanding and available.

10. Pension and severance costs:

The Company and its Japanese subsidiaries maintain corporate defined benefit pension plans and defined contribution pension plans covering substantially all of their employees.

To supplement the corporate defined benefit pension plan, some of Japanese subsidiaries maintain tax qualified pension plans which are non-contributory defined benefit pension plans. These companies contribute amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to limitations on expense deductibility under Japanese income tax laws.

The funded status of retirement benefit obligations at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Projected benefit obligations	¥176,371	¥202,922	$1,727,437
Plan assets at fair value	159,769	191,883	1,633,464
Unfunded status	16,602	11,039	93,973
Unrecognized items:			
Prior service cost reduction from plan amendment	10,173	7,441	63,344
Actuarial gains (losses)	(19,401)	7,208	61,360
Accrued pension and severance costs - net	7,374	25,688	218,677
Prepaid pension cost	7,461	5,709	48,600
Accrued pension and severance costs	¥14,835	¥31,397	$267,277

The composition of net pension and severance costs for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	2006	2006
Service cost	¥9,352	¥7,397	¥7,889	$67,158
Interest cost	5,608	4,355	4,862	41,389
Expected return on plan assets	(5,055)	(4,728)	(5,079)	(43,237)
Amortization and expenses:				
Prior service costs	(529)	(2,752)	(2,733)	(23,265)
Actuarial losses	9,537	8,849	8,382	71,354
Net pension and severance costs	18,913	13,121	13,321	113,399
Contribution to defined contribution pension plan	-	2,067	2,976	25,334
	¥18,913	¥15,188	¥16,297	$138,733

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Year ended March 31		
	2004	2005	2006
Discount rate	2.5%	2.5%	2.5%
Long-term rate of return on plan assets	3.5	3.0	3.0

The Company and one consolidated subsidiary changed approximately half of its tax qualified defined benefit plans to new tax qualified defined contribution plans and the remaining half from tax qualified defined benefit plans to new tax qualified corporate defined benefit plans effective from the year beginning April 1, 2004. As a result of this transfer, gain on transition of retirement benefit plan of ¥207 million was recorded in other income for the year ended March 31, 2005 in accordance with “Accounting for Transition of Retirement Benefit Plans” (“Financial Accounting Standards Implementation Guidance No.1” issued by Accounting Standards Board of Japan).

The Company had entered into a retirement benefit trust agreement with an outside trust company and contributed certain marketable securities to the employee retirement benefit trust. In December 2004, the Company canceled the retirement benefit trust agreement and trusted marketable securities of ¥6,625 million were returned to the Company. As a result, prepaid pension cost at March 31, 2005 decreased. Loss on return of trusted marketable securities of ¥328 million was recorded in other expenses for the year ended March 31, 2005.

Additional severance costs of ¥2,285 million, which related to specific prior pension costs for foreign subsidiaries, were recorded in the consolidated statements of income for the year ended March 31, 2005.

11. Shareholders' equity:

The Company's retained earnings consists of unappropriated retained earnings and legal reserves required by the Commercial Code of Japan. The retained earnings accumulated by the Company are initially recorded as unappropriated retained earnings and later transferred to legal reserve upon approval at the shareholders' meeting.

Under the Commercial Code of Japan, the Company is permitted to transfer to retained earnings the portion of statutory reserve (additional paid-in capital and legal reserve) in excess of 25% of common stock upon approval at the shareholders' meeting. Any transferred portions will be available for dividend distribution. The Company does not currently make such transfers.

Under the Commercial Code of Japan, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such appropriations are recorded at the time of resolution. The Company may pay interim dividends by resolution of the board of directors once during each fiscal year in accordance with the Commercial Code of Japan and the Company's Articles of Incorporation.

The amounts of year-end cash dividend per share and interim cash dividend per share, which the Company paid to the shareholders of record as at the respective period-ends for the years ended March 31, 2004, 2005 and 2006, were as follows:

	Yen			U.S. dollars
	Year ended March 31			Year ended March 31,
Cash dividend per share	2004	2005	2006	2006
Year-end	¥9.00	¥9.00	¥13.00	$0.11
Interim	9.00	13.00	16.00	0.14
Total	¥18.00	¥22.00	¥29.00	$0.25

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2006 approved at the general shareholders' meeting, which will be held on June 23, 2006, is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥16 per share	¥3,142	$26,747

The Company's common stock was listed on the First Section of the Tokyo Stock Exchange on June 24, 2003. As a result of the listing, 44,500,000 shares of common stock were issued by the Company with the aggregate net proceeds of ¥109,915 million. Of the 44,500,000 shares, 28,305,500 shares of common stock were offered in Japan and 16,194,500 were offered outside of Japan in an international offering. As a result of this issuance, common stock and additional paid-in capital increased ¥40,673 million and ¥69,242 million, respectively.

