



# Exceed Your Vision

You have the potential to create something with Epson that exceeds your vision. We strive to offer products and services that exceed your expectations.



## Epson—Striving to “Exceed Your Vision”



### i1: imaging on paper

Responding to a range of professional needs, this high-quality inkjet printer is equipped with newly developed K3 ink for monochrome and color prints of exceptional quality.

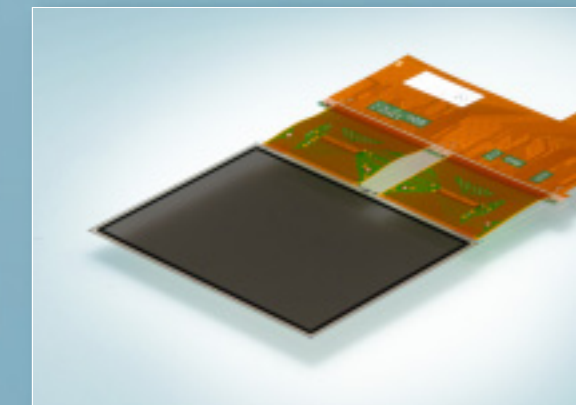
→ Refer to page 14 for more details.



### i2: imaging on screen

By offering high-quality, large-screen viewing, this 3LCD projector for the home delivers a realistic and exciting theater experience.

→ Refer to page 16 for more details.



### i3: imaging on glass

This ultra-thin LCD module shown at Display2005, the first international flat-panel display Expo, is an example of how developments at Epson are shaping the future of mobile displays.

→ Refer to page 18 for more details.



### i0: imaging support devices

Using proprietary applied inkjet-based manufacturing technology, Epson created the world's first\*1 ultra-thin printed circuit board prototype. This is a product from Epson's "pathfinder-style R&D" program for anticipating medium-to-long-term business developments.

\*1 Source: Seiko Epson Corporation

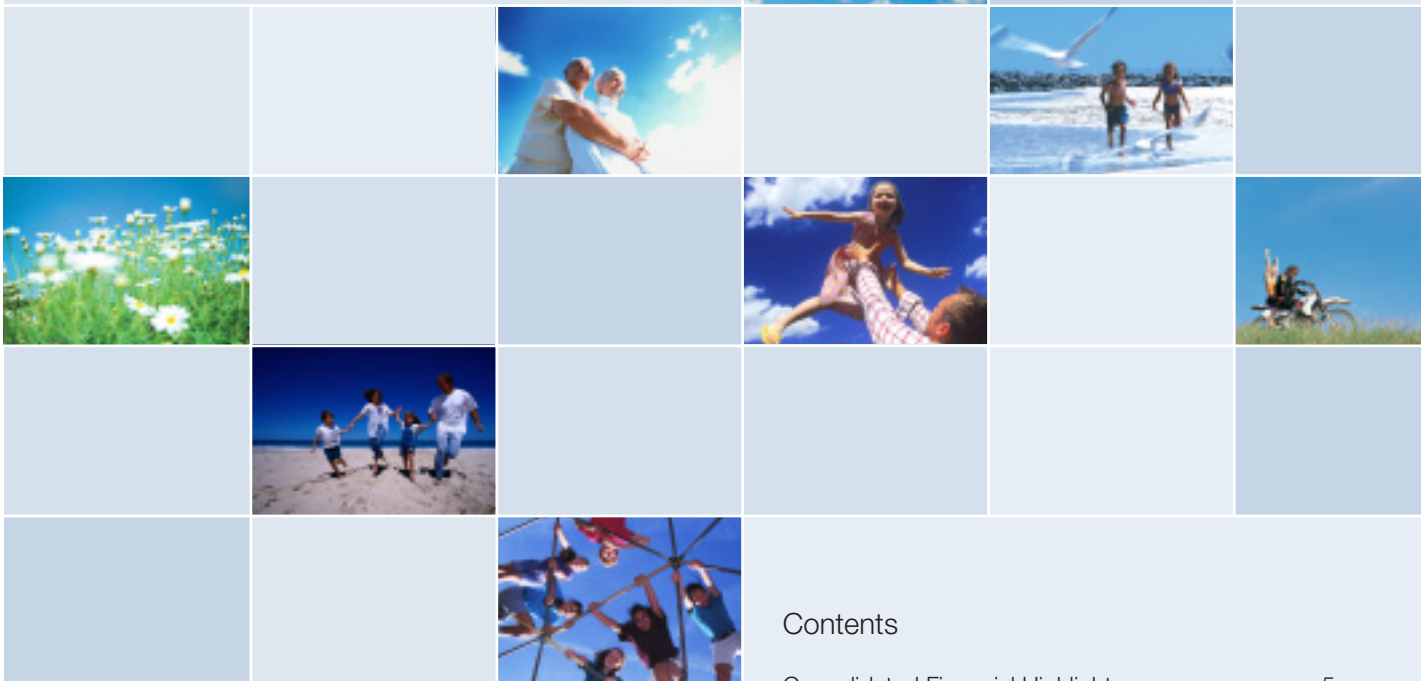
→ Refer to page 20 for more details.

## How Will Epson “Exceed Your Vision”?

## 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.

(The Epson Management Philosophy has been translated into 14 languages,  
 and is shared by all members of the Epson Group worldwide.)



In this annual report, “Epson” refers to the Epson Group, while “the Company” refers to the parent company, Seiko Epson Corporation.

### Cautionary Statement

This report includes forward-looking statements which are based on management’s views 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 trends, competition, technology trends, and exchange rate fluctuations.

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# Consolidated Financial Highlights

SEIKO EPSON CORPORATION AND SUBSIDIARIES

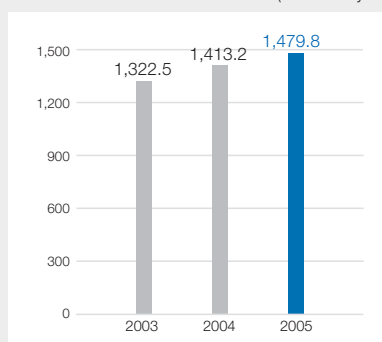
	Millions of yen			Thousands of U.S. dollars
	2003	Year ended March 31, 2004	2005	Year ended March 31, 2005
<b>Statement of income data:</b>				
Net sales	¥1,322,453	¥1,413,243	¥1,479,750	\$13,779,216
Gross profit	362,588	399,284	409,739	3,815,430
Selling, general and administrative expenses	313,228	321,883	318,772	2,968,359
Operating income	49,360	77,401	90,967	847,071
Income before income taxes and minority interest	31,629	65,058	73,647	685,790
Net income	12,510	38,031	55,689	518,568
Research and development costs	¥ 85,761	¥ 90,485	¥ 89,042	\$ 829,146
Capital expenditures	89,111	70,379	157,535	1,466,943
Depreciation and amortization	125,809	110,314	104,241	970,677
<b>Per share data (yen and U.S. dollars):</b>				
Net income	¥ 81.08	¥ 204.70	¥ 283.60	\$ 2.64
Cash dividends	18.00	18.00	22.00	0.20
<b>Balance sheet data:</b>				
Current assets	¥ 645,310	¥ 709,169	¥ 746,712	\$ 6,953,273
Property, plant and equipment (net of depreciation)	442,769	393,031	441,355	4,109,833
Total assets	1,196,080	1,206,491	1,297,790	12,084,831
Current liabilities	493,087	417,573	504,601	4,698,771
Long-term liabilities	419,069	372,009	293,662	2,734,538
Shareholders' equity	281,316	414,367	472,870	4,403,296

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.39=U.S.\$1 as of March 31, 2005.

## Net sales

Years ended March 31

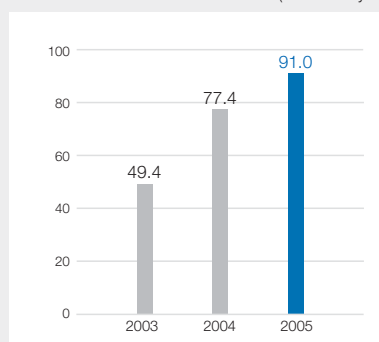
(Billions of yen)



## Operating income

Years ended March 31

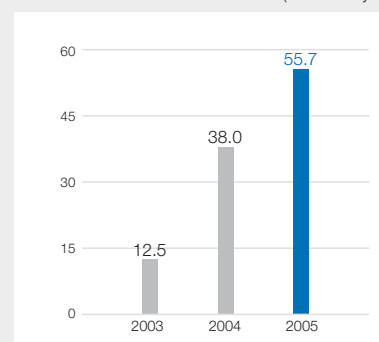
(Billions of yen)



## Net income

Years ended March 31

(Billions of yen)



## To Our Stakeholders

Following Saburo Kusama's appointment as Chairman & CEO, former Executive Vice President Seiji Hanaoka was named President & COO of Seiko Epson Corporation on April 1, 2005. Headed by this new management team, Epson aims to further enhance its corporate value.

### Results of Operations

Epson's main markets consist of information-related equipment—an area that includes inkjet printers and 3LCD projectors—electronic devices and precision products.

In the inkjet printer business, multifunction (all-in-one) printers continued to gain market share. In the single-function printer business, demand grew for photo printers and small-format photo printers, especially in the United States and European markets. The color laser printer market expanded, but unit prices further declined.

The projector market grew on heightened demand for these products in the education segment and in the Japanese and European home theater segment, as well as in the traditional business presentation projector segment. On the other hand, however, prices resumed their slide in the second half of the year, after having shown signs of bottoming out in the first half. The market for microdevice-based projection TVs, which are more cost-competitive than flat-panel large-screen TVs, sharply expanded in the U.S.

The market for electronic devices used in mobile phones remained firm. This strength came from two main sources. One was replacement demand from consumers, especially those in Europe, North America and China, who are upgrading from their old monochrome-display handsets to models with color displays and built-in cameras. The other source was continued robust demand for new models in such emerging markets as Central and South America, India, and Russia.



Saburo Kusama  
Chairman & CEO

Seiji Hanaoka  
President & COO

In the precision products business Epson saw continued sluggishness in the markets for watches, plastic corrective lenses, and other personal products countered by ongoing strength in factory automation systems and optical devices, orders for which were bolstered by robust demand for digital consumer devices.

Under these market conditions, Epson carried out an initiative to reduce its consolidated total cost ratio. The initiative was designed to radically enhance the company's ability to generate stable earnings under any business conditions. Epson focused particularly on reforming the cost structure of its information-related equipment business and other finished products businesses. In electronic devices, Sanyo Epson Imaging Devices Corporation, a joint-venture company formed by merging Epson's liquid crystal display businesses with those of the Sanyo Electric Group, opened its doors for business on October 1, 2004.

Epson came out with a number of important new products during the period. In the inkjet printer segment, Epson launched the PictureMate, a compact, portable photo printer that has been very well received. A home photofinishing solution, the PictureMate directly prints photos taken with a digital still camera or phones with built-in cameras without using a PC. For the year-end shopping season, the company bolstered its lineup of multifunction printers to capture growth opportunities in that market. In the visual instruments business, Epson rolled out Livingstation, a large screen LCD projection television, to the Japanese market in May 2004. The domestic release follows the U.S. market launch in February 2004 of these large-screen TVs, which use Epson's high-temperature polysilicon TFT liquid crystal panels. In the electronic devices business, the company continued to drive down costs in order to fortify its financial condition while still investing in additional capacity for electronic devices for mobile handsets and visual instruments.

As a result of the foregoing factors, net sales for the year under review were ¥1,479.8 billion, a 4.7% increase compared to the year ended March 31, 2004. Operating income was ¥91.0 billion, an increase of 17.5%, and net income was ¥55.7 billion, a 46.4% increase compared to the previous fiscal year.

### New Management Structure for Further Leap in Growth

On April 1, 2005, following the appointment of Saburo Kusama as company Chairman & CEO, Executive Vice President Seiji Hanaoka was named Epson's new President & COO. The change was made at a time in which Epson is enjoying increasing recognition as a relatively newly listed company, and after its recovery in earnings and profitability since the trough of 2001. The timing also reflects Epson's ongoing desire to promote the next generation of top management.

Mr. Hanaoka has long been a driving force behind the rapid growth in Epson's core inkjet printing operations, contributing to the development of high-resolution photo printers. Among other accomplishments, Hanaoka was instrumental in formulating the initiatives found in the Action07 mid-range business plan announced in March 2004.

Under President Hanaoka's leadership, Epson will strive to further raise its corporate value. The continued guidance and support of Epson's many stakeholders will be essential to the company's future success.

July 2005



Saburo Kusama, Chairman & CEO



Seiji Hanaoka, President & COO

## Message from the President

With sights set on achieving the objectives of the Action07 mid-range business plan, Epson is seeking to grow its two key business domains—information-related equipment and electronic devices.

### Information-Related Equipment and Electronic Devices to Realize Growth

For years, Epson has striven to build a business base that can generate stable earnings in any given climate. In pursuing this goal, the company has reformed its operational structure, anchoring efforts first on its SE07 medium-to-long-term business vision, and later on the concrete actions spelled out in Action07. I am keenly aware that my mission is to take optimal advantage of this base, both to stimulate another leap forward in growth and to achieve the objectives of Action07.

Inkjet printers are the core products in Epson's information-related equipment segment. Here, we have encouraged healthy growth in sales in Japan and markets overseas by strengthening our lineup of multifunction printers and photo printers. In the electronic devices segment, although sales of LCDs for mobile phones are holding firm in the mainstay display business, prices continue to fall as competition intensifies. In this environment, ensuring the sound development of the information-related equipment and electronic devices businesses will be crucial to achieving our goals for Action07. Particularly in electronic devices, our most pressing task is constructing a business base able to resist fluctuations in the mobile phone market. By devising and enacting targeted initiatives, we hope to record net sales of ¥1,770 billion and a recurring profit margin of at least 9% for the fiscal year ending March 31, 2007.



Seiji Hanaoka  
President & COO

## Making Epson Synonymous With Photos

In inkjet printers, driven by Epson's Photo Strategy ("Epson=Photo"), we are committed to making home photo printing a reality, enabling anyone to easily print pictures taken on digital cameras and mobile phones at home. One of the products making this possible is PictureMate, a compact printer with a convenient handle for easy carrying that can print without using a PC. This printer has sold especially well in the United States and Europe. In Japan and elsewhere, sales of multifunction printers have also been brisk as we upgraded the lineup to keep pace with this market as it expands.

In the fiscal year ending March 31, 2006, we plan to grow unit sales for high-end printer models that target professionals and serious amateurs, alongside consumer-oriented models. In this way, we are determined to make the Epson name synonymous with photos worldwide through a product lineup that a wider range of users can enjoy.

To reduce fixed expenses we have successfully cut component and raw materials costs, particularly for core multifunction printer models. Similar initiatives remain on our agenda for the fiscal year ending March 31, 2006.

## Expanding the Scope of the Electronic Devices Business

A major issue in electronic devices is our heavy reliance on devices for the mobile phone sector, which account for the lion's share of sales in this business segment. That's why it is urgent that we broaden the scope of this business and develop a structure better able to weather market fluctuations. To do so, we are optimizing Epson's strategies for each business in the electronic devices domain.

In LCDs, while the number of end-market applications has expanded to include PC monitors, LCD TVs, mobile phones, digital cameras and onboard display devices, LCD panel prices continue to fall as competition heats up between domestic and overseas display makers. It was this market environment that prompted Epson and the Sanyo Electric Group to integrate their respective LCD operations in a joint venture, Sanyo Epson Imaging Devices Corporation, which began operating on October 1, 2004. Both companies have combined their respective technological strengths in compactness, higher resolution, higher definition and volume production. The result is a structure enabling the supply of highly functional LCDs that offer comparably high cost performance. Further, in March 2005, Epson decided to withdraw from the production and sale of large LCDs, where prices have plummeted. With this move, Epson can now focus exclusively on small and medium-sized displays in response to rising demand from the growing mobile phone display market. Over the medium term, though, we are working to supply sectors other than mobile phones, among them handheld IT devices and onboard automotive device displays. Ultimately, we aim to build a business base more resilient to fluctuating market conditions by concentrating on highly profitable products and spreading risk.

We have decided to integrate Epson's quartz device operations with those of Toyo Communication Equipment Co., Ltd. (Toyocom) on October 1, 2005. Quartz devices play a key role in digital IT equipment, and can be found in wireless communication devices, PC clock functions and other products. This integration will allow each company to strengthen its hand in areas where both shine: technology for volume production and microfabrication, and high-precision processing technology. The goal is to lead the industry in quartz devices.



## Enhancing Creative and Unmatched Technological Capabilities for the Future

I'm convinced that our unrivaled technologies are precisely why Epson can deliver products that resonate so strongly with customers. For this reason, on an almost daily basis, I take every opportunity to stress the importance of medium- and long-term technology strategies to realizing our business and product strategies. I also strive to find ways to enhance Epson's creative and unrivaled technological capabilities for the future.

With this awareness in mind, we are establishing a new R&D site. Tentatively called the Epson Innovation Center, over the medium to long term, this site will help Epson maintain a competitive edge by strengthening the system for developing the next wave of information-related equipment. Operations are set to kickoff in January 2006. The new center will draw together R&D divisions for information-related equipment that were once dispersed companywide. Our hope is that this union of technology and approaches that transcends organizational and divisional lines will not only spark major developmental breakthroughs, but enable Epson to create convergence products in domains beyond those where it typically operates.

The source of Epson's competitive edge is its R&D capabilities. To further enhance this area, in April 2005, we introduced an optional system for researchers that links remuneration to what they invent. Because the amount rewarded will rise in step with licensing income, we hope this system helps to better motivate our researchers.

## Positioning "Exceed Your Vision" as a Global Tagline

Over the years, Epson has grown by delighting customers with value-added products and services. But as customer values diversify, we realized that to grow further we must factor the user's viewpoint into our style of manufacturing, with the end result being products that exceed customers' expectations. And so was born our global tagline, "Exceed Your Vision."

"Exceed Your Vision" serves both as a policy to guide the corporate activities of Epson Group members worldwide, and as our collective message to stakeholders. We plan to use this tagline for years to come in combination with the Epson logo. Through technological innovation, Epson is determined to enhance corporate value by continuously launching state-of-the-art products with exceptional added value that will surprise and excite our customers.



## Becoming a Trusted Company

As a public company, maintaining stable earnings is one of Epson's most fundamental duties. But without the trust of all our stakeholders, our business would be impossible to sustain. For this reason, we have made what we call trust-based management the cornerstone of our business activities.

In light of the nature of its business operations, Epson remains committed to the system of corporate governance we have employed to date, which is underpinned by statutory auditors. The statutory auditors' ability to check the actions of Epson's management is strengthened by external statutory auditors. In terms of compliance, we have established a Compliance Committee responsible for compliance training and activities for promoting compliance awareness. We also have a Compliance Hotline through which Epson employees in Japan can voice their opinions and concerns on this vital issue. Trust-based management is not simply confined to legal and ethical compliance. To us it means, among other things, providing dependable products and services that our customers can enjoy using, as well as generating stable profits over the long term for our shareholders and other investors. It's also about making a worthwhile contribution to the creation of a better society in the communities where we do business, and establishing a base from which our employees can remain highly motivated with the Epson corporate ethos of "Creativity and Challenge" always firmly in mind. For Epson, the concept of trust-based management, in short, encompasses the entire spectrum of actions taken to fulfill our duties as a good corporate citizen.

In this context, we view the return of profits to shareholders as one of Epson's most important duties. Here, our basic policy is the continuous payment of stable dividends. To this end, we constantly work to increase cash flows by improving management efficiency and profitability. At the same time, in returning profits to shareholders, we take into account a comprehensive list of factors, including funding requirements for future business strategies, as well as operating results and our financial condition.

Going forward, we hope to implement trust-based management that is more robust than ever in our efforts to meet the expectations of our stakeholders.

Underpinned by creative and unmatched technological capabilities for the future, Epson is establishing a leading position in the three key imaging domains, what we call the "3i" fields, by concentrating management resources in inkjet printers (imaging on paper: i1), 3LCD projectors (imaging on screen: i2) and displays (imaging on glass: i3). Our goal here is to achieve sustained growth in corporate value. To all of our stakeholders, I ask for your continued guidance and support of Epson and its future endeavors.

July 2005



Seiji Hanaoka, President & COO

## “Action07” Mid-range Business Plan: Overview and Progress

Anchored by information-related equipment and electronic devices, Epson is forging a highly profitable business structure. This is being achieved in two ways. One is by enacting extensive cost-cutting initiatives to establish operations that are resistant to market fluctuations. Second, Epson is accelerating the shift to a product mix able to propel its next leap in growth and boost sales.

### Overview of “Action07”

Announced in March 2004, “Action07” is a three-year action plan for realizing “SE07,” Epson’s medium-to-long-term business vision. The aim of the plan is to achieve sales growth by accurately capturing growth opportunities and realizing convergence in the “3i” imaging domains of printers (imaging on paper: i1), 3LCD projectors (imaging on screen: i2) and displays (imaging on glass: i3). At the same time, Epson seeks to develop a highly profitable structure as it attains growth through sweeping structural reforms targeting its products and cost structure.

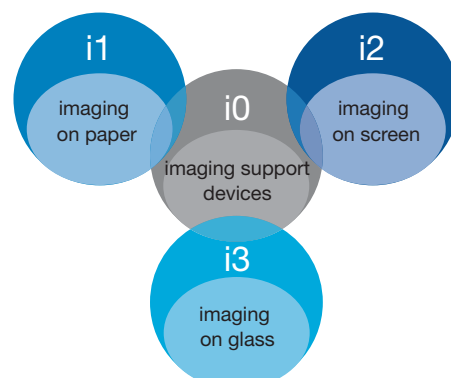
### Fiscal 2004 Initiatives and Results

As the first year of “Action07,” Epson positioned the fiscal year ended March 31, 2005 as a period for making the internal enhancements required for the shift to a highly profitable business structure, and pursued structural reforms with this goal in mind. In printers, the mainstay of Epson’s information-related equipment operations, efforts included the launch of appealing products for home photo printing. This enabled Epson to achieve healthy sales growth in this segment worldwide. In 3LCD projectors, Epson took advantage of its well-honed skills in projection technology to enter the LCD projection television market. The company also pushed ahead with the K-Project, a program for lowering the total cost to

#### ■ “SE07” Medium-to-long-term Business Vision and “Action07” Three-year Action Plan

##### “SE07” Vision

(For clarifying business domains)



##### Digital Image Innovation

~Targeting the Convergence of Imaging Domains~

##### “Action07”

###### • Growth strategies for “3i” businesses

- i1: Support growth by expanding printing volume
- i2: Leverage key devices and optical technology to expand, create and enter markets
- i3: Aim to be a leader in small- and medium-sized LCDs
- i0: Core devices that support the growth of “3i” businesses

- Earnings structure reform: Improve profitability through efforts to lower the total cost to sales ratio.
- Strengthen financial position.
- Carry out continuous R&D activities aimed at realizing medium- to long-term growth.

sales ratio. Epson succeeded in cutting costs in a number of different areas. Instrumental to this were structural reforms, particularly those targeting the production and sales framework in printer operations, one of Epson's key earners.

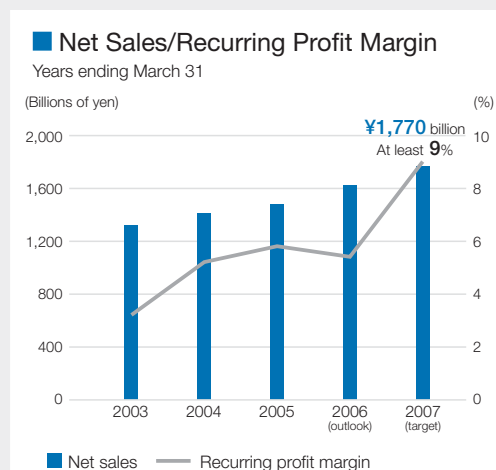
In electronic devices, although mobile phone LCDs, the mainstay of this business segment, performed strongly, results ultimately suffered as prices fell in the face of mounting competition. While Epson posted top- and bottom-line growth, including record-high net income, the recurring profit margin saw only limited improvement. Going forward, Epson aims to meet its goals for the fiscal year ending March 31, 2007, specifically net sales of ¥1,770 billion and a recurring profit margin of at least 9%, by quickly establishing the structure needed for greater earnings stability.

### Positioning of Fiscal 2005

As the second year of "Action07," the fiscal year ending March 31, 2006 is positioned as a year for boldly implementing initiatives based on growth strategies, anticipating change in the business environment of each of Epson's operations.

In electronic devices, Epson is currently facing a challenging operating environment. Nonetheless, in addition to emerging benefits from measures enacted since the fiscal year ended March 31, 2005 to improve earnings, sound market growth can be expected over the medium to long term in printers and 3LCD projectors, as business domains where Epson is strong and management resources are concentrated.

In printers, Epson will continue to pursue its strategy for expanding photo printing volume. Where 3LCD projectors are concerned, Epson will further hone its competitive edge by highlighting its superiority in 3LCD technology. In displays, meanwhile, Epson is targeting the top spot in this field by focusing exclusively on value-added small- and medium-sized LCDs.



### Financial Targets for the Fiscal Year Ending March 31, 2007 (Consolidated)

- Free cash flows ..... ¥150 billion  
(Cumulative from FY2004 to FY2006)
- Capital Investment ..... ¥420 billion\*  
(Cumulative from FY2004 to FY2006)
- Net debt outstanding ..... Aim at zero net debt by the fiscal year ending March 31, 2008

\* In addition to the prior target of ¥320 billion, this figure includes approximately ¥60 billion for the two business integrations with Sanyo Electric Group and Toyo Communication Equipment Co., Ltd., and approximately ¥20 billion for the construction of a new R&D center for information-related equipment.

## Strategies for the Inkjet Printer Business

### Achieving “Epson=Photo”

Epson is proposing ways to make photography a more integral part of everyday life by appealing to its strengths in high-quality photo printing and durable inks to set itself apart from competitors, and by launching products optimized for each user segment and region.



**Seichi Hirano**

Director,  
Chief Executive, Imaging & Information  
Products Operations Division

#### Responding to Wide-ranging User Needs With a Powerful Product Lineup

In inkjet printers, Epson will continue to pursue its strategy for expanding photo printing volume. In April 2004, Epson launched PictureMate, a compact photo-only printer that allows users to print directly from the memory cards found in digital cameras. A high-end model of this printer that is easier to operate and prints photos faster than the original debuted in April 2005. 2004 also saw Epson supplement its lineup of multifunction (all-in-one) printers ahead of the year-end holiday shopping season.

Epson has launched sales of several products to make photo printing at home more commonplace, and taken steps to broaden its user base. These efforts led to record shipments in Japan from November to December 2004, and also spurred healthy sales growth overseas. This was particularly the case for the Epson Stylus Photo RX700 (name in Europe), which is one of Epson's flagship models. Here, vastly improved



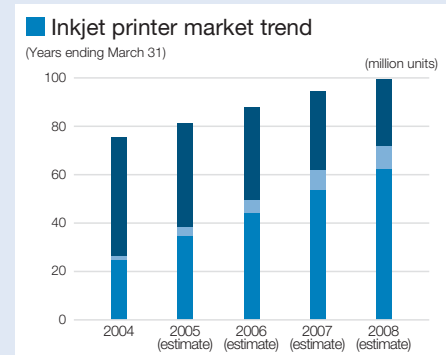
Multifunction printer  
Epson Stylus Photo  
RX700  
(name in Europe)



PictureMate Deluxe  
Viewer Edition  
(name in the U.S.)



Large-format printer  
Epson Stylus Pro 9800



■ Single-function printers (Non-direct)  
■ Single-function printers (Direct)  
■ Multifunction printers

Source: Based on data compiled by the Company.

operability, combined with Epson's strengths in high-resolution photography and durable inks, helped a broader range of customers gain an appreciation of the new added value offered by home-based photo printing. By focusing mainly on multifunction printers and those wanting to print photos directly without a PC, Epson is delivering products that make it simple for more customers to enjoy the photos they take.

### A Greater Presence for Serious Amateurs and Professionals

Since April 1998, Epson has managed "epSITE," an image gallery located in Tokyo's Shinjuku Ward. With a discerning eye and insistence on impeccable quality, the gallery deals exclusively in works by exceptional artists, be they amateur or professional. Through epSITE, Epson is providing a space where people can experience firsthand the possibilities that unfold when the expressive power of inkjet printers and the world of photography meet. But the gallery also serves as a vital source of feedback, allowing Epson

to ask artists and visitors directly what they seek in terms of printer function, as well as any suggestions. This feedback can then be directed to product development and other functions.

One example of this was the launch in May 2005 of new models in Epson's K3 series of pigment ink-based inkjet printers that dramatically improve the quality of monochrome prints. This was in response to calls from customers wanting to print vivid photos in monochrome. Epson plans to focus on broadening sales of its high-end photo printers, and hopes to bring the same outstanding performance to printers for the home, to further sharpen its competitive edge in the expanding photography market. (Refer to Management Topics on page 35 for more details.)

### A Stronger High-earnings Business Model

Epson's full lineup of products for the photo market will help to expand printing volume, which should in turn spur sales of high-margin inkjet cartridges. In terms of enhancing printer profitability,

Epson has made steady strides in this respect, including lowering per unit printer costs in the fiscal year ended March 31, 2005 by nearly half compared with the previous fiscal year, for like printer models. Through these and other initiatives, we are determined to make an already high-earnings business model even stronger.

### Blending Into the Global Photo Culture

Epson wants to make photo printing at home a common practice. Using inkjet printers to help customers experience the fun of photo printing firsthand will be vital to achieving this goal. Photography, however, also has a strong cultural component. For this reason, different regions often vary in the printer functions demanded, and also tend to differ in how photography in general is viewed. As a multinational company sensitive to the various markets in which it operates, Epson is developing product lineups ideally suited for each region with the aim of blending into the photo culture worldwide.

## Strategies for the 3LCD Projector Business

### Becoming a Leader in Finished Products and Devices

In the growing projection market, Epson seeks to expand its share in fields such as 3LCD projectors, LCD projection televisions and other finished products, as well as optical engines for LCD projection TVs and HTPS TFT liquid crystal panels used in 3LCD projectors.



**Kenji Uchida**

Director,  
Chief Executive, Visual  
Instruments Operations Division



**Hideaki Iwano**

Chief Executive, TFT Operations Division

#### Launching Products Built on 3LCD Technology

Education is a growing market for data projectors, which were once used almost exclusively for business presentations. Differentiation from the competition will be paramount in the race to win out against competing technologies, as will cost cutting. But Epson is also planning to launch highly competitive products that leverage the advantages offered by 3LCD technology, namely bright, natural images that are easy on the eyes, and low power consumption.

#### Building a Brand in the Home Market

Alongside its 3LCD projectors for the home, Epson launched the sale of LCD projection TVs in the fiscal year ended March 31, 2005. The likely driver behind the growth in the home market is the rising number of people looking to enjoy stunning images on larger screens as DVDs and digital



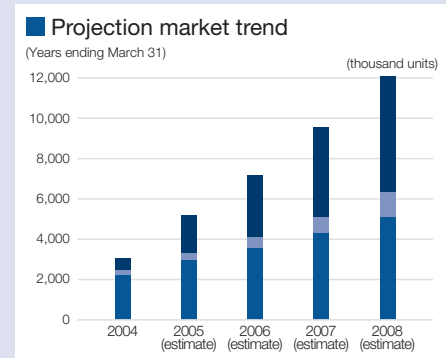
A number of prominent LCD projector manufacturers joined forces to form the 3LCD Group, an organization dedicated to raising market awareness of the characteristics and advantages of 3LCD technology. (Refer to Management Topics on page 34 for more details.)



Home projector  
EMP-TW20  
(name in Japan)



Large screen LCD  
projection TV  
Livingstation



■ Microdevice-based projection TVs  
■ Home projectors  
■ Data projectors

Source: Based on data compiled by the Company.

broadcasts become more widespread. To distinguish itself in the market, Epson is positioning home 3LCD projectors as products for special times when users want to enjoy images on exceptionally large screens. LCD projection TVs offer outstanding cost performance for big screen viewing from a variety of digital data sources. In this way, Epson hopes to establish itself as a major brand in the home market.

### The HTPS Advantage

High-temperature polysilicon (HTPS) TFT LCD panels are key devices supporting these LCD projection products. Compact size and high-definition images are two advantages of HTPS TFT LCD panels, one of Epson's proprietary technologies. Epson is proud of its high market share for these products, which serve as the key devices in high-performance 3LCD projectors. In the fiscal year ending March 31, 2006, Epson will not only supply HTPS panels and Epson-brand projector products, but will also supply optical engines in a

bid to capture expanding opportunities in the projection market.

### Chitose Plant Augments Production Framework

Demand for HTPS panels is rapidly increasing as the LCD projection market expands. To meet this demand, Epson ramped up production with a new plant built on the grounds of the Chitose Bibi World industrial park in the city of Chitose in Hokkaido, Japan. Volume production and shipments from the plant commenced in April 2005. The Chitose Plant is the first Epson facility to adopt new technology for producing state-of-the-art HTPS panels using 300-millimeter (12-inch) quartz glass wafers. Going forward, Epson will augment production capacity as necessary to ensure a stable product supply in line with future market trends.

### 3LCD: the Product of Epson's R&D Capabilities

Realizing beautiful images with 3LCD technology demands advanced technological capabilities in a broad array of fields, including microfabrication, graphics rendering, optical and other technologies. Moreover, data projectors, home LCD projectors, and LCD projection TVs all have different demands in terms of picture quality and brightness, thus requiring different approaches to technology development that match each application area. Epson, through its development of HTPS, a widely used key device, and its pioneering work in optical technology, has established a reputation for spurring development and growth in the projector market. From a technology development standpoint, this track record has allowed Epson to build up a significant advantage. With expansion in the projection market expected to continue, Epson is determined to leverage its technological edge to drive growth.



## Strategies for the Display Business

### Aiming for Number One in Small- and Medium-sized LCDs

Epson is taking steps to improve its cost structure to develop an operating base more resistant to market fluctuations. Shifting to an exclusive focus on value-added small- and medium-sized LCDs, Epson is also integrating businesses in a push to rapidly capture synergies.



Shuji Aruga

President, Sanyo Epson Imaging Devices Corporation

#### Start of Operations at Sanyo Epson

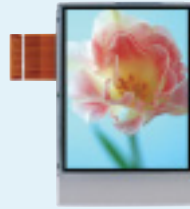
October 2004 saw operations commence at Sanyo Epson Imaging Devices Corporation, a joint venture integrating the respective LCD operations of Epson and the Sanyo Electric Group. Sanyo Epson boasts a full lineup of small- and medium-sized LCD types, including color STN, MD-TFD, amorphous silicon TFT (or  $\alpha$ -TFT), and low-temperature polysilicon TFT. This lineup is one of Sanyo Epson's strengths, allowing it to offer customers the right product to suit their needs. Additionally, as a joint venture, Sanyo Epson has access to module mounting technology, a back-end process where Epson excels, as well as Sanyo Electric Group's expertise in panel processing. Alongside these powerful and complementary technological advantages, Sanyo Epson also counts technologies for compactness, better picture quality, higher definition, and volume production among its



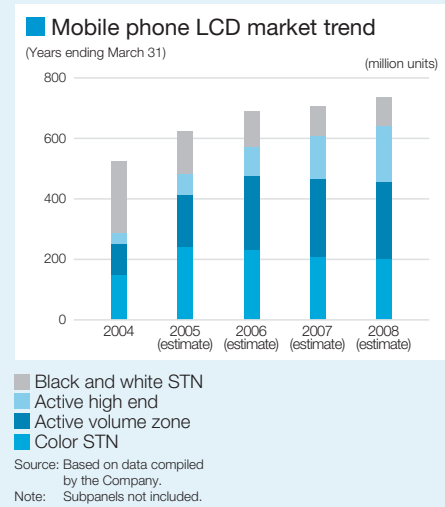
Amorphous silicon TFT LCD modules



Low-temperature polysilicon TFT LCD modules



MD-TFD LCD modules



technological capabilities. Leveraging these skills, Sanyo Epson is determined to rise to the top of the small- and medium-sized LCD field.

### Accelerating Structural Reforms to Realize the Goals of “Action07”

Since the second half of the fiscal year ended March 31, 2005, plummeting prices and escalating competition have made for a challenging business climate. In this context, Epson is implementing a host of initiatives for creating a structure for securing stable earnings to achieve the objectives of “Action07.” As a first step, Epson decided to withdraw from production and sales of 15-inch and larger  $\alpha$ -TFT LCDs, where price erosion has been most dramatic, and switched production lines to upgrade capacity for small- and medium-sized LCDs. Epson is also working to reform its cost structure by reducing costs for components and materials purchased externally, boosting

yields, and cutting fixed costs. By accelerating these reforms, Epson is confident that clear benefits will begin emerging from these reforms during the fiscal year ending March 31, 2006.

### Enhancing Back-end Module Mounting Capabilities

Sales volume for mobile phone LCDs should increase substantially in the coming years, yet the market is also characterized by severe fluctuations in short-term demand. To cope with these changes, Epson must build a production framework for flexibly responding to customer demands while minimizing inventory. But most importantly, Epson must ensure that its back-end module mounting capabilities are securely in place. Back-end processing has long been a strong suit, and Epson has also amassed expertise in the “just-in-time” production indispensable to the manufacture of mobile phone LCDs. Going forward, Epson plans to bolster mounting

capabilities and increase in-house manufacturing at its bases in the Philippines and China to create a more efficient production framework.

### Advancing Into New Fields

Sales of LCDs for mobile phones account for a substantial percentage of Sanyo Epson’s net sales. For this reason, broadening its business domains to develop a structure that can resist fluctuations in the mobile phone market has emerged as a key issue for Epson to ensure medium- to long-term profit stability.

Demand is rising for LCDs, a field that includes displays for LCD televisions, mobile phones, digital cameras, onboard automotive equipment, multimedia players, and other devices. Epson, by leveraging its skills in areas such as compactness and higher resolution, will deliver competitive LCDs and expand its business domains in an effort to generate more sales outside the mobile phone sector.

## R&D Strategies

Epson implements a unique R&D program that anticipates future developments, and enables the Company to seek new business domains and the next-generation of core technologies for realizing its goal of “Digital Image Innovation.”

### R&D Costs

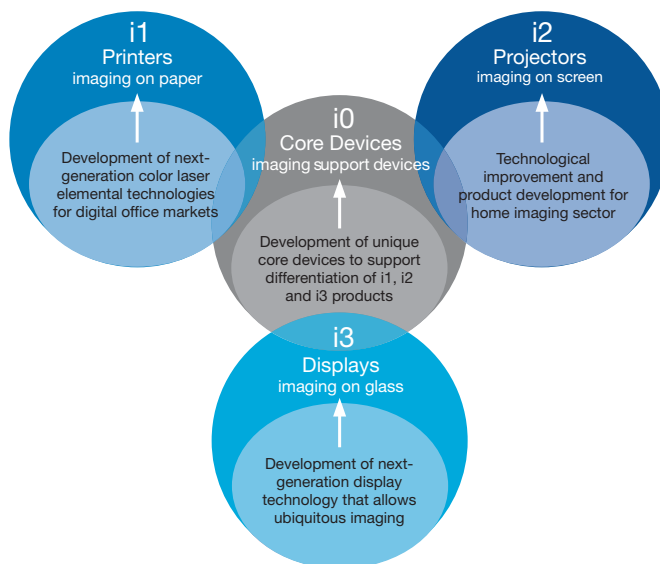
In the fiscal year ended March 31, 2005, R&D costs declined ¥1.4 billion, or 1.6%, year on year to ¥89.0 billion. The ratio of R&D costs to net sales was 6.0%, down 0.4 of a percentage point from the previous year. By segment, R&D costs consisted mainly of expenditures of ¥35.6 billion in information-related equipment, ¥19.5 billion in electronic devices, and ¥2.1 billion in precision products. An additional ¥31.8 billion was spent in other business areas and for company-wide R&D projects, largely for next-generation core technologies, displays, semiconductors, and other technologies for development over the medium and long term. Going forward, Epson intends to maintain R&D costs at roughly 6.0% of net sales.