12. Net income (loss) per share:

Calculation of net income (loss) per share for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	2006	2006
Net income (loss) attributable to common shares	¥38,031	¥55,689	(¥17,917)	($152,524)
Weighted average number of common shares outstanding:				
-Basic	185,782,470	196,364,103	196,363,643	
-Diluted	185,937,667	-	-	
	Yen			U.S. dollars
Net income (loss) per share:				
-Basic	¥204.70	¥283.60	(¥91.24)	($0.78)
-Diluted	¥204.53	¥-	¥-	$-

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding for the year ended March 31, 2005. The potential common shares upon conversion of convertible bonds with anti-dilutive effect was excluded from the computation of net loss per share for the year ended March 31, 2006.

13. Income taxes:

Epson is subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 43.6 % for the year ended March 31, 2004 and approximately 40.4 % for each of the years ended March 31, 2005 and 2006.

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥15,629	¥25,573	$217,698
Net operating tax loss carry-forwards	4,255	22,307	189,895
Accrued pension and severance costs	1,815	9,378	79,833
Inter-company profits on inventories and write downs	14,048	8,219	69,967
Devaluation of investment securities	5,467	5,940	50,566
Accrued warranty costs	4,856	5,663	48,208
Accrued bonuses	6,718	4,038	34,375
Accrued litigation and related expenses	-	3,453	29,395
Others	15,374	24,159	205,661
Gross deferred tax assets	68,162	108,730	925,598
Less: valuation allowance	(10,897)	(26,648)	(226,849)
Total deferred tax assets	57,265	82,082	698,749
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries and affiliates	(18,799)	(25,284)	(215,238)
Net unrealized gains on other securities	(1,384)	(5,908)	(50,293)
Reserve for special depreciation for tax purpose	(3,807)	(3,383)	(28,799)
Net unrealized gains on land held by a subsidiary	(-)	(2,613)	(22,244)
Others	(507)	(552)	(4,699)
Gross deferred tax liabilities	(24,497)	(37,740)	(321,273)
Net deferred tax assets	¥32,768	¥44,342	$377,476

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and operating tax loss carry-forwards of certain subsidiaries as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in the total valuation allowance for the year ended March 31, 2006 was an increase of ¥15,751 million ($134,085 thousand).

Epson has provided for deferred income taxes on all undistributed earnings of overseas subsidiaries and affiliates.

The differences between Epson’s statutory income tax rate and the income tax rate reflected in the consolidated statements of income were reconciled as follows:

	Year ended March 31		
	2004	2005	2006
Statutory income tax rate	43.6%	40.4%	40.4%
Reconciliation:			
Changes in valuation allowance	(5.2)	(0.6)	(95.8)
Gain on change in interest due to business combination	-	-	24.8
Unrecognized tax benefit for inter-company profit elimination	-	-	(20.1)
Tax for the prior period	-	-	4.4
Tax credits	-	(6.9)	-
Recognized tax benefit for inter-company profit elimination	-	(3.6)	-
Entertainment expenses, etc. permanently non-tax deductible	1.6	(0.1)	-
Change in income tax rate	0.9	-	-
Others	0.0	(2.2)	0.5
Income tax rate per statements of income	40.9%	27.0%	(45.8%)

Under the consolidated tax return system, a temporary 2.0% surtax was assessed on consolidated taxable income for the year ended March 31, 2004. For fiscal year beginning April 1, 2004, the 2.0% surtax was not assessed on consolidated taxable income. Therefore, the aggregated statutory income tax rate for Epson was 40.4% for the years ended March 31, 2005 and 2006.

14. Research and development costs:

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥90,485 million, ¥89,042 million and ¥92,939 million ($791,172 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

15. Reorganization costs:

The reorganization costs for the year ended March 31, 2006 mainly represent a consolidation and integration of production sites and a reorganization of production lines accompanying structural reforms.

The reorganization costs for the year ended March 31, 2005 mainly represent costs associated with revamping the product mix accompanying a restructuring of the domestic display business.

The reorganization costs for the year ended March 31, 2004 mainly represent reorganization for certain overseas manufacturing plants in the display business.

16. Impairment losses:

For the year ended March 31, 2006, Epson recorded reorganization costs and impairment losses for the LCD production equipment, semiconductor production equipment, and other equipment. Epson's business assets generally are grouped by business segment under the company's management accounting system, and their cash flows are continuously monitored. Idle assets are separately assessed for impairment on the individual asset level. An impairment tests were performed for both types of asset. The net book value of a business assets were reduced to its recoverable amount when there were substantial deterioration in the asset's future earning potential due to adverse changes in the marketplace resulting in lower product prices or due to change in utilization plan. The carrying value of idle assets were reduced to its recoverable amount when its net selling prices were substantially lower than their carrying values.