### Pathfinder-Style R&D Programs

Epson’s course as set forth in its SE07 medium-to-long-term business vision is summed up in the phrase “Digital Image Innovation.” To achieve this, Epson is focused on developing captivating products in the i1, i2, and i3 fields, as well as robust development in the so-called “i0” field of device technology that underpins finished products and which sets Epson apart from its competitors. The corporate Head Office conducts major medium-to-long-term R&D in the 3i business areas, while supporting the efforts of business units in developing products and technology within a timeframe of

three years, pursuant to their respective mid-range business plans. To retain technological superiority over the long term, Epson implements what it calls a pathfinder-style R&D program that strives to anticipate future developments and which is built on a platform of core technological strengths.

### ■ Epson’s Development Vision



### R&D Structure

Research and development divisions at the corporate Head Office and the operating divisions form the nucleus of Epson's R&D structure. This arrangement heightens inter-organizational synergies, accelerates R&D and enables Epson to develop technologies and products of real value. In line with its policy of optimizing R&D locations, Epson has three R&D sites in its global R&D infrastructure: Epson Research and Development, Inc. in San Jose, California, U.S.A., which researches image processing and next-generation semiconductor technologies; Cambridge Research Laboratory of Epson in Cambridge, U.K., which researches fundamental materials; and the Barcelona R&D Laboratory in Spain, established to research wireless, high-frequency and microelectromechanical (MEMS) technologies.

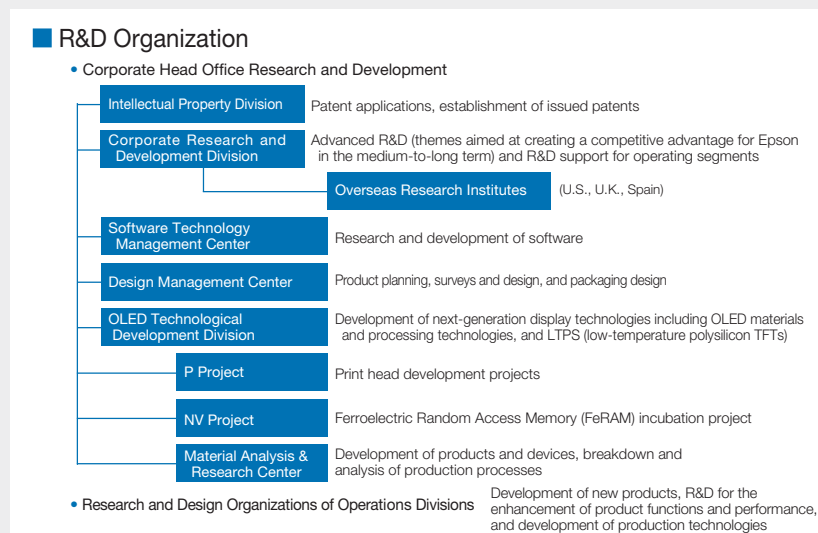
### Establishment of New R&D Site

Epson has finalized plans to build a new R&D site at its Hirooka Office located in Nagano, Japan. Provisionally called the Epson Innovation Center, the site will reinforce Epson's development framework for next-generation information-related equipment. To maintain its competitive edge, Epson concluded that three actions will be vital to enhance its ability to develop the next wave of information-related equipment for the medium to long term. Epson must:

1. Improve flexibility by bringing together the R&D organizations of the information-related equipment divisions, corporate R&D, and corporate R&D support departments;
2. Support new product development and nurture new businesses near the operations divisions; and

3. Encourage face-to-face inter-organizational communication among R&D teams to aid the fusion of ideas and technologies.

Plans will see the consolidation of a host of different divisions at the Epson Innovation Center. These will include the corporate R&D organizations, specifically the Corporate Research & Development Division and the Production Engineering & Development Division; the Intellectual Property Division and other corporate R&D support organizations; R&D organizations within the Imaging and Information Products Operations Division and the Visual Instruments Operations Division; and software development departments and other organizations involved in the development of information-related equipment. The center will be used to encourage interaction between engineers and specialists from a range of fields; Epson is hoping to spark the kind of multifaceted cross-fertilization that will lead to major developmental breakthroughs and convergence products that transcend traditional finished product categories.



Conceptual image of the Epson Innovation Center (provisional name)

In 2000, Epson set up a new center for the development of electronic devices, specializing in semiconductor, liquid crystal and other device-based product development, at its Fujimi Plant in Nagano, Japan. The Epson Innovation Center will join this facility as another site in the R&D domain supporting the company's next leap forward.

Capital investments totaling ¥19.0 billion have been spent on buildings, equipment and other essentials for the Epson Innovation Center. Construction commenced in December 2004, with the center scheduled to begin operating in January 2006.

### Test Production of Full Color Organic Light-Emitting Diode (OLED) Displays

Epson has applied its proprietary inkjet technology to successfully develop the world's first prototype 40-inch full-color OLED. Until this breakthrough, creating organic layers for large TFT (Thin Film Transistor) substrates had proved a significant technical challenge. Applying its distinctive inkjet technology



40-inch full-color OLED display

to overcome this hurdle, Epson developed an inkjet process that allows the organic layers to be formed together with the large TFT substrates. This breakthrough enabled Epson to develop a 40-inch full-color OLED, the world's largest. By establishing a production process compatible with large substrates of this kind, Epson has paved the way not only for the emergence of large OLEDs, but also for lowering costs for small- and medium-sized displays by allowing multiple displays to be cut from a single large TFT substrate. Epson is pursuing development of these displays—ideal for applications from mobile devices to TVs—particularly in the entertainment sector, with the goal of commercialization in 2007.

### Successful Development of Ultra-thin Multilayer Circuit Board Prototype

Leveraging its proprietary inkjet technology, Epson successfully developed the world's first ultra-thin 20-layer circuit board. Multilayer circuit boards of this kind have long proven difficult to produce using conventional photolithographic processes. Epson's success in creating a 20-layer circuit board prototype was made possible by its use of two special inks to draw patterns and form circuit board layers—a conductive ink containing dispersed silver micro-particles measuring from several nanom-

eters to several tens of nanometers in diameter, and a newly developed insulator ink. Compared to conventional photolithography, this inkjet-based process:

- Uses a substantially lower volume of materials, since patterns are formed only in areas where needed, not over the entire substrate;
- Is a dry process, creating virtually no liquid waste;
- Involves fewer steps, thus consuming a relatively small amount of energy;
- Is readily adapted to high mix, low volume production since no circuit board masks are used; and
- Is well suited to multilayer structures, since interlayers can also be patterned directly onto the board. An inkjet-based process thus enables low-cost, high-density multilayer circuit boards to be produced via a green manufacturing process with a light environmental load.

Epson is leading the way toward making this inkjet technology the de facto standard in circuit board fabrication. Ultimately, the goal is to enhance the performance and reduce the size and weight of information and communications equipment and other future electronic devices.



20-layer ultra-thin circuit board

## Other R&D Achievements

### ■ Flexible electrophoretic display (EPD)

Epson has brought together sophisticated mounting and low-power consumption technologies to develop a flexible EPD that can even be applied to curved surfaces. When paired with watches manufactured by Epson, for example, this display will enable the company to take watch design and functionality into innovative and entirely new directions.



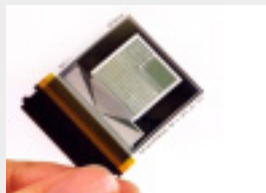
EPD watch

### ■ AME (Auto Movie Enhancement)

Epson has developed a proprietary technology that automatically enhances video quality. When the video data source is poor, AME still allows clear, crisp video to be viewed thanks to high-quality video algorithms that automatically enhance the source. The Photo Fine Player (P-2000) multimedia storage device and viewer, acclaimed by professional and amateur digital camera users alike for its photo storage capabilities, is one product that incorporates this technology. Plans are under way to steadily apply AME to other Epson products as well.

### ■ Flexible asynchronous 8-bit microprocessor

Underpinned by its proprietary SUFTLA (Surface Free Technology by Laser Ablation/Annealing), Epson became the first in the world to successfully mount a functional asynchronous processor, composed of 32,000 low-temperature polysilicon TFTs (Thin Film Transistors), on a plastic substrate. This invention is expected to play a key role in the future of the microelectronics sector.



Flexible asynchronous 8-bit microprocessor

### ■ Optical transceiver for AV displays

Epson has developed an optical transceiver (AV-1E) for the full optical transmission of digital visual interface (DVI) signals for high-definition televisions. The transceiver is equipped with a Vertical Cavity Surface Emitting Laser (VCSEL), an optical communications device for which strong demand is expected. The transceiver transmits and receives video signals without causing any loss in quality between devices, a feature that should prompt greater use in AV applications.



AV-1E

### ■ Further advancement for $\mu$ FR—the world's lightest micro flying robot

Epson has successfully developed the  $\mu$ FR-II, a lighter and more functionally advanced version of  $\mu$ FR, already the world's smallest and lightest micro flying robot. By leveraging proprietary micromechanics technology, Epson has brought truly autonomous flight to the  $\mu$ FR-II by eliminating the need for control wires. The robot is packed with state-of-the-art Epson technologies that were critical to achieving autonomous flight and a reduction in weight, including: an ultrasonic motor, the world's smallest and lightest gyro-sensor, and the S1C33 family of 32-bit RISC microcontrollers. Realizing independent flight has allowed Epson to greatly expand the robot's flight range. Moreover, its onboard video capture and transmission functions have the potential to generate an even broader scope of applications.



$\mu$ FR-II micro flying robot

## Patent Strategies

Driven by its corporate ethos of “Creativity and Challenge,” Epson strives to establish its distinctive and outstanding technology development capabilities in the form of powerful intellectual property rights. The company bases its patent strategy on two key concepts: “intensive, market-specific patent strategies” that reflect strategies for each business segment, and “Double Leading Patents by Promoting High Quality Innovations,” also known as the “Dolphin” program.

### Patent Applications and Progress of Patent Strategies in Target Fields

Epson’s approach to filing patent applications is to protect its proprietary technology while maintaining the competitive edge of its products in the market and setting the Epson brand apart from competitors. To do this, the company is building a powerful patent portfolio by promoting an efficient, secure patent filing system worldwide. Instead of filing patents only in Japan and the U.S., Epson is now focusing on ways to bolster patent filing in the Asia region, particularly in China, Korea, and Taiwan.

### Published Patents in Japan (2004) ■ U.S. Issued Patents (2004)

1	Matsushita Electric Industrial Co., Ltd.	13,739	1	IBM Corporation	3,277
2	Canon Inc.	10,394	2	Matsushita Electric Industrial Co., Ltd.	1,965
3	Ricoh Company, Ltd.	7,453	3	Canon Inc.	1,813
4	<b>Seiko Epson Corporation</b>	<b>7,391</b>	4	Hewlett-Packard Development Company, L.P.	1,780
5	Toshiba Corporation	6,602	5	Micron Technology, Inc.	1,761
6	Sony Corporation	6,386	6	Samsung Electronics Co., Ltd.	1,605
7	Fuji Photo Film Co., Ltd.	6,232	7	Intel Corporation	1,604
8	Hitachi, Ltd.	5,108	8	Hitachi, Ltd.	1,534
9	Sharp Corporation	5,053	9	Sony Corporation	1,348
10	Toyota Motor Corporation	5,051	10	Toshiba Corporation	1,342
11	Mitsubishi Electric Corporation	4,655	11	Fujitsu Limited	1,320
12	Denso Corporation	4,347	12	Koninklijke Philips Electronics NV.	1,224
13	Fujitsu Limited	3,897	13	Fuji Photo Film Co., Ltd.	1,030
14	Sanyo Electric Co., Ltd.	3,620	14	General Electric Company	978
15	Honda Motor Co., Ltd.	3,424	15	Renesas Technology Corp.	917
16	Nissan Motor Co., Ltd.	3,411	16	Texas Instruments Incorporated	915
17	Konica Corporation	2,963	17	Robert Bosch GmbH	907
18	Nippon Telegraph and Telephone Corporation	2,691	18	<b>Seiko Epson Corporation</b>	<b>859</b>
19	Kyocera Corporation	2,641	19	NEC Corporation	826
20	NEC Corporation	2,545	20	Advanced Micro Devices, Inc.	803

Source: Epson, compiled from data released by the Japan Patent Office. Shared patents are equally divided. Includes both published and republished patents.

Source: IFI Claims

### Patents Filed in China\* (2004)

1	Matsushita Electric Industrial Co., Ltd.	2,423
2	Samsung Electronics Co., Ltd.	2,241
3	Koninklijke Philips Electronics NV.	1,840
4	Sony Corporation	1,112
5	<b>Seiko Epson Corporation</b>	<b>1,005</b>
6	LG Electronics Inc.	940
7	IBM Corporation	829
8	Canon, Inc.	827
9	Toshiba Corporation	811
10	Sanyo Electric Co., Ltd.	748

Source: State Intellectual Property Office of the People’s Republic of China

### Patents Filed in Korea\* (2004)

1	Koninklijke Philips Electronics NV.	1,392
2	Sony Corporation	811
3	Matsushita Electric Industrial Co., Ltd.	746
4	<b>Seiko Epson Corporation</b>	<b>588</b>
5	Sanyo Electric Co., Ltd.	533
6	Microsoft Corporation	481
7	Thomson Corporation	475
8	Toshiba Corporation	352
9	3M Co.	338
10	Canon, Inc.	331

Source: Korean Intellectual Property Office

### Patents Issued in Taiwan\* (2004)

1	Mitsubishi Electric Corporation	491
2	Toshiba Corporation	473
3	Hitachi, Ltd.	442
4	Matsushita Electric Industrial Co., Ltd.	438
5	Samsung Electronics Co., Ltd.	396
6	IBM Corporation	387
7	Koninklijke Philips Electronics NV.	345
8	<b>Seiko Epson Corporation</b>	<b>326</b>
9	Sanyo Electric Co., Ltd.	320
10	Sharp Corporation	315

Source: Taiwan Intellectual Property Office

\* Denotes rankings for foreign-owned companies

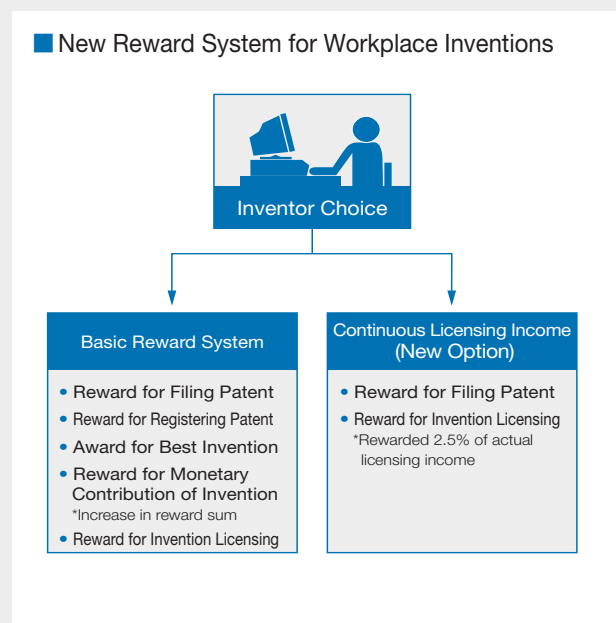
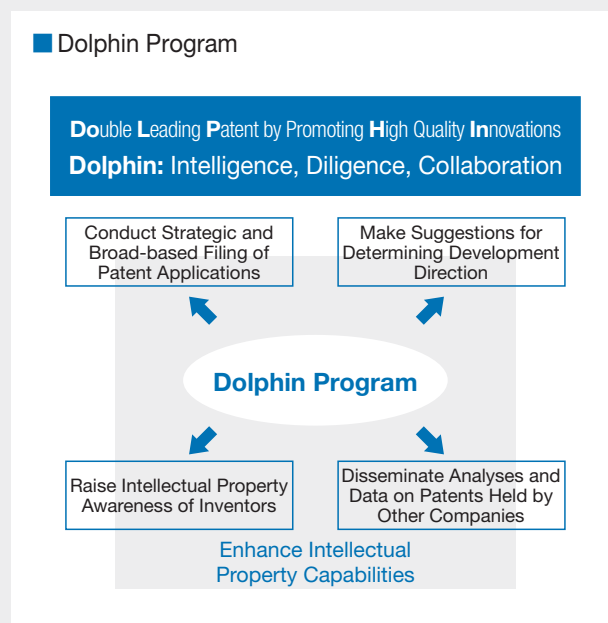
### The “Dolphin” Program

Epson first began implementing its “Double Leading Patent by Promoting High Quality Innovations,” or “Dolphin” program, in 2002. Under this program, Epson selects major research themes, conducts patent searches, explores new inventions and strategically files new patent applications. In addition to these activities, Epson is expanding its range of actions to strengthen its intellectual property capabilities. These include offering suggestions on the selection and direction of R&D themes, raising awareness of intellectual property among inventors and disseminating data regarding patents held by other companies.

### New Reward System for Workplace Inventions

Epson has established a well-structured reward system for workplace inventions to encourage and revitalize the development of proprietary technology, and to compensate successful inventors for their work. Epson upgraded this system following mutual recognition by both management and employees that a more proactive approach should be taken to evaluating an invention’s contribution to Epson’s business performance. From April 2005, this has resulted in the launch of a patent reward system that is unique among Epson’s peers, giving workplace inventors the option of selecting either a basic reward system, where the reward is increased

based on an invention’s actual monetary contribution, or a system whereby inventors receive licensing income on a continuing basis.





# Implementing Trust-Based Management

Epson’s basic stance on corporate governance is encapsulated in its commitment to sustaining trust-based management. Along with the ongoing pursuit of enterprise value enhancement, Epson has initiated a number of practices designed to reinforce management checks and balances and to assure corporate ethical compliance so as to ensure highly transparent and sound management in the eyes of its customers, shareholders, employees and other stakeholders.

## Corporate Governance

### Appropriate Governance Framework Attuned to Epson’s Business Model

Epson uses the statutory auditor system. At the core of this system are five statutory auditors. To further ensure the independence of audits and increase transparency, three of the five members of the board of auditors are external statutory auditors. Auditors attend each of the statutory auditors’ monthly board meetings. They also attend meetings of the Epson Board of Directors, the Management Deliberative Committee, and other meetings

vital to business execution. Statutory auditors are thus in a position to conduct their audits with the same level of information as directors. In addition, by holding regular meetings with other statutory auditors and with company directors, the statutory auditors are able to directly assess the status of business execution for themselves.

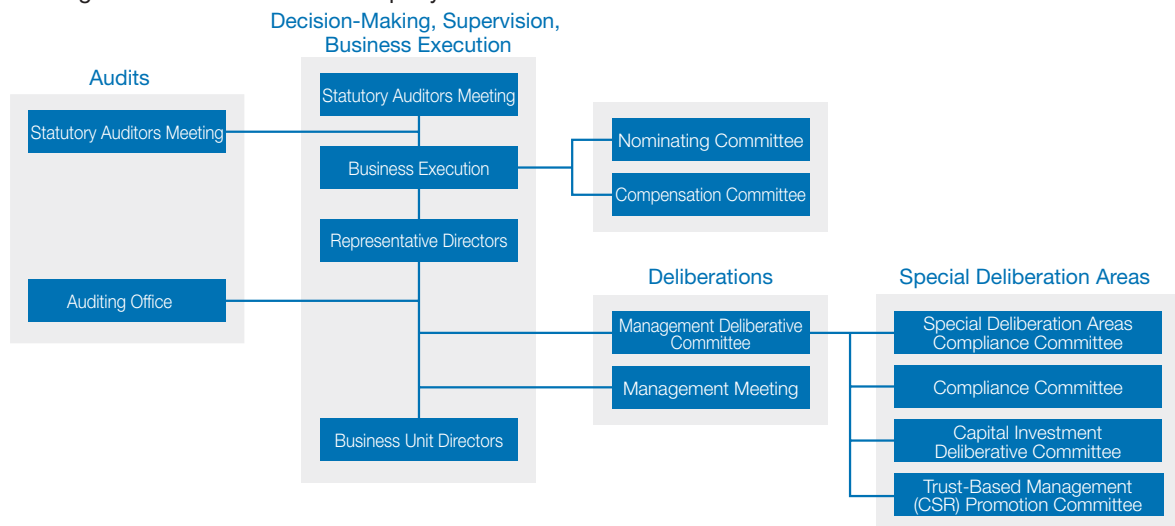
In contrast to the organizational separation of business execution and management oversight common to companies using a committee-based system of governance, Epson vests monitoring functions in the board of directors, which is underpinned by the statutory auditors. Epson’s stance is that this system, whereby directors are responsible for business execution, is optimal for monitoring functions in light

of the current configuration of Epson’s business operations. The same reasoning prompted the decision to forego the appointment of external directors to the board.

With this stance in mind, Epson appoints suitably qualified directors who have the ability to concurrently perform both business-related and management oversight roles, and is broadening the jurisdictional scope of the board of directors, as it maintains a governance structure backed by the statutory auditors. While strengthening the operation of this structure, the search for an optimized governance structure will remain an ongoing issue for management.

Epson is also increasing transparency in the appointment and remuneration of

### Management Structure at the Company



directors. Two committees specifically responsible for exploring these issues have been put in place. The Nominating Committee is responsible for setting nomination criteria and for selecting candidates. The Compensation Committee is charged with defining the parameters of the remuneration system and drafting policies governing directors' remuneration. These committees conduct extensive deliberations in their respective areas, ultimately presenting their conclusions for consideration by the board of directors.

Epson also has an internal compliance system in place that is designed to prevent any potential legal or internal regulatory violations within its operations. An internal audit office that reports directly to the president regularly audits operations, including those at Epson subsidiaries. The internal audit office evaluates the efficacy of governance processes, requests improvements where needed, and reports audit results to the president. The internal audit office regularly meets with Epson's independent auditors and statutory auditors in an effort to heighten the efficacy of internal audits.

## Compliance

### “No Hiding,” “No Cheating,” and “Report Bad News Quickly”: Epson’s Mantras for Maintaining a Sound Corporate Culture

Epson views compliance as a means of reducing management risk. In contrast to external risk factors such as accidents, natural disasters, or social unrest, the management risk Epson addresses concerns risks directly associated with its corporate activities; in other words, risks stemming from the actions of Epson employees.

Epson has appointed a director who is responsible for trust-based management and has established a structure for promoting compliance.

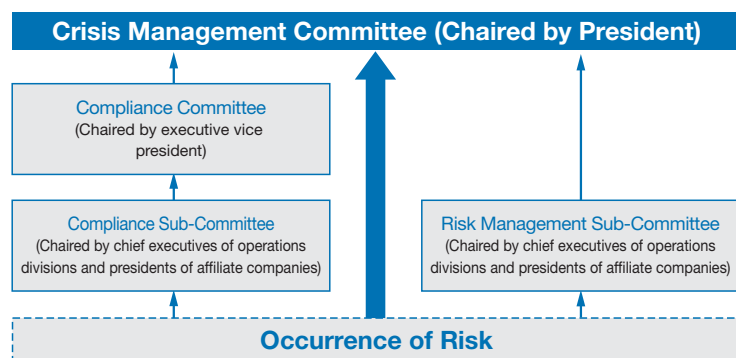
Major points of this framework include:

- A Compliance Committee for building and maintaining Epson’s compliance structure
- A Management Trust by Office responsible for operating the internal Compliance Hotline for reporting compliance issues
- In-house compliance training, including a code of conduct manual and Web-based seminars

When it comes to compliance, Epson is aware that no framework alone is enough, since corporate activities are determined by the thoughts and actions of employees. For this reason, the company’s senior management has developed a culture of not hiding difficult information, not cheating, and reporting bad news quickly.

For Epson, compliance of this kind is the cornerstone of its approach to corporate governance.

### ■ Risk Management System Supervised by the President and the Flow of Information



## Risk Management

### Risk Management Supervised by the President to Prevent Crises and Limit Damage

To remain true to its management philosophy as a company “trusted throughout the world,” Epson recognizes that creating a framework for preventing and addressing crises that could seriously jeopardize operations is a priority for management. To this end, Epson has constructed a Group-wide crisis management structure capable of swiftly responding to changes in its business makeup and operating environment. This structure enables the company to head off potential crises or to minimize the effect in the event of one.

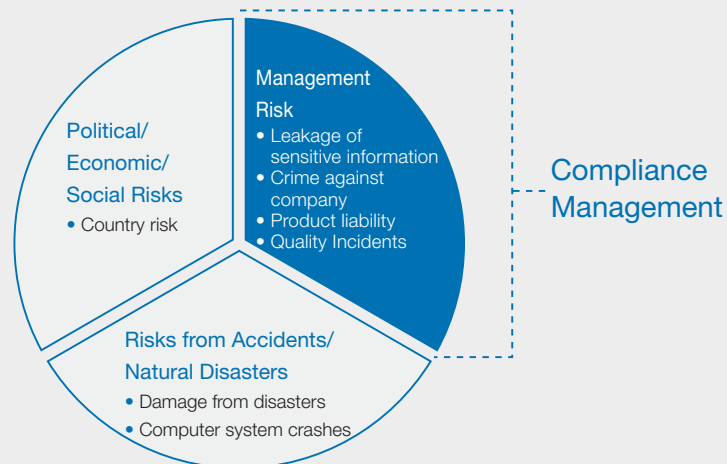
The following policies guide Epson’s actions concerning risk. To prevent crises, Epson works to (1) anticipate changes by reviewing its corporate structure to ensure optimal flexibility, and (2) task each division to devise “peacetime measures” for dealing with

potential crises. When a crisis arises, Epson moves to (1) tackle the crisis with comprehensive capabilities beyond that of the normal corporate hierarchy, and (2) assume full responsibility as befits a good corporate citizen, disregarding corporate egoism.

Epson’s risk management structure is designed to manage crises with a potentially material impact on the Group. Uniform risk management is then enacted by each organization across the Group. Should a crisis occur, Epson aims to marshal its comprehensive capabilities to swiftly meet the crisis head-on in an appropriate manner, while ensuring that its posture remains flexible vis-à-vis external changes. To ensure that information regarding significant risks is reported directly to the president, Epson has a Crisis Management Committee, composed of

separate sub-committees responsible for risk management for each operations division, unit, that is chaired by the company president. Epson has formulated a Crisis Management Program that defines seven categories of crisis (leakage of sensitive information, damage from disasters, country risk, crimes against the company, computer system crashes, product liability, and quality incidents), as well as the risk management organization, roles, preventative measures, and response for each crisis situation. Information about this program has been compiled into a comprehensive brochure distributed Group-wide to promote an in-depth awareness of crisis management. For stakeholders, Epson utilizes IR and PR to proactively disclose facts in a timely manner regarding the status of risk management.

#### ■ Risks Managed by Epson



## Bolstering the Disclosure Framework

### Encouraging Stakeholder Understanding Through Fair and Timely Information Disclosure

In meeting its obligation to explain the company's actions to all stakeholders, Epson discloses corporate data in a timely, accurate, proper and fair manner. For disclosure aimed at investors and shareholders, Epson has a dedicated Investor Relations Department, which is responsible for issuing shareholder-oriented publications, holding explanatory business presentations and other duties. The goal here is to promote greater understanding of Epson's operating results and management strategies to ensure that its stock is appropriately valued in the market.

In addition to earnings reports, securities reports and other mandatory filings, Epson voluntarily produces a number of publications, including its annual report, business reports, and materials from its business presentations. Moreover, presentations and audio voiceovers made at earnings announcements can be easily accessed at the IR section of Epson's corporate website.

Epson actively convenes a range of presentations. These are not merely limited to quarterly earnings presentations, but include explanations of Epson's business operations and tours of its production plants and other facilities. During the fiscal year ended March 31, 2005, Epson held presentations on the development strategy for Organic Light-Emitting Diode (OLED) displays and strategies in the company's inkjet printer business, and offered tours of its LCD and printer production sites.

## Environmental Activities

### At Epson harmony with the environment is a high priority management issue

Epson conducts environmental management at the parent company and the entire Epson Group underpinned by the following environmental philosophy: Epson will integrate environmental considerations into its corporate activities and strive to meet high conservation standards in fulfilling its responsibilities as a good corporate citizen.

Specific environmental policies include:

- Creating and providing Earth-friendly products
- Transforming all processes to reduce the burden on the environment
- Recovering and recycling used products
- Sharing environmental information and contributing to regional and international conservation efforts
- Continually improving the environmental management system

By proactively disclosing its environmental activities and achievements to the local and global community, Epson pursues its environmental program in partnership with local communities. In this way, Epson aims to be one of the leading companies in terms of environmental activities in every region where it operates.

### Epson Joins Bell Mark Program Through Ink and Toner Cartridge Collection Drive

In an effort to increase the collection rate of used ink cartridges and promote environmental conservation, Seiko Epson Corporation and Epson Sales Japan Corporation started participating in the Japanese Bell Mark volunteer program by collecting used ink cartridges from inkjet printers in June 2004. In March 2005, the scope of the collection drive was expanded to include used toner cartridges from laser printers and used ink cartridges from large-format inkjet printers.

Schools participating in the Bell Mark program receive a certain number of points based on the total volume of used cartridges collected. There are already collection boxes at more than 4,000 schools and the number of participating schools is increasing all the time. This program, by promoting more efficient use of resources and reducing waste, not only helps to protect the environment, but allows Epson to contribute to society by supporting education.

### Ecoleaf Environmental Label System Certification

Epson Direct Corporation, a Japanese subsidiary involved in the manufacturing and direct sales of PCs and peripherals, acquired certification under the Ecoleaf environmental label for its system of collecting environmental

data on products in its laptop computer operations in July 2004. Ecoleaf certification is managed by the Japan Environmental Management Association for Industry (JEMA). Desktop computer and PC display operations earned the same system certification in February 2005, making Epson the first in the industry to be awarded this certification in Japan's PC sector. Not stopping there, Epson also acquired system certification for its monochrome laser printer operations, giving the Company certification in five fields, including prior certification in the inkjet printer and 3LCD projector businesses.

### Epson Raises the Bar for its Epson Ecology Label

November 2004 saw revisions made to the Epson Ecology Label program, a voluntary environmental standard that Epson has staunchly promoted since April 2001. There were two reasons for this: to evaluate the specific environmental specifications required in products to a higher degree, and to reconfigure the commercialization process that continuously creates products with outstanding environmental performance. Complementing these efforts, Epson transitioned to a system that offers two types of environmental data: Epson Ecology Products and Epson Ecology Profile. In the former, Epson discloses specific data on products that either possess industry-leading environmental

performance or offer a vast improvement in this area compared to earlier Epson products. The latter, meanwhile, is essentially a data disclosure sheet showing the environmental specifications of a given product, including its level of power consumption and verifying that it contains no prohibited substances.

For printers, projectors and other finished products, this environmental data system clarifies the product's overall environmental specifications, encompassing the product itself, related packaging and supplies, and other aspects. At the same time, this system more closely aligns the categories in Epson's own environmental label with those of the IT Eco Declaration environmental label supported by countries in Northern Europe. For electronic device products, meanwhile, Epson is publicizing quantitative data concerning the chemical substances used.

### Support for the Kids' ISO Program in Nagano

Since the fiscal year ended March 31, 2001, Epson has taken part in and sponsored the Kids' ISO Program, an environmental education support program for children developed by the International Art and Technology Cooperation Organization (ArTech). Epson's support of this program serves both as a means to contribute to local society and as part of its environmental protection activities. During

the year under review, 130 fifth-grade pupils from four classes at Minowa Chubu Elementary School in Nagano, Japan, participated in the introductory course. Workbooks were donated by Epson, while Epson employees called "Eco-Kids Instructors" provided overall program support, analyzing and evaluating the results of the pupils' activities and offering feedback, among other duties.

### Epson Joins UN Global Compact and Strengthens CSR Initiatives

On July 16, 2004, Epson formally joined the United Nations' Global Compact, a collection of universal principles espoused by the UN pertaining to respect for human rights, labor, the environment, and prevention of

corruption. This milestone came after the UN Secretary General accepted a communiqué from Epson's president affirming support for the Global Compact. Coinciding with this, Epson launched the Trust-based Management (CSR) Promotion Committee. Chaired by an executive vice president, this committee comprises department and section heads from Head Office departments responsible for areas such as management control, legal affairs, human resources, the environment, occupational health and safety, quality, corporate communications, and information management. Looking ahead, Epson will strive to instill and raise awareness of the 10 principles of the Global Compact throughout the company, while proactively disclosing its progress on related initiatives.

#### ■ The Global Compact – The Ten Principles

##### Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

##### Labor Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labor;
- Principle 5: the effective abolition of child labor; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

##### Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

##### Anti-Corruption

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

## Corporate Citizenship Activities

**Guided by its Philosophy and Policy for Philanthropy and Giving, Epson is involved in numerous activities worldwide that reaffirm its relationship with society**

Epson has formulated a Philosophy for Philanthropy and Giving that echoes the sentiment expressed in its Management Philosophy, as well as a related Policy outlining key citizenship activities. This philosophy and policy underpin the promotion of closer ties with local communities in regions around the world where Epson conducts business.

More details regarding Epson's corporate citizenship can be found in the Sustainability Report 2005.

### ■ Philosophy for Philanthropy and Giving

Epson and its employees are committed to good citizenship and to responding to the needs of the diverse communities in which the company operates. Epson pledges to work for the betterment of society by dedicating resources to support programs that positively impact its various communities.

### ■ Youth Education and Awareness Epson International Educational Foundation to Support International Students from Asia

As part of its youth education and awareness activities, Epson funds a foundation that is active in every region of the globe where the company operates. The foundation grants assistance to regional educational, academic and cultural pursuits, and contributes to local community development.

Activities are coordinated from Japan through the Epson International Educational Foundation. Located in the city of Suwa in Nagano Prefecture, the foundation was created in December 1997 to help build friendlier relations between Japan and other parts of Asia by encouraging development, nurturing human resources and promoting academic pursuits in countries across the region. In the eight years since, the foundation has provided graduate scholarships for study in Japan to scholars from China, South Korea, Indonesia, Malaysia and other Asian countries. The number of scholarship recipients has grown to 74, including 55 past alumni.

One feature of the Epson International Educational Foundation is that long after granting scholarships, the foundation continues to support interaction between international colleagues through a host of different events. The foundation also publishes *Rainbow*, a newsletter that serves as an information exchange forum for current scholarship recipients, former alumni and those affiliated with the foundation.

In the fiscal year ended March 31, 2005, the foundation held an awards ceremony, company tours and a reunion for scholarship recipients. The foundation newsletter also invited submissions discussing students' impressions of their study abroad experience in Japan or their research themes for its "International Students Speak" column. These submissions describe to readers both the joys and the difficulties of being a student abroad, but also tell of the research activities of the students themselves in environmental issues, IT and other advanced fields. Through their demanding, if gratifying, academic lifestyles, these students from Asia are dedicated to building a better future. And Epson, for its part, is committed to supporting their enthusiasm.



Induction ceremony for the Scholarship Alumni Association

### ■ Support for Culture and the Arts Donations to the Saito Kinen Festival Matsumoto

Epson has sponsored the Saito Kinen Orchestra since 1989 and became one of the main sponsors of the Saito Kinen Foundation in 1992. The company also co-sponsors the annual Saito Kinen Festival Matsumoto, held in Nagano Prefecture.



The Saito Kinen Orchestra in concert

### Presentation of PiezoGraph Works by Taizi Harada

In April 2005, Epson collaborated with noted Japanese artist Taizi Harada in donating 34 PiezoGraph versions of his works to the city of Suwa in Nagano, Japan. This donation was made in the hope that these PiezoGraph prints will raise awareness of and stimulate interest in the arts in Japan. Suwa mayor Katsufumi Yamada, who received the artwork on behalf of the city, expressed his appreciation for the donation and a desire to see the works



Suwa City Mayor Katsufumi Yamada (left) and company president Seiji Hanaoka (right)

displayed not only in museums but in municipal buildings and released on loan to schools.

### ■ Charitable Activities Relief for Disaster-stricken Areas

Through the Japanese Red Cross Society, Epson gave monetary donations to support relief efforts in parts of Niigata Prefecture affected by the Chuetsu Earthquake that struck on October 23, 2004. Epson also trucked in a stockpile of emergency body warmers, bottled water, food rations and other supplies to Ojiya, one of the cities hardest hit by the earthquake. As a special service, Epson Sales Japan Corporation waved technical fees related to product repair and charges for dispatching repair technicians for products under warranty for all repairable Epson products malfunctioning as a result of the earthquake.

Primarily through local subsidiaries, Epson also sent monetary donations and supplies to assist those affected by the Sumatra earthquake that originated off the coast of Indonesia on December 26, 2004. In the future, Epson will continue to support recovery efforts in areas affected by natural disasters.

### Support for the Special Olympics

From February 26 to March 5, 2004, Japan's Nagano Prefecture was host to the Special Olympics World Winter Games. Epson, which is headquartered

in Nagano and has numerous business sites and affiliates in the area, provided a variety of support and exchange programs for the event. Material support included Epson PCs, 3LCD projectors, printers, and digital cameras. In addition to providing monetary funding, Epson also dispatched personnel to serve as key event staff and volunteers. From February 22 to the 25, just prior to the games, athletes from France stayed with host families in the area under the Host Town Program, made possible through a sister city agreement between the city of Suwa in Nagano and the French city of Amboise. Epson also brought in Japanese interpreters to accompany athletes, coaches, foreign interpreters and athletic delegations at event facilities. On March 3, 2005, Timothy P. Shriver, international Chairman and CEO for the Special Olympics, and others associated with the games visited Epson Mizube Corporation's Matsumoto Plant and the Matsumoto Head Office of Sanyo Epson Imaging Devices Corporation to observe work being performed by physically challenged employees at both sites. Commenting on Epson's proactive recruitment of mentally and physically challenged employees, Mr. Shriver expressed hopes of remaining in close contact with Epson even after the games had drawn to a close.



## Management Topics

### Business Partnership and Capital Ties With Toyocom Ahead of Quartz Device Business Integration

Epson and Toyo Communication Equipment Co., Ltd., (Toyocom) have agreed to integrate their respective quartz device operations on October 1, 2005. To strengthen ties between the two companies ahead of the proposed integration, Epson has subscribed to ¥2.7 billion of a total of ¥5.4 billion in convertible bonds with subscription rights issued by Toyocom.

Quartz devices play a critical role in digital IT equipment. Demand for these devices remains firm as the global market expands in line with growing areas of application in recent years, including use in mobile phones. Alongside increased demands for products that are more compact, deliver higher performance and facilitate volume production, has come the necessity of boosting R&D speed and creating more efficient production systems. By integrating their operations, Epson and Toyocom will enhance their respective strengths and heighten synergies, with the aim of emerging as the leading company in the quartz devices industry.

### 3LCD Group Formed to Promote Awareness of 3LCD Projection

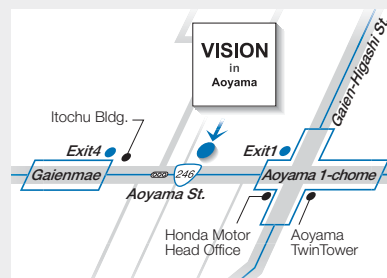
Epson has joined forces with leading 3LCD projector manufacturers to form the 3LCD Group. This Group seeks to educate consumers and market experts alike on the unique features and advantages of 3LCD technology in which three distinct, high-temperature polysilicon TFT LCD panels are used inside liquid crystal projectors. The mission of the 3LCD Group is to convey the benefits and features of 3LCD to a wide range of consumers and experts in the field by conducting promotional activities, product demonstrations, and publicizing the latest industry news. Sales of LCD projectors, large 3LCD projection TVs, and other 3LCD projection products continue to grow steadily. As it strives to improve 3LCD technology, Epson is working to expand sales volume for the 3LCD market.