The reductions in value of ¥34,303 million ($292,015 thousand) were recognized as reorganization costs in other expenses account. The reductions comprised mainly ¥14,914 million ($126,960 thousand) for buildings and structures, ¥10,090 million ($85,894 thousand) for machinery and equipment, ¥1,301 million ($11,075 thousand) for furniture and fixtures, ¥542 million ($4,614 thousand) for intangible assets, and ¥7,102 million ($60,458 thousand) for long-term prepaid expenses.

The recoverable amounts of impaired business assets were calculated on the basis of the asset's value in use. The recoverable amount of idle assets were determined using its net selling price, which were assessed on the basis of reasonable estimates. The values in use were calculated by applying a 5.5% discount rate to the asset's expected future cash flows.

Impairment losses, which are included in other expenses account, were ¥1,671million, ¥988 million and ¥1,951 million ($16,608 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

17. Cash flow information:

Cash and cash equivalents at March 31, 2005 and 2006 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Cash and deposits	¥235,597	¥233,087	$1,984,226
Short-term investments	-	41,984	357,402
Short-term loans receivables	-	10,000	85,128
Sub-total	235,597	285,071	2,426,756
Less:			
Short-term borrowings (overdrafts)	(421)	(594)	(5,056)
Time deposits due over three months	(272)	(2,363)	(20,116)
Short-term investments due over three months	-	(2,000)	(17,026)
Cash and cash equivalents	¥234,904	¥280,114	$2,384,558

The Company obtained marketable securities, which fair value was ¥10,003 million ($85,154 thousand) at March 31, 2006, as deposit for the short-term loans receivables above.

18. Leases:

As described in Note 2 (17), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2004, 2005 and 2006 amounted to ¥3,211 million, ¥10,369 million and ¥17,639 million ($150,157 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the capital lease assets at March 31, 2005 and 2006 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Acquisition cost:			
Machinery and equipment	¥79,822	¥78,183	$665,557
Furniture and fixtures	4,394	3,375	28,731
Intangible assets	851	592	5,039
	85,067	82,150	699,327
Less:			
Accumulated depreciation	(38,114)	(50,302)	(428,211)
Accumulated impairment loss	(1,184)	(821)	(6,989)
	(39,298)	(51,123)	(435,200)
Net book value	¥45,769	¥31,027	$264,127

Amounts appearing in the table above include leased property acquired from the SANYO Group in connection with the creation of SANYO EPSON. The acquisition cost, less accumulated depreciation and net book value transferred from the SANYO Group as capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term at October 1, 2004, were as follows:

	Millions of yen
Acquisition cost:	
Machinery and equipment	¥76,744
Furniture and fixtures	1,196
	77,940
Less: accumulated depreciation	(28,498)
Net book value	¥49,442

Depreciation expenses for these leased assets for the years ended March 31, 2004, 2005 and 2006 would have been ¥2,997 million, ¥9,435 million and ¥15,965 million ($135,907 thousand), respectively, if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no residual value.

Interest expense for these capital leases for the years ended March 31, 2004, 2005 and 2006 would have been ¥97 million, ¥982 million and ¥1,470 million ($12,514 thousand), respectively.

Epson has recognized an impairment loss for future lease payments of impaired capital lease assets at SANYO EPSON, which was recorded in reorganization costs in accordance with Japanese accounting standards. The amount was ¥1,184 million and ¥317 million ($2,699 thousand) for the years ended March 31, 2005 and 2006, respectively. For the year ended March 31, 2004, there was no impairment losses for capital leases.

Future lease payments for capital leases at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2005	2006	2006
Due within one year	¥16,003	¥15,332	$130,518
Due after one year	32,638	18,033	153,512
Total	¥48,641	¥33,365	$284,030

Amounts appearing in the table above include amounts to be paid on capital leases which have accrued impairment losses amounting to ¥1,184 million and ¥565 million ($4,810 thousand) as of March 31, 2005 and 2006, respectively. Lease payments for impaired capital lease assets in the year ended March 31, 2006 were ¥472 million ($4,018 thousand).

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2005	2006	2006
Due within one year	¥3,228	¥4,482	$38,154
Due after one year	9,205	12,129	103,252
Total	¥12,433	¥16,611	$141,406

In addition, future lease receipts for non-cancelable operating leases as a lessor at March 31, 2005 and 2006 were as follows:

Future lease receipts	Millions of yen March 31 2005	Millions of yen March 31 2006	Thousands of U.S. dollars March 31, 2006
Due within one year	¥319	¥315	$2,681
Due after one year	1,824	1,505	12,812
Total	¥2,143	¥1,820	$15,493

19. Commitments and contingent liabilities:

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2005 and 2006 were ¥2,849 million and ¥2,920 million ($24,857 thousand), respectively. Furthermore, the amount of discounted notes at March 31, 2005 was ¥11 million.