3LCD Group logo

### Opening of “Vision in Aoyama”—a Shop for Users to Experience Digital Imaging Devices Firsthand

Epson recently opened “Vision in Aoyama,” a directly managed shop in the upmarket Omotesando area of Aoyama, Tokyo. In addition to being a showroom where people can view and touch the latest printers, LCD projection TVs and other products, Vision is also designed to simulate the actual conditions customers will use the products in. Customers wishing to purchase products can order on the spot. Omotesando and Aoyama have always been at the forefront of the latest trends in Japan. By opening a directly managed outlet in this area, Epson is positioning Vision to serve as a beacon, disseminating information that will heighten the appeal of the Epson brand. Ultimately though, Epson hopes that, in addition to boosting its brand image, Vision will be a pipeline for strengthening communication with its customers.



Address: 4-7 Kitaaooyama 1-chome, Minato-ku, Tokyo 107-0061, Japan

### Launch of K3 Inks and High-Quality, Large-Format Inkjet Printers

Boosting its lineup of large-format inkjet printers, Epson has launched new models including revolutionary K3 inks.

Born out of feedback from customers wanting to print vivid pictures in black and white, K3 pigment-based inks achieve both stunning images and a higher degree of archival quality for prints. K3 equipped printers come with three monochrome inks (black, grey and light grey), and color ink—vastly improving black and white image quality, while retaining the capacity to produce a wide spectrum of colors. A broader range of printing expression is also made possible through an extensive lineup of professional printing paper used to produce artwork. Moreover, the K3 inks make possible black and white prints that are lightfast for up to 200 years. Looking ahead, Epson will seek ways to upgrade its lineup of high-end printer models to further expand its base of users.



Epson Stylus Pro R2400

### Seiko Quartz Astron—the World's First Quartz Wristwatch—Receives the IEEE Milestone Award

Epson and Seiko Corporation were honored by the Institute of Electrical and Electronics Engineers, Inc. (IEEE) with the organization's prestigious Milestone Award for developing and marketing the world's first quartz wristwatch, the Seiko Quartz Astron, in 1969. The award recognizes the product's role in spurring the spread and development of quartz watches, ushering in an era where it became possible for anyone anywhere to know the correct time. The Milestone Award spotlights achievements around the globe with an extraordinary impact on the history of electrical and electronic technology and related fields, and that have also made a tremendous contribution to society as a whole. More than 50 Milestone Award recipients have been named worldwide since the program was established in 1983. Seiko Quartz Astron is the fourth award recipient in Japan.



Seiko Quartz Astron

### Joint Development of Next-generation Technology for Non-volatile Memory With Fujitsu

Epson and Fujitsu Limited have agreed to collaborate on the development of next-generation technology for Ferroelectric Random Access Memory (FRAM®)<sup>\*1</sup> non-volatile memory<sup>\*2</sup>. Targeting completion in the first half of 2006, Epson and Fujitsu, in addition to the development of highly integrated, next-generation FRAM, also plan to develop memory core process technology that features minimal constraints on the number of read/write cycles that can be executed. As digital information devices have become increasingly sophisticated in recent years, demand for FRAM non-volatile memory, which features advantages such as low power consumption and high read/write speeds, has risen steadily. Through joint development of next-generation FRAM technology, Epson and Fujitsu plan to combine their elemental technologies, such as for FRAM materials and miniaturization processes, to enable shorter development periods.

<sup>\*1</sup> FRAM® is a registered trademark of Ramtron International Corporation of the United States, and refers to non-volatile memory that uses a ferroelectric film on the capacitor for data retention. This memory technology features low power consumption, high-speed data read/write functions, and virtually unlimited read/write cycles.

<sup>\*2</sup> Non-volatile memory refers to memory that can retain its data content when power is turned off.

# Corporate History and Epson Milestones

1950-1960

1970

1980

## Management

**Oct. 1964**

Seiko Group selected as the official time-keeper for the Olympic Games in Tokyo.

**Aug. 1968**

Tenryu (Singapore) Pte. Ltd., (now Singapore Epson Industrial Pte. Ltd.), the first overseas manufacturing affiliate, established to manufacture watch cases, press-processed parts, and auto-lathed parts.

**Sept. 1968**

Launched EP-101, the world's first mini printer.

**Apr. 1975**

Epson America, Inc. established as the first overseas sales subsidiary to market and sell computers, peripheral equipment and electronic devices.

**June 1975**

Epson brand established.

### The Epson Brand

Originally developed to print official time records for the Tokyo Olympic Games, Epson's EP-101 mini printer rode a wave of demand for printers accompanying the rapid uptake of calculators to become a runaway success, shipping a cumulative total of 1.44 million units. Encapsulating the hope that EP-101 would spawn a proud line of similarly valuable products, the letters EP (for electronic printer) were combined with the word SON to form the "EPSON" brand name.

**May 1983**

Epson Sales Japan Corporation established as a sales company targeting the Japanese market.

**Jan. 1985**

Shonai Electrical Industries Co., Ltd. (currently Tohoku Epson Corporation), a Japan-based production company, is established.

**Nov. 1985**

Suwa Seikoshia Co., Ltd., and Epson Corporation merge to become Seiko Epson Corporation.

## Information-Related Equipment Segment



**September 1968**

The EP-101 was the world's first compact and lightweight digital printer and the first Epson brand printer.

**October 1980**

The compact and lightweight MX-80 computer printer was ahead of its time.

**July 1982**

The HX-20 offered a new style of computing as the world's first handheld computer.

**1990**

The TM-930 created a new market as a PC-POS package printer.

## Electronic Devices Segment



**1970**

The SAM-D rare-earth bonded magnet paved the way for Epson's magnet operations.

**April 1971**

CMOS ICs for watches were the starting point for Epson's semiconductor operations.

**April 1987**

SG-615 plastic SMD crystal oscillators eventually became a de facto standard.

**June 1988**

Epson developed the world's first LCD panel module used in color EVFs for video cameras.

## Precision Products Segment



**June 1956**

The Seiko Marvel was an original design for mechanical watches that became the basis for Epson's watch business.

**September 1963**

Eliminating the need for an AC adapter, the Seiko Crystal Chronometer QC-951 became the first portable precision quartz clock.

**December 1969**

The Seiko Quartz Astron 35SQ revolutionized time-piece history as the world's first quartz watch.

**May 1983**

The SSR-H series of horizontally articulated precision assembly robots were Epson's first commercially sold factory automation products.

# 1990

**Jan. 1990**

Epson Europe B.V., Epson's European regional headquarters, established in Amsterdam, the Netherlands.

**Oct. 1992**

Complete elimination of CFCs from manufacturing process achieved at all factories and affiliates in Japan. Epson receives the 1992 Stratospheric Ozone Protection Award from the U.S. Environmental Protection Agency.

**Apr. 1994**

ISO 9000 series certification for quality management systems acquired by all Epson plants in Japan.

**Feb. 1998**

Seiko Group chosen as the official timekeeper for the Olympic Winter Games in Nagano.

**Apr. 1998**

Epson (China) Co., Ltd. established in Beijing as Epson's regional headquarters in China.

**Oct. 1998**

Epson Stylus Color 900 becomes the first color printer in space aboard the Space Shuttle Discovery.

# 2000

**May 2001**

ISO 14001 certification obtained for environmental management systems at all the Company's 68 major business sites around the world.

**June 2003**

Epson listed on the First Section of the Tokyo Stock Exchange.

**Oct. 2004**

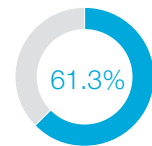
Sanyo Epson Imaging Devices Corporation commenced operations.

**Apr. 2005**

Formulation of "Exceed Your Vision," the global tagline for enhancing the Epson brand worldwide.



Proportion of Sales



**March 1993**

Epson Stylus 800 was the first inkjet printer that used Micro Piezo technology.

**December 1994**

The ELP-3000 LCD data projector realized high brightness and resolution.

**April 1997**

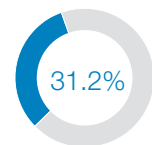
Epson Stylus Photo, a Micro Piezo printer, achieved unprecedented picture quality by using six colors of ink.

**May 2000**

Featuring a new pigment ink, the Epson Stylus Pro 9500 large-format printer offered both outstanding lightfastness and super photo quality.



Proportion of Sales



**July 1993**

By incorporating low-power circuitry, the SED1560 series of LCD drivers took the market by storm.

**August 1993**

The ECM-A0662 black-and-white STN LCD panel module was at the forefront of the LCD module business for mobile phones.

**November 1999**

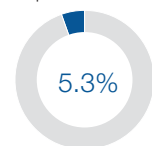
Mobile phone manufacturers flocked to the ECM-A1192, a transfective color STN LCD panel module with ultra-low power consumption.

**November 2000**

The MD19SBT was an MD-TFD active matrix color LCD that also featured ultra-low power consumption.



Proportion of Sales



**January 1988**

By converting arm movement into electrical power, the Seiko AGS became the world's first automatic power generating quartz watch.

**March 1993**

Monsieur, the ultra-compact micro-robot capable of autonomous movement, found its way into the Guinness Book of Records.

**April 1997**

Epson led the world in developing Seiko Super P-1, the world's first backside progressive addition lens.

**December 1999**

Proprietary Epson technologies led to the Seiko Spring Drive, a spring-driven watch with quartz accuracy.

## Principal Subsidiaries and Affiliates

(As of March 31, 2005)

Company Name	Location	Main Business
<b>■ Subsidiaries</b>		
Epson Sales Japan Corporation	Japan	Sales of information-related equipment
Epson Direct Corporation	Japan	Sales of information-related equipment
Epson OA Supplies Corporation	Japan	Sales of information-related equipment
Tohoku Epson Corporation	Japan	Manufacture of information-related equipment and electronic devices
Sanyo Epson Imaging Devices Corporation	Japan	Manufacture and sales of electronic devices
Orient Watch Co., Ltd.	Japan	Manufacture of information-related equipment and electronic devices
U.S. Epson, Inc.	U.S.A.	Regional headquarters
Epson America, Inc.	U.S.A.	Sales of information-related equipment and precision instruments
Epson Electronics America, Inc.	U.S.A.	Sales of electronic devices
Epson Portland Inc.	U.S.A.	Manufacture of information-related equipment
Epson El Paso, Inc.	U.S.A.	Manufacture of information-related equipment
Epson Europe B.V.	Netherlands	Regional headquarters
Epson (U.K.) Ltd.	U.K.	Sales of information-related equipment
Epson Deutschland GmbH	Germany	Sales of information-related equipment and precision instruments
Epson Europe Electronics GmbH	Germany	Sales of electronic devices
Epson France S.A.	France	Sales of information-related equipment
Epson Italia s.p.a.	Italy	Sales of information-related equipment
Epson Iberica, S.A.	Spain	Sales of information-related equipment
Epson Telford Ltd.	U.K.	Manufacture of information-related equipment
Epson (China) Co., Ltd.	China	Regional headquarters
Epson Korea Co., Ltd.	Republic of Korea	Sales of information-related equipment
Epson (Shanghai) Information Equipment Co., Ltd.	China	Sales of information-related equipment
Epson Hong Kong Ltd.	Hong Kong	Sales of information-related equipment and electronic devices
Epson Taiwan Technology & Trading Ltd.	Taiwan	Sales of information-related equipment and electronic devices
Epson Singapore Pte. Ltd.	Singapore	Regional headquarters; sales of information-related equipment and electronic devices
Epson Australia Pty. Ltd.	Australia	Sales of information-related equipment
Suzhou Epson Co., Ltd.	China	Manufacture of electronic devices
Tianjin Epson Co., Ltd.	China	Manufacture of information-related equipment
Epson Precision (Hong Kong) Ltd.	Hong Kong	Manufacture of information-related equipment, electronic devices and precision instruments
Singapore Epson Industrial Pte. Ltd.	Singapore	Manufacture of information-related equipment, electronic devices and precision instruments
P.T. Indonesia Epson Industry	Indonesia	Manufacture of information-related equipment
Epson Precision (Philippines), Inc.	Philippines	Manufacture of information-related equipment and electronic devices
Epson Precision (Malaysia) Sdn. Bhd.	Malaysia	Manufacture of electronic devices
70 other companies		
<b>■ Affiliates</b>		
Yasu Semiconductor Corporation	Japan	Manufacture of electronic devices
Time Module (Hong Kong) Ltd.	Hong Kong	Sales of precision instruments
10 other companies		

## Financial Section

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# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview

### Net Sales

Consolidated net sales increased ¥66,507 million, or 4.7%, to ¥1,479,750 million. This growth was mainly attributable to an increase of ¥41,458 million, or 9.4%, in sales in the electronic devices segment to ¥482,611 million. Another factor was an increase of ¥25,649 million, or 2.8%, in sales in the information-related equipment segment to ¥946,029 million.

Sales for each business segment were as follows.

In the information-related equipment segment, sales were up ¥25,649 million, or 2.8%, to ¥946,029 million. Results by product category were as follows.

Despite a decline in single-function printer volumes, reflecting growth in the multifunction printer market, sales of inkjet printers, including related supplies (the same applies to various printers mentioned below), rose on the back of two key factors. One was growth in multifunction printer volumes, while another was higher sales of supplies tracking an increase in the number of inkjet printers in use. Sales of laser printers also rose, boosted by higher volumes of supplies as the number of laser printers in use climbed. Sales of scanners and other products fell as expansion of the multifunction printer market hindered sales of single-function scanners.

In the electronic devices segment, sales increased ¥41,458 million, or 9.4%, to ¥482,611 million. Results by product category were as follows.

The start of operations at SANYO EPSON IMAGING DEVICES CORPORATION had the effect of adding two new products to Epson's LCD lineup: amorphous silicon TFT LCDs, and low-temperature polysilicon TFT LCDs. Growth in sales volumes drove higher sales of graphics-rendering system LSIs for mobile phones and quartz devices found in mobile phones and digital still cameras. In contrast, lower monochrome STN-LCD output and fierce competition in color STN-LCDs caused volumes and monetary sales to decline for both products. In LCD drivers and MD-TFD LCDs, falling prices from intensifying competition pushed sales lower, particularly for color LCD drivers and MD-TFD LCDs for mobile phones.

In the precision products segment, sales increased ¥41 million year on year, or 0.0%, to ¥81,143 million. Results by product category were as follows.

Sales of optical devices rose on higher volumes, tracking growth in the LCD projector market. Sales of corrective lenses were also higher, driven primarily by a climb in sales volumes in the North American market. Watch sales, meanwhile, declined due to lower volumes, reflecting a lackluster market.

In the other segment, sales increased ¥5,053 million, or 17.2%, to ¥34,510 million.

## Net Sales by Business Segments

	Millions of yen, except percentages					
	Year ended March 31					
	2003		2004		2005	
Information-related equipment	¥ 915,857	66.6%	¥ 920,380	62.5%	¥ 946,029	61.3%
Electronic devices	354,288	25.7	441,153	30.0	482,611	31.2
Precision products	79,745	5.8	81,102	5.5	81,143	5.3
Other	26,310	1.9	29,457	2.0	34,510	2.2
Total	1,376,200	100.0%	1,472,092	100.0%	1,544,293	100.0%
(Eliminations and corporate)	(53,747)		(58,849)		(64,543)	
Total net sales	¥1,322,453		¥1,413,243		¥1,479,750	

## Cost of Sales and Gross Profit

Cost of sales increased ¥56,052 million, or 5.5%, to ¥1,070,011 million, rising 0.6 of a percentage point to 72.3% of net sales. The increase in the cost of sales came from higher sales, while the increase in the cost of sales ratio stemmed from falling prices in the electronic devices segment, which outweighed cost savings in the information-related equipment segment.

As a result of these factors, gross profit increased ¥10,455 million, or 2.6%, to ¥409,739 million. The gross profit margin declined by 0.6 of a percentage point to 27.7% of net sales.

## Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative (SG&A) expenses decreased ¥3,111 million, or 1.0%, to ¥318,772 million. One benefit of cost cutting was respective decreases of ¥1,153 million and ¥831 million in shipping costs and salaries and wages. Lower SG&A expenses also stemmed from a decline in other expense items. These decreases were partially mitigated by respective increases of ¥1,764 million and ¥1,668 million in research and development costs and advertising.

From the foregoing factors, operating income was up ¥13,566 million, or 17.5%, to ¥90,967 million, rising 0.6 of a percentage point to 6.1% of net sales.

Operating income for each business segment was as follows.

In the information-related equipment segment, operating income climbed ¥15,653 million, or 34.1%, to ¥61,555 million. This increase was largely attributable to higher sales and cost reductions.

In the electronic devices segment, operating income declined ¥2,068 million, or 5.1%, to ¥38,553 million. Although some cost-cutting measures met with success, operating income was negatively impacted by several factors. Among these was the lower profitability of amorphous silicon TFT LCDs due to a sharp decline in market prices for large LCD panels in the second half of the fiscal year. Other factors included falling prices for color LCD drivers from fiercer competition, and a declining capacity utilization rate for low-temperature polysilicon TFT LCDs soon after the commencement of these operations.

In the precision products segment, operating income decreased ¥374 million, or 13.3%, to ¥2,436 million, mainly due to a decline in watch sales volumes and falling prices.

In the other segment, there was an operating loss of ¥13,004 million, an increase of ¥981 million compared to the prior fiscal year.



### Other Income and Expenses

During the year under review, other expenses subtracted from other income resulted in a net expense of ¥17,320 million, ¥4,977 million more than the net expense of ¥12,343 million in the prior fiscal year. This increase was primarily due to ¥4,608 million in expenses related to a review of the company's product mix, and ¥2,285 million in retirement expenses for prior years at overseas subsidiaries. These items compared to expenses of ¥2,044 million in the previous fiscal year from the streamlining of production sites in the company's display operations, booked as reorganization costs, as well as an increase in net loss on foreign exchange of ¥3,405 million.

### Income Before Income Taxes and Minority Interest

Income before income taxes and minority interest increased ¥8,589 million, or 13.2%, to ¥73,647 million.

### Income Taxes

Income taxes decreased ¥6,672 million to ¥19,901 million. Income taxes increased in line with higher income before income taxes and minority interest, but the decrease mainly reflects tax credits for experimental research costs and IT investment. For the same reasons, the effective tax rate decreased from 40.9% to 27.0%.

### Minority Interest

A loss of ¥1,943 million was recorded for minority interest in subsidiaries, compared to a gain of ¥454 million in the previous year. This stemmed mainly from the interest of minority shareholders in the loss at SANYO EPSON IMAGING DEVICES CORPORATION.

### Net Income

As a result, net income increased ¥17,658 million, or 46.4%, to ¥55,689 million.

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## Liquidity and Capital Resources

### Cash Flow

For many years, the primary sources of liquidity at Epson have been operating cash flows and bank loans.

Net cash provided by operating activities was ¥162,489 million, compared to ¥182,669 million in the fiscal year ended March 31, 2004. Cash flows from operating activities decreased mainly due to increased demand for capital accompanying the integration of Epson's LCD operations with those of the SANYO Group.

Net cash used in investing activities was ¥99,396 million, compared to ¥65,329 million in the prior fiscal year. The increase was chiefly attributable to an increase in capital expenditures to foster upcoming businesses and support future growth, including investments to increase output of high-temperature polysilicon TFT LCD panels for LCD projectors.

Net cash used in financing activities was ¥96,373 million, compared to ¥40,918 million in the prior fiscal year. In the year under review, this was largely due to the net repayment of ¥91,322 million in short-term and long-term loans as operating cash flows greatly outweighed cash flows from investing activities.

Due to these factors, there was a net decline of ¥30,279 million in cash and cash equivalents.

As of March 31, 2005, short-term bank loans and long-term debt totaled ¥394,797 million, compared to ¥457,000 million a year ago. This was attributable to the repayment of loans discussed in cash flows from financing activities, which offset an increase in bank loans from business integration in the company's LCD operations. Long-term debt, excluding the current portion, accounts for the majority of Epson's loans. As of March 31, 2005, long-term debt, excluding the current portion, amounted to ¥259,919 million with a weighted-average interest rate of 1.33%. Almost all of these loans are unsecured bank loans with maturities up to July 2011.