20. Related party transactions:

The Company has entered into real estate lease agreements and certain other agreements with K.K. Sunritz ("Sunritz") in which Mr. Yasuo Hattori, a Vice Chairman and Director of the Company, and their relatives own 9.5% and 71.3% of the outstanding shares of Sunritz, respectively.

Mr. Saburo Kusama, a Chairman and Director of the Company, is a Chairman of SE GAKUEN Educational Foundation ("SE GAKUEN"). Mr. Saburo Kusama owns 0.0% of the outstanding shares of the Company.

The Company's management believes that all transactions with related parties as described in the preceding paragraphs and in the table below were in accordance with terms and conditions decided on a market-determined basis.

Transactions with these related parties for the years ended March 31, 2004, 2005 and 2006, and related balances at March 31, 2005 and 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	2006	2006
Transactions:				
With Sunritz -				
Rental expenses for real estates	¥120	¥115	¥71	$604
With SE GAKUEN -				
Other incomes	59	69	45	383
Other expenses	17	3	-	-
With other related companies -				
Other expenses	4	57	2	17

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2005	2006	2006
Balances:			
With Sunritz -			
Other investments	¥2	¥2	$17
With SE GAKUEN -			
Other current assets	4	7	60

21. Segment information:

(1) Business segment information -

Epson is primarily engaged in the development, manufacture and sale of computer printers, liquid crystal displays ("LCDs"), semiconductor products and other products.

Epson operates manufacturing facilities in Japan, Asia, the Americas and Europe, and markets its products internationally through a global network of local sales subsidiaries.

Epson is engaged principally in the following three business segments categorized based on the nature of products, markets and marketing methods.

Information-related equipment segment, including color inkjet printers, laser printers, dot matrix printers, large format inkjet printers, and related supplies, color image scanners, mini-printers, printers for use in POS systems, 3LCD projectors, HDTV LCD projection televisions, LCD monitors, label writers and personal computers.

Electronic devices segment, including small- and medium-sized LCDs, HTPS-TFT panels for 3LCD projectors, CMOS LSI, crystal units and crystal oscillators.

Precision products segment, including watches, watch movements, plastic corrective lenses, precision industrial robots and IC handlers.

Operations not categorized in any of the above segments, such as services offered within Epson and new businesses still in the start-up phase, are categorized within "Other".

The table below summarizes the business segment information of Epson for the years ended March 31, 2004, 2005 and 2006:

Year ended March 31:	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	**2006**	**2006**
Information-related equipment:				
Net sales:				
Customers	¥917,116	¥942,401	**¥973,690**	**$8,288,840**
Inter-segment	3,264	3,628	**2,753**	**23,436**
Total	920,380	946,029	**976,443**	**8,312,276**
Operating expenses	874,478	884,474	**931,422**	**7,929,020**
Operating income	¥45,902	¥61,555	**¥45,021**	**$383,256**
Identifiable assets	¥366,410	¥373,172	**¥384,114**	**$3,269,890**
Depreciation and amortization	¥33,312	¥30,488	**¥29,668**	**$252,558**
Capital expenditures	¥34,797	¥26,182	**¥32,395**	**$275,773**
Electronic devices:				
Net sales:				
Customers	¥413,540	¥454,616	**¥489,460**	**$4,166,681**
Inter-segment	27,613	27,995	**37,507**	**319,290**
Total	441,153	482,611	**526,967**	**4,485,971**
Operating expenses	400,532	444,058	**536,726**	**4,569,048**
Operating income (loss)	¥40,621	¥38,553	**(¥9,759)**	**($83,077)**
Identifiable assets	¥352,755	¥468,588	**¥414,100**	**$3,525,155**
Depreciation and amortization	¥58,006	¥54,685	**¥59,694**	**$508,164**
Capital expenditures	¥20,574	¥109,197	**¥60,560**	**$515,536**
Precision products:				
Net sales:				
Customers	¥77,736	¥76,827	**¥81,463**	**$693,479**
Inter-segment	3,366	4,316	**4,315**	**36,733**
Total	81,102	81,143	**85,778**	**730,212**
Operating expenses	78,292	78,707	**83,427**	**710,198**
Operating income	¥2,810	¥2,436	**¥2,351**	**$20,014**
Identifiable assets	¥52,216	¥50,352	**¥57,935**	**$493,190**
Depreciation and amortization	¥4,013	¥3,930	**¥4,146**	**$35,294**
Capital expenditures	¥4,283	¥4,899	**¥4,464**	**$38,001**
Other:				
Net sales:				
Customers	¥4,851	¥5,906	**¥4,955**	**$42,181**
Inter-segment	24,606	28,604	**28,022**	**238,546**
Total	29,457	34,510	**32,977**	**280,727**
Operating expenses	41,480	47,514	**45,757**	**389,521**
Operating loss	(¥12,023)	(¥13,004)	**(¥12,780)**	**($108,794)**
Identifiable assets	¥149,122	¥147,448	**¥156,936**	**$1,335,967**
Depreciation and amortization	¥14,983	¥15,138	**¥15,797**	**$134,477**
Capital expenditures	¥10,725	¥17,257	**¥23,558**	**$200,545**
Eliminations and corporate:				
Net sales	(¥58,849)	(¥64,543)	**(¥72,597)**	**($618,005)**
Operating expenses	(58,940)	(65,970)	**(73,522)**	**(625,879)**
Operating income	¥91	¥1,427	**¥925**	**$7,874**
Identifiable assets	¥285,988	¥258,230	**¥312,121**	**$2,657,027**
Depreciation and amortization	¥-	¥-	**¥-**	**$-**
Capital expenditures	¥-	¥-	**(¥2,694)**	**($22,934)**
Consolidated:				
Net sales	¥1,413,243	¥1,479,750	**¥1,549,568**	**$13,191,181**
Operating expenses	1,335,842	1,388,783	**1,523,810**	**12,971,908**
Operating income	¥77,401	¥90,967	**¥25,758**	**$219,273**
Identifiable assets	¥1,206,491	¥1,297,790	**¥1,325,206**	**$11,281,229**
Depreciation and amortization	¥110,314	¥104,241	**¥109,305**	**$930,493**
Capital expenditures	¥70,379	¥157,535	**¥118,283**	**$1,006,921**

The amounts of corporate assets included in “Eliminations and corporate” were ¥299,661 million, ¥277,312 million and ¥327,855 million ($2,790,968 thousand) at March 31, 2004, 2005 and 2006, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

For the year ended March 31, 2006, impairment loss, which was recorded in information-related equipment segment, electronic devices segment, precision products segment and other segment was ¥426 million ($3,626 thousand), ¥33,343 million ($283,843 thousand), ¥416 million ($3,541 thousand) and ¥118 million ($1,005 thousand), respectively.

The table below summarizes the business segment information of Epson for the three months ended March 31, 2005 and 2006:

<u>Three months ended March 31:</u>

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2005	**2006**	**2006**
Information-related equipment:			
Net sales:			
Customers	¥230,834	**¥237,713**	**$2,023,606**
Inter-segment	1,216	**924**	**7,866**
Total	232,050	**238,637**	**2,031,472**
Operating expenses	221,952	**223,840**	**1,905,508**
Operating income	¥10,098	**¥14,797**	**$125,964**
Electronic devices:			
Net sales:			
Customers	¥117,989	**¥115,878**	**$986,447**
Inter-segment	5,937	**6,072**	**51,690**
Total	123,926	**121,950**	**1,038,137**
Operating expenses	136,093	**131,831**	**1,122,252**
Operating loss	(¥12,167)	**(¥9,881)**	**($84,115)**
Precision products:			
Net sales:			
Customers	¥15,981	**¥19,045**	**$162,127**
Inter-segment	854	**775**	**6,597**
Total	16,835	**19,820**	**168,724**
Operating expenses	17,485	**19,866**	**169,116**
Operating loss	(¥650)	**(¥46)**	**($392)**
Other:			
Net sales:			
Customers	¥1,798	**¥1,568**	**$13,348**
Inter-segment	7,220	**7,568**	**64,425**
Total	9,018	**9,136**	**77,773**
Operating expenses	13,134	**11,576**	**98,544**
Operating loss	(¥4,116)	**(¥2,440)**	**($20,771)**
Eliminations and corporate:			
Net sales	(¥15,227)	**(¥15,339)**	**($130,578)**
Operating expenses	(16,186)	**(15,541)**	**(132,298)**
Operating income	¥959	**¥202**	**$1,720**
Consolidated:			
Net sales	¥366,602	**¥374,204**	**$3,185,528**
Operating expenses	372,478	**371,572**	**3,163,122**
Operating income (loss)	(¥5,876)	**¥2,632**	**$22,406**

(2) Geographic segment information -

Net sales are attributed to geographic segments based on the country location of the Company or the subsidiary that transacted the sale with the external customer. Principal countries and jurisdictions in each geographic segment are as follows:

"The Americas" mainly includes the United States, Canada, Brazil, Chile, Argentina, Costa Rica, Colombia, Venezuela, Mexico and Peru.