Epson has organized lines of credit with 13 banks totaling ¥80,000 million with the goal of enabling it to procure funds with greater efficiency. As of March 31, 2005, none of this credit was drawn on. In combination with cash and cash equivalents of ¥234,904 million at March 31, 2005, Epson believes that it has sufficient liquidity.

#### Financial Condition

Total assets as at March 31, 2005 were ¥1,297,790 million, compared to ¥1,206,491 million as at March 31, 2004.

Current assets and fixed assets increased ¥37,543 million and ¥53,756 million, respectively. Current assets increased largely atop of an increase in notes and accounts receivable, trade and inventories, reflecting the business integration in LCD operations and other factors, which outweighed a decline in cash and cash equivalents due to the repayment of loans. Likewise, property, plant and equipment increased mainly as a result of the aforementioned business integration, as well as an increase in capital investments.

Total liabilities as at March 31, 2005 were ¥798,263 million, compared to ¥789,582 million as at March 31, 2004. Current liabilities increased ¥87,028 million, while long-term liabilities decreased by ¥78,347 million. Despite the repayment of short-term bank loans, the increase in current liabilities was due mainly to an increase in the current portion of long-term debt scheduled for repayment within one year and effects of the integration of LCD operations. The decrease in long-term liabilities mainly reflected repayments.

Working capital, defined as current assets less current liabilities, was ¥242,111 million, compared to ¥291,596 million as at March 31, 2004. This came as increases in notes and accounts receivable, trade and inventories, and a decrease in short-term bank loans, were countered by a decline in cash and cash equivalents, as well as increases in the current portion of long-term debt and accounts payable, other.

The ratio of debt to total assets was 30.4% as at March 31, 2005, compared to 37.9% at the previous fiscal year-end, and was primarily due to loan repayments.

## Risks Related to Epson's Business Operations

The matters relating to the state of businesses financial statement and management result of operation set out in the securities this report that might have a material affect on the investors' decisions are as follows.

It is Epson's policy to be aware of the possibilities of these risks arising and to strive to prevent them from arising or respond to them if they do arise.

This paragraph contains matters that relate to the future, but such matters are only judgments made as of the day of this report.

### (1) Epson's relies to a significant degree on profits from its inkjet printer business

Epson's ¥942,401 million of sales from its information-related equipment business for the year ending March 2005 constituted 63.7% of its consolidated sales, which were ¥1,479,750 million (excluding inter-segment). Inkjet printers and consumables accounted for much of the sales and profits of the information-related equipment business. So there is a possibility that sluggish sales of inkjet printers and their related supplies will have a material adverse effect on Epson's overall results.

### (2) Price competition causes a downward trend in prices

Market prices of information-related equipment are declining seriously, because recently competition has been intensifying further and there has been a shift in demand toward cheaper products. A slackening in demand or an excess of supply in mobile communications devices and related devices could possibly cause prices of electronic components for mobile communications devices, such as color LCDs and LCD-driver ICs, to drop in the future, and could similarly affect other products.

Epson is striving to improve profitability by reducing production costs, such as by using low-cost designs, and is taking measures to fight the trend of declining prices, such as by expanding sales of highly value-added products. However, there is no assurance, of course, that these efforts will succeed, and if Epson is unable to respond effectively counteract the declining prices trend, its results might be adversely affected.

### (3) Epson's technologies compete with the technologies of other companies

Some of Epson's products that it sells contain technology with which Epson competes against other companies. For example,

1. Epson's Micro Piezo technology\*<sup>1</sup> that it uses in its inkjet printers competes with the thermal inkjet technologies\*<sup>2</sup> of other companies; and
2. Epson's 3LCD technology\*<sup>3</sup> that it uses in its projectors and large LCD projection TVs compete with other companies' DLP\*<sup>4</sup> and LCOS\*<sup>5</sup> technologies.

Epson believes the technology it uses in these sorts of products is technologically superior to the alternative technologies of other companies, but if consumer opinion with respect to Epson's technology changes, or if other revolutionary technologies appear on the market and compete with Epson's technologies, Epson may lose that competitive edge and its results might consequently be adversely affected.

\*1. Micro Piezo technology is an inkjet printer technology created by Epson that manipulates so-called piezoelectric elements to fire small droplets of ink from the printer nozzle.

\*2. Thermal inkjet technology is a type of technology for printers whereby the ink is heated to create bubbles and the pressure from the bubbles is used to fire the ink. (Some manufacturers call this technology by different names such as bubble jet technology.)

\*3. 3LCD technology is a technology whereby TFT displays are used as light valves. The light from the light source is divided into the three primary colors (red, blue, and green) using a special mirror, the picture is created on separate LCDs for each color, and then the picture is recombined and projected on the screen.

\*4. The DLP technology is a technology that uses a digital micro-mirror device (DMD) as a display device. A DMD is a display device on which hundred of thousands of micro mirrors are arranged, each mirror directing light onto its own individual pixel, and the image is created by the light from the light source being reflected from the mirrors onto the screen. DLP is a trademark of Texas Instruments.

\*5. LCOS technology is a technology that uses liquid crystal on silicon (LCOS) as a display device. It is characterized by the extremely large number of openings on the surface of the reflective LCD panel. Because the circuits and the switching elements are etched underneath the reflective layer, there is no need for the BM (a light-blocking layer that prevents light from falling on the pixel transistor area), making for a seamless display of the picture.

#### (4) Epson might experience a reduction in the market for Epson-brand consumables

Consumable products for inkjet printers, especially ink cartridges, are particularly important to Epson's sales and profit. There are third parties who supply ink cartridges that can be used in Epson printers. These alternative products are generally sold at prices cheaper than Epson's brand products, and they are slowly gaining market share in Japan and the United States, but even more so in Europe and developing countries. Such third parties will continue to expand their share of the market for these alternative products in the future, so for Epson to remain competitive, it might have to lower its prices of such consumables.

In responding to such risks as a decline in its share of the market for Epson-brand products and a reduction in prices, Epson has will continue to introduce onto the market, in accordance with the demands and tastes of consumer in each region, its own products that appeal to consumers searching for quality and ease of use. For example, it will aim to maintain and improve the quality of its products, and it will strive to boost their user-friendliness, such as by using even longer lasting ink and an array of single-color ink cartridges. Epson will also take legal measures to if any of its patent rights or trademark rights it holds over its ink cartridges are infringed.

There is no assurance, however, that any of these efforts will be effective, and if Epson's profit from consumable products for inkjet printers declines because, for example, in the future the market share occupied by the alternative products increases further or Epson must reduce the prices of its brand products, then Epson's results might consequently be adversely affected.

#### (5) A change in the market could affect Epson

Epson is focusing its managerial resources into its 3i business domain, which comprises the three businesses Epson believes have high growth potential of imaging on paper (i1), imaging on screen (i2), and imaging on glass (i3). It is engaged in its strategy of establishing ties among and bringing together its finished products and devices businesses while continuing to expand its myriad areas of business.

##### 1. imaging on paper (i1)

This business aims to break away from the traditional idea of the printer being merely a computer peripheral and decentralize printing by printers. For example, it intends to increase the opportunities for printing directly from mobile communication devices and digital cameras without having to connect to a computer and aims to have printers perform "imaging on paper" themselves, had been performed by printing analogue photographs, copies, and the publishing.

##### 2. imaging on screen (i2)

In addition to further enhancing the presence of Epson projectors in the business market, by capitalizing on the move toward digital broadcasting and the increase in quality of image contents, Epson aims to expand its business market by pushing further into the markets for large LCD projection TVs and for home entertainment.

##### 3. imaging on glass (i3)

In this business domain, Epson aims to develop novel technologies and new applications, such as small and medium-sized LCDs that stand out as unique from the rest and even more organic ELs. Epson will also further build on and expand its inherent strengths, and through a fusion of such things as semiconductor technology and color image display technology create technologies that cannot be copied by other companies and utilize them in creating new products.

However, because technological innovation and product cycles are so extremely fast in these markets for Epson's products into which it is focusing its managerial resources, if Epson is unable to respond flexibly to such changes and develop and introduce competitive products, or if the product does not grow as much as is anticipated, then Epson's results could consequently be adversely affected.

**(6) Epson relies on certain clients in its electronic devices business**

About half of Epson's sales in its electronic devices business is dependent on Epson's top 5 major customer groups (which includes each of their suppliers). Epson treats mobile communications devices as a business domain and pours its managerial resources into such efforts as developing technologies and securing production capacity. As a result of this, Epson has a record of transactions with the market's major manufacturers of mobile communications devices and has established good relationships among these customers, such as by engaging in the medium-term joint development of products.

Epson believes that these trends will not change in the future, but there is a possibility that these major customers will not carry out the same scale of transactions with it as they have done in the past. If Epson was to lose its transactions with these clients, Epson's results of operations could consequently be adversely affected.

**(7) Trends in the semiconductor market might adversely affect Epson**

There are various trends in the electronics devices market, such as for semiconductors and for devices for mobile communication devices, that reflect product life cycles and the economic environment. History also shows that large declines in the states of certain things are cyclical, and when that happens, demand becomes sluggish, there is excess production, and prices fall.

A deterioration in the situation in, for example, the electronics devices market, such as for semiconductors and for devices for mobile communication devices, could adversely affect Epson's financial condition and results of operations. There is also no assurance that Epson can always accurately predict future trends, and it is possible that Epson might not be able to make investments that are timely or appropriate enough to respond to market trends.

**(8) Epson competes with other companies in all its businesses**

Epson faces serious competition in all its businesses with the following types of companies, and this competition could adversely affect Epson's results.

1. Big companies with large amounts of funds or strong financial compositions.
2. Companies in Taiwan, Korea, or China, for example, that have the ability to compete products or compete on prices in Epson's markets.

In addition to the above competition, there is also the possibility that big companies Epson is not currently in competition with may use their brand power, technological strength, ability to procure funds, excellent marketing resources, sales skills, or ability to produce at low costs to enter a business area of Epson's and compete with it.

**(9) There are risks inherent in contributing to Yasu Semiconductor Corporation**

In June 2001, the company established Yasu Semiconductor Corporation ("YSC") through a joint venture with International Business Machines Corporation and its affiliates (collectively, "IBM"), with the aim of, among other things, operating a facility that produces ICs incorporating 200 mm silicon wafer chips, which up to then IBM had controlled in Japan. Upon the establishment of YSC, Epson acquired 50% of total issued shares of ¥8.1 billion. IBM has an option, effective from the end of June 2006, to sell its 50% of YSC shares to Epson for ¥9.5 billion, and Epson has an option, effective from the same date, to buy those shares for ¥9.5 billion.

Epson currently produces semiconductors at YSC and plans to continue doing so, but there is no assurance that plan will not change in the future because of movements in market for Epson's semiconductor products or other factors. If Epson changes that plan, it might incur a loss in relation to its present and future contributions to YSC.

**(10) Expanding businesses overseas entails risks for Epson**

Epson is continuing to expand its businesses overseas; 63.9% of its consolidated sales for the business year ending March 2005 were overseas sales. Epson has production bases all over Asia, such as China, Indonesia, Singapore, and Malaysia, and in America, England, Mexico, and Brazil. It has also established many distribution companies all over the world. Epson's employees overseas as of March 2005 accounted for 73.3% of its overall employees.

Epson believes that this global expansion has many merits makes it possible to undertake market activities that precisely ascertain market needs of each individual region and leads to the securing of high-cost competitiveness through cutting production costs and reducing lead time. There are, however, unavoidable risks related to producing and selling overseas that come with expanding businesses overseas, some of which are changes in government regulations related to production, social, political, or economic changes, transport delays, damage to infrastructure (e.g., power supply), restrictions on currency exchanges, insufficient skilled labor, change in regional labor environment, changes in taxes, regulations or the like protective of trade, and laws, ordinances, regulations, or the like related to the import, export, or sale of Epson products.

**(11) The intense technological innovation required of Epson entails risks**

Because Epson is engaged in manufacturing and selling products that require advanced technologies, technology is an extremely vital element of Epson's businesses. Epson possesses the core technologies—for example, ultra-fine, ultra-precise processing technologies, low-power consumption technologies, thin-film technologies, surface treatment technologies, high-density mounting technologies, digital control technologies, and digital color image processing technologies. By evolving and fusing these technologies, Epson has been able to manufacture and sell products that meet customers' needs, thereby developing the presence for itself that it has today.

But because the rate of technological innovation required in most of the fields of Epson's products is so intensely fast, in order to respond swiftly to customer needs responding to changes in technology, Epson sometimes must make long-term investments or capital spending based on product predictions. Thus, while Epson is making every effort to respond to such intense technological innovations, such as by striving to grasp the needs of the market and customers in all of its businesses, and being actively engaged in medium-term joint product development projects with major customers, particularly in the electronics devices business, there is no assurance that these efforts will succeed. If they do not succeed, Epson's results could consequently be adversely affected.

**(12) The short life cycle of certain products makes Epson vulnerable to certain risks**

Epson is manufacturing and selling products that generally have short life cycles, such as consumer products. Epson has its own group distribution network throughout the world and is taking various measures, such as trying to understand, through its distribution subsidiaries and branches, the needs for different products in each region and striving to reduce lead time by establishing production bases in regions close to consumers. But if the transition from existing products to new products does not go smoothly, Epson's results could consequently be adversely affected.

Factors affecting whether the transition to new products goes smoothly include delays in the development or production of Epson's new products, competitors' timing in introducing their new products, the difficulty in predicting changes in consumers' needs, a slowdown in purchases of existing products, and competition between Epson's existing and new products.

**(13) Procuring products and outsourcing the manufacture of products comes with risks to Epson**

Epson procures parts, half-finished products, and finished products from third parties, but it has generally conducted transactions without entering into any long-term purchase agreements. Epson is developing upon its efficient procurement activities by cooperatively engaging with such suppliers in the maintaining product quality, improving products, and reducing costs. But if its ability to procure was to be adversely affected by, for example, insufficient supply from a third party, poor quality of products supplied, or the like, then Epson's results could consequently be adversely affected. Epson strives to, in principle, procure parts and the like from multiple suppliers, but there are some cases in which it can only procure parts of, for example, actuators, which are the primary component of the printer head in medium- and low-cost printers, because it is difficult to procure an alternative component from another company.

On the manufacturing side of business, Epson outsources the manufacturing of parts of products, such as laser printers and inkjet printers in the low price range, image scanners, and computers. If demand for such products rises severely, it will become difficult to secure alternative or additional manufacturers to outsource to, and Epson might become vulnerable to such risks as an increase in costs or

a delay in production. Also, Epson is outsourcing the manufacture of parts of products in the semiconductor business to silicon foundries\*6 and intends to increase that in the future. So if the foundries cannot timely and reliably manufacture products that meet Epson's specifications at an appropriate price, Epson's results could consequently be adversely affected.

\*6. A silicon foundry is a business that contracts to produce semiconductors in accordance with its clients' designs.

**(14) Epson faces risks concerning the securing of personnel**

It is vital that Epson secure qualified engineers and other technical personnel both in Japan and overseas for the development and manufacture of Epson's advanced new technologies and products, but the competition for recruiting such qualified engineers and other technical personnel is becoming increasingly intense. Epson is putting considerable effort into secure qualified engineers and other technical personnel by establishing research and development bases and design bases both in Japan and overseas. But if Epson is unable to continue to use or employ enough such qualified engineers and other technical personnel, the carrying out of its business plans could be adversely affected.

**(15) Fluctuations in foreign currency exchanges create risks to Epson**

A significant portion of Epson's sales are denominated in U.S. dollars or the Euro. Because Epson is striving to expand its overseas procurement and move its production bases overseas, thereby attracting an increase in expenses in foreign currencies linked to the Euro or U.S. dollar, although it offsets a significant portion of its U.S.-denominated sales, its Euro-denominated sales have become bigger than its Euro-denominated expenses. Also, although Epson has executed currency forwards and currency options to hedge against the risks inherent in foreign currency exchanges, unfavorable movements in foreign currency exchange rates such as the U.S. dollar or Euro against the yen could adversely affect Epson's results.

**(16) There are risks inherent in pension systems**

The company and some of its consolidated subsidiaries have, as of April 2004, changed their pension systems from the tax qualified defined benefit plans to the new tax qualified corporate defined benefit plans and the new tax qualified defined contribution plans. Consequently, Epson's defined-benefit pension system that it had established has now become the new tax qualified corporate defined benefit plans (fund-type), the new tax qualified corporate defined benefit plans (contract-type), the tax qualified pension plans and the termination allowance plan.

If, with respect to the defined-benefit pension-type of retirement pension plan, there is a change in the operating results of the pension assets or in the ratio used as the basis for calculating retirement allowance liabilities, Epson's results could consequently be adversely affected.

**(17) Epson's intellectual property rights activities expose Epson to certain risks**

Patent rights and other intellectual property rights are extremely important to Epson for maintaining its competitiveness. Epson has developed much of the technologies it needs itself, and it utilizes them as intellectual property in the form of products or technologies by acquiring patent rights, trademark rights, and other intellectual property rights for them or entering into agreements with other companies for them. Epson carefully selects the personnel who manage its intellectual properties and is constantly working to strengthen its intellectual property portfolio.

If, however, any of the following situations relating to intellectual properties occurs, Epson's results could consequently be affected.

1. An objection might be raised to, or an application to invalidate might be filed with respect to, an intellectual property right of Epson.
2. A third party to whom Epson originally had not granted a license might come to possess a license as a result of a merger with or acquisition by another third party, and Epson's competitive advantage that it had with that license might consequently be lost.
3. Epson might have new restrictions imposed on a business that were originally not imposed on it as a result of a merger with or acquisition by a third party, and it might be forced to spend money to find a solution to those restrictions.

4. Intellectual property rights that Epson has might not give it a competitive advantage or Epson might not be able to use them effectively.
5. Epson might be subject to a third party's claim of an infringement of intellectual property rights and have to spend a considerable amount of time and money to resolve the issue, or such a claim might interfere with Epson's management or focusing of managerial resources.
6. If a third party's claim of infringement of intellectual property right is upheld, Epson might incur damage in the form of having to pay considerable royalties or stop using the applicable technology.
7. A suit might be brought against Epson for payment of remuneration to researchers or the like for their inventions or the like, which would mean Epson might be forced to spend considerable money to resolve the issue.

**(18) There is a risks problems may arise relating to the quality of Epson's products**

Whether or not Epson provides quality guarantees on its products and, if it does, the details of those guarantees, differs from customer to customer, depending on the agreement it has entered into with them. If there is a defect in an Epson product or it does not conform to the required standard and consequently costs must be incurred to repair defects (such as by replacing or repairing the product) or the product causes damage to a person or property, then there is a possibility Epson might be subject to, for example, product liability.

Also, Epson might be held liable to a customer, and might incur expenses for repairs or corrections, on the grounds that it did not adequately display or explain an Epson product's performance.

Further, if such a problem in quality arises with respect to Epson products, Epson might lose the trust of others in its products, lose major customers, or experience a drop in demand for those products, any of which might adversely affect Epson's results.

**(19) Epson is vulnerable to risks of problems arising relating to the environment**

Epson is subject, both in Japan and overseas, to various environmental regulations concerning industrial waste and emissions into the atmosphere that arise during the manufacturing process. Environmental conservation activities are one of Epson's most important management policies, and it is proactively engaged in environmental conservation activities on all fronts, by developing and manufacturing products that have less of a burden on the environment, reducing the amount of energy used, promoting the recovery and recycling of used products, and improving environment management systems. Epson has not to date had any serious environmental issue arise as a result of any of these efforts, but there is a possibility that in the future Epson might be affected by a compensation claim, incur expenses (such as cleaning expenses), receive a fine, be ordered to cease production, or be otherwise affected as a result of environmental damage, or new regulations might be brought in requiring Epson to pay considerable expenses.

For example, on August 13, 2005, a government ordinance will come into effect, in accordance with an EU Directive dated January 27, 2003, that obligates manufacturers of electrical and electronic equipment in EU member countries to recover and recycle waste electrical and electronic equipment. And on July 1, 2005, a government ordinance will come into effect, in accordance with an EU Directive dated February 13, 2003, that prohibits the use in electrical and electronic equipment of specific harmful substances (lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE)), so Epson must now design products and procure parts that do not contain such substances and provide quality guarantees for those products.