"Europe" mainly includes the United Kingdom, the Netherlands, Germany, France, Italy, Spain, Portugal and Russia.

"Asia/Oceania" mainly includes China (including Hong Kong), Singapore, Malaysia, Taiwan, Thailand, the Philippines, Australia, New Zealand, Indonesia, Korea and India.

The table below summarizes the geographic segment information of Epson for th e years ended March 31, 2004, 2005 and 2006:

Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	**2006**	**2006**
Japan:				
Net sales:				
Customers	¥686,553	¥694,344	**¥742,093**	**$6,317,298**
Inter-segment	491,089	540,694	**565,438**	**4,813,467**
Total	1,177,642	1,235,038	**1,307,531**	**11,130,765**
Operating expenses	1,141,043	1,192,107	**1,323,858**	**11,269,754**
Operating income (loss)	¥36,599	¥42,931	**(¥16,327)**	**($138,989)**
Identifiable assets	¥758,593	¥851,767	**¥791,482**	**$6,737,737**
The Americas:				
Net sales:				
Customers	¥224,683	¥242,898	**¥263,196**	**$2,240,538**
Inter-segment	42,320	41,618	**45,701**	**389,044**
Total	267,003	284,516	**308,897**	**2,629,582**
Operating expenses	255,937	271,363	**296,267**	**2,522,065**
Operating income	¥11,066	¥13,153	**¥12,630**	**$107,517**
Identifiable assets	¥74,024	¥77,661	**¥102,063**	**$868,843**
Europe:				
Net sales:				
Customers	¥297,772	¥325,998	**¥310,902**	**$2,646,650**
Inter-segment	2,497	2,525	**2,784**	**23,700**
Total	300,269	328,523	**313,686**	**2,670,350**
Operating expenses	290,719	317,000	**306,010**	**2,605,005**
Operating income	¥9,550	¥11,523	**¥7,676**	**$65,345**
Identifiable assets	¥73,820	¥74,867	**¥75,944**	**$646,497**
Asia/Oceania:				
Net sales:				
Customers	¥204,235	¥216,510	**¥233,377**	**$1,986,695**
Inter-segment	478,878	481,541	**606,268**	**5,161,045**
Total	683,113	698,051	**839,645**	**7,147,740**
Operating expenses	664,517	677,897	**814,220**	**6,931,302**
Operating income	¥18,596	¥20,154	**¥25,425**	**$216,438**
Identifiable assets	¥193,401	¥185,522	**¥231,201**	**$1,968,171**
Eliminations and corporate:				
Net sales	(¥1,014,784)	(¥1,066,378)	**(¥1,220,191)**	**($10,387,256)**
Operating expenses	(1,016,374)	(1,069,584)	**(1,216,545)**	**(10,356,218)**
Operating income (loss)	¥1,590	¥3,206	**(¥3,646)**	**($31,038)**
Identifiable assets	¥106,653	¥107,973	**¥124,516**	**$1,059,981**
Consolidated:				
Net sales	¥1,413,243	¥1,479,750	**¥1,549,568**	**$13,191,181**
Operating expenses	1,335,842	1,388,783	**1,523,810**	**12,971,908**
Operating income	¥77,401	¥90,967	**¥25,758**	**$219,273**
Identifiable assets	¥1,206,491	¥1,297,790	**¥1,325,206**	**$11,281,229**

The amounts of corporate assets included in "Eliminations and corporate" were ¥299,661 million, ¥277,312 million and ¥327,855 million ($2,790,968 thousand) at March 31, 2004, 2005 and 2006, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

The table below summarizes the geographic segment information of Epson for the three months ended March 31, 2005 and 2006:

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2005	**2006**	**2006**
Japan:			
Net sales:			
Customers	¥181,951	**¥167,650**	**$1,427,173**
Inter-segment	107,557	**121,803**	**1,036,886**
Total	289,508	**289,453**	**2,464,059**
Operating expenses	307,771	**300,260**	**2,556,057**
Operating loss	(¥18,263)	**(¥10,807)**	**($91,998)**
The Americas:			
Net sales:			
Customers	¥57,124	**¥66,007**	**$561,905**
Inter-segment	6,703	**9,005**	**76,658**
Total	63,827	**75,012**	**638,563**
Operating expenses	62,412	**72,162**	**614,302**
Operating income	¥1,415	**¥2,850**	**$24,261**
Europe:			
Net sales:			
Customers	¥79,004	**¥79,716**	**$678,607**
Inter-segment	494	**752**	**6,402**
Total	79,498	**80,468**	**685,009**
Operating expenses	75,329	**76,750**	**653,358**
Operating income	¥4,169	**¥3,718**	**$31,651**
Asia/Oceania:			
Net sales:			
Customers	¥48,523	**¥60,831**	**$517,843**
Inter-segment	100,526	**118,796**	**1,011,288**
Total	149,049	**179,627**	**1,529,131**
Operating expenses	150,027	**180,220**	**1,534,179**
Operating loss	(¥978)	**(¥593)**	**($5,048)**
Eliminations and corporate:			
Net sales	(¥215,280)	**(¥250,356)**	**($2,131,234)**
Operating expenses	(223,061)	**(257,820)**	**(2,194,774)**
Operating income	¥7,781	**¥7,464**	**$63,540**
Consolidated:			
Net sales	¥366,602	**¥374,204**	**$3,185,528**
Operating expenses	372,478	**371,572**	**3,163,122**
Operating income (loss)	(¥5,876)	**¥2,632**	**$22,406**

(3) Sales to overseas customers -

The table below shows sales to overseas customers by geographic region, and as a percentage of consolidated net sales, for the years ended March 31, 2004, 2005 and 2006:

Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2005	**2006**	**2006**
Overseas sales:				
The Americas	¥235,116	¥266,649	**¥285,127**	**$2,427,232**
Europe	363,424	386,091	**357,835**	**3,046,182**
Asia/Oceania	310,806	292,276	**421,994**	**3,592,356**
Total	909,346	945,016	**1,064,956**	**9,065,770**
Consolidated net sales	¥1,413,243	¥1,479,750	**¥1,549,568**	**$13,191,181**
Percentage:				
The Americas	16.6%	18.0%	**18.4%**	
Europe	25.7	26.1	**23.1**	
Asia/Oceania	22.0	19.8	**27.2**	
Total	64.3%	63.9%	**68.7%**	

The table below shows sales to overseas customers by geographic region, and as a percentage of consolidated net sales, for the three months ended March 31, 2005 and 2006:

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2005	**2006**	**2006**
Overseas sales:			
The Americas	¥59,977	**¥70,982**	**$604,256**
Europe	95,969	**90,744**	**772,487**
Asia/Oceania	65,288	**96,024**	**817,434**
Total	221,234	**257,750**	**2,194,177**
Consolidated net sales	¥366,602	**¥374,204**	**$3,185,528**
Percentage:			
The Americas	16.3%	**19.0%**	
Europe	26.2	**24.2**	
Asia/Oceania	17.8	**25.7**	
Total	60.3%	**68.9%**	

Supplementary Information

Consolidated year ended March 31, 2006

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 involve 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 timely introduce new products and services in markets, consumption trend, competition, technology trend, exchange rate fluctuations.

1. Sales by division

(Unit: billion yen)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase %	Forecast for the year ended March 31, 2007
Information-related equipment	946.0	976.4	3.2%	948.0
Imaging & information	820 3	840.1	2.4%	808.0
Visual instruments	90.7	104.6	15.4%	107.0
Other	48.6	38.3	(21.1%)	34.0
Intra-segment sales	(13.6)	(6.6)	-%	(1.0)
Electronic devices	482.6	527.0	9.2%	550.0
Display	316.8	368.3	16.3%	362.0
Semiconductor	139 5	102.6	(26.4%)	106.0
Quartz device	49.8	70.7	41.9%	98.0
Other	2.1	2.9	39.4%	3.0
Intra-segment sales	(25.6)	(17.6)	-%	(19.0)
Precision products	81.1	85.8	5.7%	90.0
Other	34.5	33.0	(4.4%)	39.0
Inter-segment sales	(64.5)	(72.6)	-%	(72.0)
Consolidated sales	1,479.7	1,549.6	4.7%	1,555.0