Further, "the Kyoto Protocol" came into effect on February 16, 2005, legally binding its signatories to their promise to reduce greenhouse gas levels in advanced countries. Consequently, steps might have to be taken to reduce greenhouse gas emissions and it might be necessary to develop measures at manufacturing plants to conserve energy and develop products that are highly conservative with energy.

It is thus possible that Epson might incur considerable expenses in conforming to such newly enacted laws and ordinances, and they might have a serious affect on Epson's financial condition and results of operations.



**(20) Epson faces risks related to procedures taken under anti-monopoly laws**

There are occasions when Epson's businesses are subject to procedures under anti-monopoly laws or ordinances, such as the Law Concerning the Prohibition of Private Monopolization and Maintenance of Fair Trade. Overseas authorities also sometimes conduct surveys or gather information on specific fields of business, and as a part of that effort Epson will occasionally participate in, for example, surveys of a general nature related to market situations or sales methods etc. If Epson is subject to such surveys or procedures, its sales activities might be interfered with and they might adversely affect Epson's results.

**(21) Epson is at risk of material legal actions being brought against it**

Epson conducts its businesses both in Japan and overseas, its primary businesses being the development, manufacture, and sales of information-related equipment, electronic devices, and precision equipment. Given the special nature of its businesses, there is a possibility that an action could be brought or legal proceedings could be started against it regarding, for example, intellectual property rights, product liability, anti-monopoly laws, and environment regulations. Should that happen, society's trust in Epson might be harmed, and resolving and responding to the issue might require considerable expenses and management resources. The results of the action or legal proceedings might also adversely affect Epson's results or the development of Epson's business in the future.

The material actions involving Epson that are pending are as follows:

1. United States class action concerning an Epson inkjet printer

Consolidated class action complaints are pending against Epson America, Inc. in the United States, wherein a certified class is seeking an injunction and unspecified damages arising from the adequacy of Epson's communication of ink levels in Epson ink jet cartridges.

2. Action concerning payment of copyright fees in Germany

The German organization for collecting copyright fees, Verwertungsgesellschaft WORT, has brought an action against Epson Deutschland GmbH, a consolidated subsidiary of the company, to seek payment of copyright fees, claiming that a type of printer that Epson sells corresponds to equipment for the private copying of copyright works, which is subject to copyright fees. A draft of an arbitration petition has been submitted to the arbitration commission, which is where preliminary proceedings for this action are being held, that seeks a set payment of copyright fees for each printer sold by Epson Deutschland GmbH, but both parties have rejected it as unsatisfactory.

Although it is difficult to predict the result of the action or even when the decision will be handed down, if the decision is unfavorable to Epson, Epson's results might consequently be affected.

**(22) Epson is vulnerable to risks inherent in its tie-ups with other companies**

One of Epson's options for business strategies is to enter tie-ups with other companies. But if any sort of adverse situation arises between the parties in the tie-up, there is a possibility the tie-ups will be dissolved. There is also no assurance that the business strategy will succeed through the tie-ups exactly as expected or that they will contribute to Epson's results.

On March 16, 2005, Epson entered into with Toyo Communication Equipment Co., Ltd. a Business Merger Agreement and a Corporate Split Agreement, whereby as of October 1, 2005 (scheduled date), both companies will spin off their Quartz businesses by corporate split and integrate them into one business. The aim of this business integration is to make the new company a leader in the Quartz business by strengthening the fields in which both companies excel and increasing their synergies.

There is a possibility of the same risk as is described in paragraph one of this Section 22 affecting this business integration, which if it did might adversely affect Epson's results.

**(23) Epson might be severely affected in the event of a natural disaster**

Epson is undertaking a global expansion of its bases for research and development, buying, manufacture, distribution, sales, and services. It is possible that it could be affected by disaster, power blackout, or other such disruption as a result of any number of unpredictable events, such as a natural disaster, computer virus, or act of terrorism. In particular, the middle of Nagano prefecture, where Epson has bases for its primary businesses, is a region at particularly high risk of earthquake occurring. There are numerous cities and towns in that region that are “Areas Requiring Enhanced Measures to Respond to Disasters in Earthquakes,” because they have been designated as places with a high degree of risk of a large scale disaster in the event of an earthquake in the Tokai region, and an active fault line also traces the Itoigawa Shizuoka geotectonic line through the middle of the Nagano prefecture region.

The areas classifiable as Areas Requiring Enhanced Measures to Respond to Disasters in Earthquakes were revised in April 2002, so Epson had to revise its earthquake-response policy, look into strengthening numerous buildings that were not built to resist earthquakes and measures to avoid losses in materials for important parts, and create plans to prevent disasters in earthquakes. Epson is also consolidating other such countermeasures, such as by continuing to disperse its manufacturing bases throughout other regions.

But if a major earthquake occurs in the middle Nagano prefecture region, it is possible that, even despite these efforts to avoid disaster, the affect on Epson might be extremely severe.

And although Epson has taken out earthquake insurance to cover damage in the event of an earthquake, there is still a limit on the amount up to which Epson is covered for such damage.

**(24) There are risks related to Epson’s major shareholders**

The Hattori family, who founded Epson and the individual shareholders who are related to the Hattori family, as well as the companies whose major shareholders are the Hattori family or such individual shareholders, have the power, if they jointly exercise their voting rights in Epson, to influence to a significant degree the outcome of resolutions of a general meeting of shareholders, such as those for the election of directors.

It is also possible that the interests of the Hattori family might conflict with the interests of other shareholders. For example, because the Hattori family is the major shareholder of Seiko Corporation and Seiko Instruments Inc., which are related in their businesses to Epson, it is possible that a conflict of interest might arise between those companies and Epson in transactions or competing businesses. In particular, Seiko Corporation delegates a large portion of the manufacturing in its watch business, its primary business, to Epson.

**(25) Laws and regulations pose risks for Epson**

Epson has products the businesses of which Epson requires permissions or licenses for under laws and regulations, such as its plastic corrective lenses, which are subject to regulations of the Ministry of Health, Labour and Welfare as they are considered medical devices in Japan.

Such products do not represent a high percentage of Epson’s overall sales or operating profit, but Epson is subject to the permissions and other regulations of the Ministry of Health, Labour and Welfare in its manufacturing and sale of those products in Japan.

Also, because a distributor subsidiary of Seiko Corporation sells the plastic corrective lenses, which are manufactured by Epson, in the United States and Europe, it is also subject to certain regulations there—for example, the United States Food and Drug Administration make it generally compulsory to carry out tests of new drugs and to store them with the designated records relating to those drugs.

Regulations governing medical devices in Japan, the United States, and other regions have changed in the past, so there is a possibility that they will also change in the future. If they do, there is a possibility the changes might impede the manufacture and sales activities of Epson’s products and thereby adversely affect Epson’s results.

# Consolidated Balance Sheets

SEIKO EPSON CORPORATION AND SUBSIDIARIES

ASSETS	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
<b>Current assets:</b>			
Cash and cash equivalents	¥ 265,183	¥ 234,904	\$ 2,187,392
Time deposits	509	272	2,533
Notes and accounts receivable, trade	210,381	256,177	2,385,482
Inventories	155,856	176,656	1,644,994
Deferred income taxes	37,082	36,849	343,133
Other current assets	43,858	45,495	423,643
Allowance for doubtful accounts	(3,700)	(3,641)	(33,904)
<b>Total current assets</b>	<b>709,169</b>	<b>746,712</b>	<b>6,953,273</b>
<b>Property, plant and equipment:</b>			
Buildings and structures	376,195	419,780	3,908,930
Machinery and equipment	469,448	521,113	4,852,528
Furniture and fixtures	176,867	188,249	1,752,947
Land	52,106	58,836	547,872
Construction in progress	11,553	7,633	71,078
Other	835	122	1,136
	1,087,004	1,195,733	11,134,491
Accumulated depreciation	(693,973)	(754,378)	(7,024,658)
	393,031	441,355	4,109,833
<b>Investments and other assets:</b>			
Investment securities	28,207	38,444	357,985
Investments in affiliates	10,878	11,450	106,621
Deferred income taxes	2,764	6,478	60,322
Intangible assets	23,160	26,530	247,044
Other assets	40,037	27,557	256,607
Allowance for doubtful accounts	(755)	(736)	(6,854)
	104,291	109,723	1,021,725
<b>Total assets</b>	<b>¥1,206,491</b>	<b>¥1,297,790</b>	<b>\$12,084,831</b>

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2005	2005
<b>Current liabilities:</b>			
Short-term bank loans	¥ 62,851	¥ 30,236	\$ 281,553
Current portion of long-term debt	47,380	104,642	974,411
Notes and accounts payable, trade	132,331	145,036	1,350,554
Accounts payable, other	81,785	119,039	1,108,474
Income taxes payable	6,731	12,499	116,389
Deferred income taxes	267	794	7,394
Accrued bonuses	17,083	18,587	173,079
Accrued warranty costs	14,283	15,327	142,723
Other current liabilities	54,862	58,441	544,194
Total current liabilities	417,573	504,601	4,698,771
<b>Long-term liabilities:</b>			
Long-term debt	346,769	259,919	2,420,328
Accrued pension and severance costs	8,055	14,835	138,141
Accrued directors' and statutory auditors' retirement allowances	1,729	1,921	17,888
Accrued recycle costs	110	310	2,887
Deferred income taxes	7,733	9,765	90,930
Other long-term liabilities	7,613	6,912	64,364
Total long-term liabilities	372,009	293,662	2,734,538
Minority interest in subsidiaries	2,542	26,657	248,226
<b>Shareholders' equity:</b>			
Common stock, no par value –			
Authorized – 607,458,368 shares,			
Issued – 196,364,592 shares	53,204	53,204	495,428
Additional paid-in capital	79,501	79,501	740,302
Retained earnings	299,575	350,944	3,267,939
Net unrealized gains on other securities	3,087	3,743	34,854
Translation adjustments	(20,999)	(14,519)	(135,199)
Treasury stock	(1)	(3)	(28)
Total shareholders' equity	414,367	472,870	4,403,296
<b>Commitments and contingent liabilities</b>			
Total liabilities and shareholders' equity	¥1,206,491	¥1,297,790	\$12,084,831

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

# Consolidated Statements of Income

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars
	2003	Year ended March 31 2004	2005	Year ended March 31, 2005
<b>Net sales</b>	¥1,322,453	¥1,413,243	¥1,479,750	\$13,779,216
<b>Cost of sales</b>	959,865	1,013,959	1,070,011	9,963,786
Gross profit	362,588	399,284	409,739	3,815,430
<b>Selling, general and administrative expenses:</b>				
Salaries and wages	72,597	77,748	76,917	716,240
Advertising	30,138	30,854	32,522	302,840
Sales promotion	30,364	31,740	31,556	293,845
Research and development costs	42,787	41,139	42,903	399,507
Shipping costs	19,756	20,527	19,374	180,408
Provision for doubtful accounts	665	414	112	1,043
Other	116,921	119,461	115,388	1,074,476
	313,228	321,883	318,772	2,968,359
Operating income	49,360	77,401	90,967	847,071
<b>Other income:</b>				
Interest and dividend income	1,289	1,684	2,457	22,879
Gain on transfer to government of the substitutional portion of pension liabilities	17,577	–	–	–
Reversal of specific warranty costs	2,982	–	–	–
Other	7,950	6,381	5,572	51,886
	29,798	8,065	8,029	74,765
<b>Other expenses:</b>				
Interest expenses	6,257	6,478	5,816	54,158
Net loss on foreign exchange	5,552	500	3,905	36,363
Loss on disposal of property, plant and equipment	3,233	3,711	3,312	30,841
Reorganization costs	23,955	2,044	4,608	42,909
Prior pension costs for foreign subsidiaries	–	–	2,285	21,277
Other	8,532	7,675	5,423	50,498
	47,529	20,408	25,349	236,046
Income before income taxes and minority interest	31,629	65,058	73,647	685,790
<b>Income taxes:</b>				
Current	12,368	15,210	21,394	199,218
Deferred	6,289	11,363	(1,493)	(13,903)
	18,657	26,573	19,901	185,315
Income before minority interest	12,972	38,485	53,746	500,475
<b>Minority interest in subsidiaries</b>	462	454	(1,943)	(18,093)
Net income	¥ 12,510	¥ 38,031	¥ 55,689	\$ 518,568
		Yen		U.S. dollars
<b>Per share:</b>				
Net income	¥81.08	¥204.70	¥283.60	\$2.64
Cash dividends	¥18.00	¥ 18.00	¥ 22.00	\$0.20

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

# Consolidated Statements of Changes in Shareholders' Equity

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	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	Total
<b>Balance at March 31, 2002</b>	151,864,592	¥12,531	¥10,259	¥254,931	¥ 1,286	¥ 1,342	¥(0)	¥280,349
Net income	-	-	-	12,510	-	-	-	12,510
Cash dividends	-	-	-	(2,734)	-	-	-	(2,734)
Bonuses to directors and statutory auditors	-	-	-	(98)	-	-	-	(98)
Increase due to affiliates newly accounted for under the equity method	-	-	-	265	-	-	-	265
Net unrealized loss on other securities	-	-	-	-	(1,119)	-	-	(1,119)
Translation adjustments	-	-	-	-	-	(7,857)	-	(7,857)
<b>Balance at March 31, 2003</b>	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 gain on other securities	-	-	-	-	2,920	-	-	2,920
Translation adjustments	-	-	-	-	-	(14,484)	-	(14,484)
Changes in treasury stock	-	-	-	-	-	-	(1)	(1)
<b>Balance at March 31, 2004</b>	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 gain on other securities	-	-	-	-	656	-	-	656
Translation adjustments	-	-	-	-	-	6,480	-	6,480
Changes in treasury stock	-	-	-	-	-	-	(2)	(2)
<b>Balance at March 31, 2005</b>	196,364,592	¥53,204	¥79,501	¥350,944	¥ 3,743	¥(14,519)	¥(3)	¥472,870

	Thousands of U.S. dollars							
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Total	
<b>Balance at March 31, 2004</b>	\$495,428	\$740,302	\$2,789,598	\$28,746	\$(195,540)	\$ (9)	\$3,858,525	
Net income	-	-	518,568	-	-	-	518,568	
Cash dividends	-	-	(40,227)	-	-	-	(40,227)	
Net unrealized gain on other securities	-	-	-	6,108	-	-	6,108	
Translation adjustments	-	-	-	-	60,341	-	60,341	
Changes in treasury stock	-	-	-	-	-	(19)	(19)	
<b>Balance at March 31, 2005</b>	\$495,428	\$740,302	\$3,267,939	\$34,854	\$(135,199)	\$(28)	\$4,403,296	

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

# Consolidated Statements of Cash Flows

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	Year ended March 31, 2005
<b>Cash flows from operating activities:</b>				
Net income	¥ 12,510	¥ 38,031	¥ 55,689	\$ 518,568
Adjustments to reconcile net income to net cash provided by operating activities –				
Depreciation and amortization	127,406	111,018	105,006	977,801
Reorganization costs	23,002	2,044	4,608	42,909
Accrual for net pension and severance costs, less payments	(18,212)	(13,338)	9,188	85,557
Net loss on sales and disposal of property, plant and equipment	1,978	5,511	3,566	33,206
Equity in net (gains) losses under the equity method	95	(172)	(232)	(2,160)
Deferred income taxes	6,289	11,363	(1,493)	(13,903)
Decrease in allowance for doubtful accounts	(459)	(261)	(214)	(1,993)
(Increase) decrease in notes and accounts receivable, trade	20,636	6,224	(43,371)	(403,864)
(Increase) decrease in inventories	2,471	4,042	(6,063)	(56,458)
Increase (decrease) in notes and accounts payable, trade	(3,613)	13,247	11,221	104,488
Increase (decrease) in accrued income taxes	(1,839)	(1,826)	5,748	53,525
Other	(10,760)	6,786	18,836	175,398
Net cash provided by operating activities	159,504	182,669	162,489	1,513,074
<b>Cash flows from investing activities:</b>				
Payments for purchases of property, plant and equipment	(85,274)	(65,416)	(92,441)	(860,797)
Proceeds from sales of property, plant and equipment	7,872	4,309	1,978	18,419
Payments for purchases of intangible assets	(8,898)	(7,917)	(7,439)	(69,271)
Payments of long-term prepaid expenses	(10,943)	(441)	(1,009)	(9,396)
Other	(10,700)	4,136	(485)	(4,516)
Net cash used in investing activities	(107,943)	(65,329)	(99,396)	(925,561)
<b>Cash flows from financing activities:</b>				
Decrease in short-term borrowings	(56,723)	(76,076)	(40,577)	(377,847)
Proceeds from long-term debt	150,644	92,530	2,000	18,624
Repayments of long-term debt	(81,568)	(164,304)	(52,745)	(491,154)
Issuance of common stock	–	109,915	–	–
Cash dividends	(2,734)	(3,134)	(4,320)	(40,227)
Other	(508)	151	(731)	(6,807)
Net cash provided by (used in) financing activities	9,111	(40,918)	(96,373)	(897,411)
Effect of exchange rate fluctuations on cash and cash equivalents	307	(3,527)	3,001	27,945
Net increase (decrease) in cash and cash equivalents	60,979	72,895	(30,279)	(281,953)
Cash and cash equivalents at the beginning of the year	131,309	192,288	265,183	2,469,345
Cash and cash equivalents at the end of the year	¥ 192,288	¥ 265,183	¥ 234,904	\$ 2,187,392
<b>Supplemental disclosures of cash flow information:</b>				
Cash received and paid during the year for –				
Interest and dividend received	¥ 2,227	¥ 1,681	¥ 2,594	\$ 24,155
Interest paid	¥ (6,143)	¥ (6,610)	¥ (5,854)	\$ (54,512)
Income taxes paid	¥ (14,207)	¥ (17,036)	¥ (15,646)	\$ (145,693)

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

# Notes to Consolidated Financial Statements

SEIKO EPSON CORPORATION AND SUBSIDIARIES

## 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 of the cost over the underlying net equity of investments in subsidiaries is recognized as a "consolidation adjustment" included in the intangible assets 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****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 historical or amortized cost 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.

**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.

**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.

On March 9, 2004, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for bonuses to directors and statutory auditors, effective for the first fiscal year ending after this standards issued. In the financial statements for fiscal years prior to April 1, 2003, "bonuses to directors and statutory auditors", which are determined through appropriation of retained earnings by resolution of general shareholders' meeting subsequent to fiscal year-end, are reflected in retained earnings of the current year. Under the new accounting standards, "bonuses to directors and statutory auditors" are expensed as incurred. Effective as of March 31, 2004, Epson has adopted the new accounting standards.

Effective as of March 31, 2004, 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) 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.

On May 29, 2003, the Company obtained approval from the National tax agency to file a consolidated tax return system effective from the year beginning April 1, 2003. The Company has adopted the consolidated tax return system for the calculation of income taxes effective from the year ended March 31, 2004. Under the consolidated tax return system, the Company consolidates all wholly owned domestic subsidiaries based on the Japanese tax regulations.

**(12) 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.

#### (13) Accrued recycle costs

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

#### (14) 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.

#### (15) Research and development costs

Research and development costs are expensed as incurred.

#### (16) 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.

#### (17) Net income per share

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

Under the Japanese accounting standards concerning accounting for bonuses to directors and statutory auditors, effective for fiscal years beginning on or after April 1, 2003, the bonuses to directors and statutory auditors have been charged to income in the years ended March 31, 2004 and 2005.

#### (18) 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.

#### (19) Reclassifications

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2005.