(Unit: billion yen)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase %	Forecast for the year ended March 31, 2007	Increase compared to year ended March 31, 2006 %
Information-related equipment					
Net sales:					
Customers	942.4	973.6	3.3%	943.0	(3.2%)
Inter-segment	3.6	2.8	(24.1%)	5.0	81.6%
Total	946.0	976.4	3.2%	948.0	(2.9%)
Operating expenses	884.4	931.4	5.3%	896.0	(3.8%)
Operating income	61.6	45.0	(26.9%)	52.0	15.5%
Electronic devices					
Net sales:					
Customers	454.6	489.5	7.7%	517.0	5.6%
Inter-segment	28.0	37.5	34.0%	33.0	(12.0%)
Total	482.6	527.0	9.2%	550.0	4.4%
Operating expenses	444.0	536.7	20.9%	549.0	2.3%
Operating income	38.6	(9.7)	-%	1.0	-%
Precision products					
Net sales:					
Customers	76.8	81.5	6.0%	89.0	9.3%
Inter-segment	4.3	4.3	(0.0%)	1.0	(76.8%)
Total	81.1	85.8	5.7%	90.0	4.9%
Operating expenses	78.7	83.4	6.0%	86.0	3.1%
Operating income	2.4	2.4	(3.5%)	4.0	70.1%
Other					
Net sales:					
Customers	5.9	5.0	(16.1%)	6.0	21.1%
Inter-segment	28.6	28.0	(2.0%)	33.0	17.8%
Total	34.5	33.0	(4.4%)	39.0	18.3%
Operating expenses	47.5	45.8	(3.7%)	56.0	22.4%
Operating loss	(13.0)	(12.8)	-%	(17.0)	-%
Elimination and corporate					
Net sales	(64.5)	(72.6)	-%	(72.0)	-%
Operating expenses	(65 9)	(73 5)	-%	(72.0)	-%
Operating income	1.4	0 9	(35.2%)	0.0	-%
Consolidated					
Net sales	1,479.7	1,549.6	4.7%	1,555.0	0.4%
Operating expenses	1,388.7	1,523.8	9.7%	1,515.0	(0.6%)
Operating income	91.0	25.8	(71.7%)	40.0	55.3%

3. Capital expenditure / Depreciation and amortization

(Unit: billion yen)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase %	Forecast for the year ended March 31, 2007	Increase compared to year ended March 31, 2006 %
Capital expenditure	151.3	112.6	(25.6%)	100.0	(11.2%)
Information-related equipment	29.1	29.1	(0.4%)	34.0	17.1%
Electronic devices	99.4	57.4	(42.2%)	45.0	(21.6%)
Precision products	5.1	4.5	(11.9%)	6.0	33.5%
Other	17.7	21.6	22.2%	15.0	(30.6%)
Depreciation and amortization	104 2	109.3	4.9%	103.0	(5.8%)
Information-related equipment	30.5	29.7	(2.7%)	34.0	14.6%
Electronic devices	54.7	59.7	9.2%	50.0	(16.2%)
Precision products	3.9	4.1	5.5%	4.0	(3.5%)
Other	15.1	15.8	4.4%	15.0	(5.0%)

4. Research and development

(Unit: billion yen)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase %	Forecast for the year ended March 31, 2007	Increase compared to year ended March 31, 2006 %
Research and Development	89.0	92.9	4.4%	96.0	3.2%
R&D / sales ratio	6.0%	6.0%		6.2%	

5. Management indices

(Unit: %)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase Point	Forecast for the year ended March 31, 2007	Increase compared to year ended March 31, 2006 Point
Return on equity (ROE)	12.6%	(3.8%)	(16.4)	2 9%	6.7
Return on assets (ROA)	5.9%	(1.5%)	(7.4)	2 5%	4.0
Return on sales (ROS)	5.0%	(1.3%)	(6.3)	2 1%	3.4

Note 1. ROE=Net income / Beginning and ending balance average shareholders' equity

2. ROA=Income before income taxes and minority interest / Beginning and ending balance average total assets

3. ROS=Income before income taxes and minority interest / Net sales

6. Foreign exchange fluctuation effect on net sales

(Unit: billion yen)

	Year ended March 31, 2005	Year ended March 31, 2006	Increase
Foreign exchange effect	(14.0)	36.1	50.1
U.S. dollars	(13.3)	14.4	27.7
Euro	6.2	6.0	(0.2)
Other	(6.9)	15.7	22.6
Exchange rate			
Yen / U.S. dollars	107.55	113.31	
Yen / Euro	135.19	137.86	

Note: Foreign exchange effect=(Foreign currency sales for the period) x (Average rate for the period – Average rate for the same prior period)

7. Inventory

(Unit: billion yen)

	September 30, 2005	March 31, 2005	March 31, 2006	Increase compared to March 31, 2005
Inventory	223.4	176.7	192.0	15.3
Information-related equipment	143 9	107.4	112 9	5 5
Electronic devices	62.5	54.4	61.6	7 2
Precision products	15.1	13.4	15.5	2 1
Other / Corporate	1 9	1.5	2.0	0 5
Turnover by days	57	44	45	1
Information-related equipment	60	41	42	1
Electronic devices	44	41	43	2
Precision products	64	60	66	6
Other / Corporate	24	16	22	6

Note: Turnover by days=Ending balance of inventory / Prior 12 months sales per day

8. Employees

(Unit: person)

	September 30, 2005	March 31, 2005	March 31, 2006	Increase compared to March 31, 2005
Number of employees at period end	98,480	85,647	90,701	5,054
Domestic	22,971	22,842	23,522	680
Overseas	75,509	62,805	67,179	4,374