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### 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 ¥107.39 = U.S.\$1, the rate of exchange prevailing at March 31, 2005, 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 (\$139,678 thousand) 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 Low Temperature Poly-Si TFT LCD and Amorphous TFT LCD businesses. The High Temperature Poly-Si 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 (\$1,304 thousand) represented cash and cash equivalents of ¥340 million (\$3,166 thousand) held by the SANYO Group at the date of the integration, offset by the cash consideration of ¥200 million (\$1,862 thousand) for the integration. Net cash proceeds from acquisition of ¥140 million (\$1,304 thousand) 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:

	Thousands of	
	Millions of yen	U.S. dollars
	Year ended March 31, 2005	Year ended March 31, 2005
Current assets	¥ 17,004	\$ 158,339
Fixed assets	40,930	381,134
Short-term bank loans	(10,365)	(96,517)
Current portion of long-term debt	(5,022)	(46,764)
Current liabilities	(1,618)	(15,067)
Long-term debt	(16,040)	(149,362)
Long-term liabilities	(2,759)	(25,692)
Consolidation adjustment	5,115	47,630
Minority interest in subsidiaries	(27,045)	(251,839)
Consideration for acquisition	¥ 200	\$ 1,862

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

With the aim of being the leader in the quartz device industry, the Company and Toyo Communication Equipment Co., Ltd. ("Toyo") agreed to combine their respective quartz device businesses. On March 16, 2005, board of directors' meeting of the Company approved the execution of a business merger agreement and corporate split agreement.

Under the agreement, on October 1, 2005, the Company will split-off its quartz device business (excluding optical devices) to Toyo, as the succeeding company, and Toyo will be renamed Epson Toyocom Corporation ("Epson Toyocom"). The Company will purchase 99,000,000 shares of common stock and 20,000,000 shares of subordinate common stock with voting rights issued by Epson Toyocom at the same time of the business split. As a result of this capital increase, the paid-in capital of Epson Toyocom will be ¥9,500 million (\$88,463 thousand) and it will be owned 67.9% (without considering dilutive shares) by the Company. Epson Toyocom will be a consolidated subsidiary of the Company.

Assets and liabilities to be acquired are estimated to be ¥63,800 million (\$594,096 thousand) and ¥37,100 million (\$345,470 thousand), respectively. The final amounts of assets and liabilities to be acquired have not yet been determined. Annual net sales of Toyo for the year ended March 31, 2004 was ¥58,000 million (\$540,088 thousand).

## 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, 2004 and 2005 were ¥8,300 million and ¥12,845 million (\$119,611 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 ¥3,087 million and ¥3,743 million (\$34,854 thousand) as at March 31, 2004 and 2005, respectively, were recorded as a component of shareholders' equity. A related deferred income tax liability thereon of ¥1,021 million and ¥1,384 million (\$12,888 thousand) was recorded against deferred income tax assets relating to other temporary differences as at March 31, 2004 and 2005, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2004 and 2005 were as follows:

	Millions of yen			
	March 31, 2004			
	Cost	Gross unrealized		Market value (carrying value)
Gains		Losses		
Equity securities	¥4,352	¥4,051	¥(62)	¥8,341
Debt securities	52	4	(-)	56
Other	615	137	(6)	746
Total	¥5,019	¥4,192	¥(68)	¥9,143

	Millions of yen			
	March 31, 2005			
	Cost	Gross unrealized		Market value (carrying value)
Gains		Losses		
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

	Thousands of U.S. dollars			
	March 31, 2005			
	Cost	Gross unrealized		Market value (carrying value)
Gains		Losses		
Equity securities	\$ 99,357	\$48,273	\$(652)	\$146,978
Debt securities	484	28	(-)	512
Other	1,630	-	(-)	1,630
Total	\$101,471	\$48,301	\$(652)	\$149,120

As at March 31, 2004 and 2005, the carrying amount of unlisted equity securities, which were included in investment securities account, were ¥19,064 million and ¥19,505 million (\$181,628 thousand), respectively.

As at March 31, 2005, the carrying amount of unlisted debt securities and unlisted other securities, which were included in investment securities account, were ¥2,700 million (\$25,142 thousand) and ¥225 million (\$2,095 thousand), respectively.

For the year ended March 31, 2003, other-than-temporary impairments of securities with an aggregate market value of ¥2,251 million 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, 2004 and 2005, included in intangible assets, were ¥270 million and ¥4,619 million (\$43,011 thousand), respectively.

## 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 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 Management Department and reported to the general manager.

The table below lists contract amounts and fair values of derivatives as at March 31, 2004 and 2005 by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

Instruments	Millions of yen		
	March 31, 2004		
	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold –			
U.S. dollar (purchased Japanese yen)	¥ 4,213	¥ 4,170	¥ 43
Euro (purchased Japanese yen)	29,600	28,885	715
Sterling pound (purchased Japanese yen)	1,593	1,538	55
Australian dollar (purchased Japanese yen)	1,170	1,142	28
Thai baht (purchased U.S. dollar)	205	206	(1)
Polish zloty (purchased Euro)	327	327	(0)
Purchased –			
U.S. dollar (sold Japanese yen)	5,967	5,792	(175)
Euro (sold Japanese yen)	77	75	(2)
Sterling pound (sold Euro)	678	678	(0)
U.S. dollar (sold Korean won)	434	425	(9)
U.S. dollar (sold Taiwan dollar)	758	739	(19)
Total unrealized gains from forward exchange contracts			¥ 635

There were no interest rate swap transactions outstanding at March 31, 2004 other than derivatives eligible for hedge accounting.

Instruments	Millions of yen		
	March 31, 2005		
	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	Thousands of U.S. dollars		
	March 31, 2005		
	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold –			
U.S. dollar (purchased Japanese yen)	\$ 65,341	\$ 67,278	\$(1,937)
Euro (purchased Japanese yen)	246,187	248,673	(2,486)
Sterling pound (purchased Japanese yen)	9,582	9,731	(149)
Australian dollar (purchased Japanese yen)	16,109	16,640	(531)
Thai baht (purchased U.S. dollar)	1,592	1,555	37
Japanese yen (purchased Euro)	2,803	2,803	0
U.S. dollar (purchased Euro)	5,978	5,987	(9)
Polish zloty (purchased Euro)	1,564	1,583	(19)
Purchased –			
U.S. dollar (sold Japanese yen)	810	829	19
Euro (sold Japanese yen)	289	289	(0)
U.S. dollar (sold Korean won)	5,084	5,019	(65)
U.S. dollar (sold Taiwan dollar)	5,177	4,963	(214)
Total unrealized losses from forward exchange contracts			\$(5,354)

There were no interest rate swap transactions outstanding at March 31, 2005 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. Short-term bank loans and long-term debt

Short-term bank loans and long-term debt from banks at March 31, 2004 and 2005 consisted of the following:

	Millions of yen				Thousands of
	March 31				U.S. dollars
	2004	2005		March 31,	
	Amount	Weighted average interest rate	Last due on	2005	
Short-term bank loans	¥ 62,851	¥ 30,236	0.97%	September 30, 2005	\$ 281,553
Current portion of long-term debt	47,380	104,642	1.00	March 31, 2006	974,411
Long-term debt	346,769	259,919	1.33	July 31, 2011	2,420,328
Total	¥457,000	¥394,797			\$3,676,292

Average interest rates are calculated using weighted-average interest rates as at March 31, 2005.

The maturities of long-term debt outstanding as at March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥104,642	\$ 974,411
2007	106,500	991,712
2008	87,500	814,787
2009	54,092	503,697
2010	3,148	29,314
Thereafter	8,679	80,818
Total	¥364,561	\$3,394,739

Assets pledged as collateral for secured loans and debt at March 31, 2004 and 2005 were as follows:

Pledged assets	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Buildings and structures	¥1,457	¥-	\$-
Machinery and equipment	370	-	-
Furniture and fixtures	18	-	-
Land	386	-	-
Total	¥2,231	¥-	\$-

Secured loans and debt	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Current portion of long-term debt	¥30	¥-	\$-

In the year ended March 31, 2005, the Company entered into line of credit agreements with thirteen banks for an aggregate maximum amount of ¥80,000 million (\$744,948 thousand). As at March 31, 2005, there were unused credit lines of ¥80,000 million (\$744,948 thousand) outstanding and available.



## 10. Pension and severance costs

The Company and its Japanese subsidiaries maintain defined benefit pension plans and defined contribution pension plans covering substantially all of their employees. The Company and some of its Japanese subsidiaries had maintained the welfare pension plan which was funded in conformity with the funding requirement of the Japanese Welfare Pension Insurance Law. The welfare pension plan covered the substitutional portion of the governmental welfare pension program and non-substitutional portion under which contributions are made by companies and their employees.

On June 15, 2001, the Defined Benefit Pension Plan Law was enacted, which allows a company to return the substitutional portion of the pension to the government, thereby eliminating the company's responsibility for future benefits. On January 17, 2003, the Company obtained approval from the Ministry of Health, Labor and Welfare for exemption from the payment of future benefit obligations with respect to the substitutional portion that the Company operates on behalf of the Japanese government. The Company accounted for the return of the substitutional portion at the date of approval, which is allowed as an alternative accounting method in accordance with "Practical Guidance for Accounting for Pensions" issued by the Japanese Institute of Certified Public Accountants. A gain on exemption from the payment of benefit obligations totaling ¥17,577 million was recorded in income for the year ended March 31, 2003.

On February 1, 2004, the Company obtained approval from the Ministry of Health, Labor and Welfare for exemption from the substitutional portion with respect to the benefit obligation related past service that the Company operates on behalf of the Japanese government. A gain on exemption from the payment of benefit obligations related past service was recorded in income for the year ended March 31, 2003. Upon approval for exemption from the substitutional portion with respect to the benefit obligation related past service, welfare pension plan transferred to the corporate defined benefit pension plan.

To supplement the corporate defined benefit pension plan, the Company and some of its 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, 2004 and 2005 were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Projected benefit obligations	¥202,361	¥176,371	\$1,642,341
Plan assets at fair value	183,915	159,769	1,487,746
Unfunded status	18,446	16,602	154,595
Unrecognized items:			
Prior service cost reduction from plan amendment	8,133	10,173	94,729
Actuarial losses	(34,564)	(19,401)	(180,659)
Accrued pension and severance costs – net	(7,985)	7,374	68,665
Prepaid pension cost	16,040	7,461	69,476
Accrued pension and severance costs	¥ 8,055	¥ 14,835	\$ 138,141

The composition of net pension and severance costs for the years ended March 31, 2003, 2004 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2003	2004	2005	2005
Service cost	¥ 10,627	¥ 9,352	¥ 7,397	\$ 68,880
Interest cost	6,960	5,608	4,355	40,553
Expected return on plan assets	(5,830)	(5,055)	(4,728)	(44,027)
Amortization and expenses:				
Prior service costs	(1,338)	(529)	(2,752)	(25,626)
Actuarial losses	10,309	9,537	8,849	82,401
Net pension and severance costs	20,728	18,913	13,121	122,181
Gain on transfer to government of the substitutational portion of pension liabilities	(17,577)	—	—	—
Contribution to defined contribution pension plan	—	—	2,067	19,247
	¥ 3,151	¥18,913	¥15,188	\$141,428

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2003, 2004 and 2005 were as follows:

	Year ended March 31		
	2003	2004	2005
Discount rate	3.0%	2.5%	2.5%
Long-term rate of return on plan assets	3.5	3.5	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 (\$1,928 thousand) 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 (\$61,691 thousand) 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 (\$3,054 thousand) was recorded in other expenses for the year ended March 31, 2005.

The Company has made amendments to the welfare pension plan by raising the commencement age to receive benefits and reduced the related interest rate under the pension plan in fiscal years ended March 31, 2001 and 2002. Further, effective at March 31, 2004, the Company has made amendments to the remaining corporate defined benefit plans by reducing the related interest rate under the pension plans. These amendments have resulted in a negative amount of unrecognized prior service cost.

In addition to the above-mentioned net pension and severance costs, additional severance costs of ¥181 million and ¥1,182 million, which related to specific reorganization programs, were recorded in reorganization costs for the years ended March 31, 2003 and 2004, respectively.

Additional severance costs of ¥2,285 million (\$21,277 thousand), 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.

For each of the years ended March 31, 2003 and 2004, the Company paid a year-end cash dividend of ¥9 per share and interim cash dividend of ¥9 per share to the shareholders of record as at the respective period-ends. For the year ended March 31, 2005, the Company paid a year-end cash dividend of ¥9 (\$0.08) per share and interim cash dividend of ¥13 (\$0.12) per share to the shareholders of record as at the respective period-ends.

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2005 approved at the general shareholders' meeting, which was held on June 24, 2005, was as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥13 per share	¥2,553	\$23,773

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.

There were 225 shares and 689 shares of treasury stock as at March 31, 2004 and 2005, respectively.

## 12. Net income per share

Calculation of net income per share for the years ended March 31, 2003, 2004 and 2005 were as follows:

	Millions of yen			Thousands of
	Year ended March 31			U.S. dollars
	2003	2004	2005	Year ended March 31, 2005
Net income attributable to common shares	¥12,510	¥38,031	¥55,689	\$518,568
Less: Bonuses to directors and statutory auditors	(196)	(-)	(-)	(-)
	¥12,314	¥38,031	¥55,689	\$518,568
Weighted average number of common shares outstanding:				
– Basic	151,864,511	185,782,470	196,364,103	
– Diluted	-	185,937,667	-	
		Yen		U.S. dollars
Net income per share:				
– Basic	¥81.08	¥204.70	¥283.60	\$2.64
– Diluted	¥ -	¥204.53	¥ -	\$ -

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding for the years ended March 31, 2003 and 2005.

### 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 41.7% for the year ended March 31, 2003, approximately 43.6% for the year ended March 31, 2004 and approximately 40.4% for the year ended March 31, 2005.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥ 17,511	¥ 15,629	\$ 145,535
Inter-company profits on inventories and write downs	7,877	14,048	130,813
Accrued bonuses	6,170	6,718	62,557
Devaluation of investment securities	4,118	5,467	50,908
Accrued warranty costs	3,749	4,856	45,218
Net operating tax loss carry-forwards	13,897	4,255	39,622
Accrued pension and severance costs	2,678	1,815	16,901
Allowance for doubtful accounts	1,250	1,261	11,742
Others	11,579	14,113	131,418
Gross deferred tax assets	68,829	68,162	634,714
Less: valuation allowance	(13,418)	(10,897)	(101,471)
Total deferred tax assets	55,411	57,265	533,243
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(15,438)	(18,799)	(175,053)
Reserve for special depreciation for tax purpose	(3,059)	(3,807)	(35,450)
Net unrealized gains on other securities	(1,021)	(1,384)	(12,888)
Prepaid pension cost	(3,765)	(-)	(-)
Others	(282)	(507)	(4,721)
Gross deferred tax liabilities	(23,565)	(24,497)	(228,112)
Net deferred tax assets	¥ 31,846	¥ 32,768	\$ 305,131

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, 2005 was a decrease of ¥2,521 million (\$23,475 thousand).

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

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		
	2003	2004	2005
Statutory income tax rate	41.7%	43.6%	40.4%
Reconciliation:			
Tax credits	–	–	(6.9)
Recognized tax benefit for inter-company profit elimination	–	–	(3.6)
Changes in valuation allowance	5.1	(5.2)	(0.6)
Entertainment expenses, etc. permanently non-tax deductible	2.1	1.6	(0.1)
Change in income tax rate	(2.4)	0.9	–
Unrecognized tax benefit for inter-company profit elimination	8.1	–	–
Others	4.4	0.0	(2.2)
Income tax rate per statements of income	59.0%	40.9%	27.0%

The statutory income tax rate used in calculation of deferred tax assets and liabilities has been changed due to a change in Japanese tax laws. At March 31, 2003, deferred tax assets and liabilities expected to be realized in the following year were calculated using a 41.7% tax rate, while those expected to be realized after April 1, 2004 were calculated using a 40.4% tax rate. The effect of this change in accounting estimates for the year ended March 31, 2003 was an increase in net deferred tax assets of ¥778 million and a decrease of income tax expense of ¥774 million.

Under the consolidated tax return system, a temporary 2.0% surtax was assessed on consolidated taxable income for the year ended March 31, 2004. As a result, the aggregated statutory income tax rate for Epson was 43.6% 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 under the consolidated tax return system. Therefore, the aggregated statutory income tax rate for Epson was 40.4% for the year ended March 31, 2005.

## 14. Research and development costs

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥85,761 million, ¥90,485 million and ¥89,042 million (\$829,146 thousand) for the years ended March 31, 2003, 2004 and 2005, respectively.

## 15. Reorganization costs

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.

The reorganization costs for the year ended March 31, 2003 mainly represent write-off of acquired technologies, as well as reorganization cost for certain domestic manufacturing plants in the semiconductor business.

## 16. Cash flow information

Cash and cash equivalents at March 31, 2004 and 2005 were composed of the following:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Cash and deposits	¥266,254	¥235,597	\$2,193,845
Less:			
Short-term bank loans (overdrafts)	(562)	(421)	(3,920)
Time deposits due over three months	(509)	(272)	(2,533)
Cash and cash equivalents	¥265,183	¥234,904	\$2,187,392

## 17. Leases

As described in Note 2 (16), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2003, 2004 and 2005 amounted to ¥9,039 million, ¥3,211 million and ¥10,369 million (\$96,555 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, 2004 and 2005 would have been as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Acquisition cost:			
Machinery and equipment	¥ 2,483	¥ 79,822	\$ 743,291
Furniture and fixtures	5,977	4,394	40,916
Intangible assets	1,133	851	7,924
	9,593	85,067	792,131
Less:			
Accumulated depreciation	(5,450)	(38,114)	(354,912)
Accumulated impairment loss	(-)	(1,184)	(11,025)
	(5,450)	(39,298)	(365,937)
Net book value	¥ 4,143	¥ 45,769	\$ 426,194

Amounts appearing in the table above include leased property from the SANYO Group transferred to 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	Thousands of
		U.S. dollars
Acquisition cost:		
Machinery and equipment	¥ 76,744	\$ 714,629
Furniture and fixtures	1,196	11,137
	77,940	725,766
Less: accumulated depreciation	(28,498)	(265,369)
Net book value	¥ 49,442	\$ 460,397

Depreciation expenses for these leased assets for the years ended March 31, 2003, 2004 and 2005 would have been ¥8,422 million, ¥2,997 million and ¥9,435 million (\$87,857 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, 2003, 2004 and 2005 would have been ¥214 million, ¥97 million and ¥982 million (\$9,144 thousand), respectively.

Impairment loss for these capital leases, which was recorded in reorganization costs, was ¥1,184 million (\$11,025 thousand) for the year ended March 31, 2005. For the years ended March 31, 2003 and 2004, there were no impairment losses for these capital leases.

Future lease payments for capital leases at March 31, 2004 and 2005 were as follows:

Future lease payments	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Due within one year	¥1,910	¥16,003	\$149,018
Due after one year	2,286	32,638	303,920
Total	¥4,196	¥48,641	\$452,938

Amounts appearing in the table above include accrued impairment loss amounted to ¥1,184 million (\$11,025 thousand) as of March 31, 2005. There was no accrued impairment loss as of March 31, 2004.

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2004 and 2005 were as follows:

Future lease payments	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Due within one year	¥ 2,729	¥ 3,228	\$ 30,059
Due after one year	8,511	9,205	85,715
Total	¥11,240	¥12,433	\$115,774

In addition, future lease receipts for non-cancelable operating leases as a lessor at March 31, 2004 and 2005 were as follows:

Future lease receipts	Millions of yen		Thousands of
	March 31		U.S. dollars
	2004	2005	March 31, 2005
Due within one year	¥ 301	¥ 319	\$ 2,970
Due after one year	2,008	1,824	16,985
Total	¥2,309	¥2,143	\$19,955

## 18. Commitments and contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2004 and 2005 were ¥3,744 million and ¥2,849 million (\$26,529 thousand), respectively. Furthermore, the amount of discounted notes, which consisted of discounted letters of credit, at March 31, 2004 and 2005 were ¥19 million and ¥11 million (\$102 thousand), respectively.



## 19. 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. Hideaki Yasukawa, a Chairman and Director of the Company, is a Chairman of SE GAKUEN Educational Foundation ("SE GAKUEN"). Mr. Hideaki Yasukawa owns 0.1% 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, 2003, 2004 and 2005, and related balances at March 31, 2004 and 2005, were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2005
<b>Transactions:</b>				
With Sunritz –				
Rental expenses for real estates	¥124	¥120	¥115	\$1,071
With SE GAKUEN –				
Other incomes	11	59	69	643
Other expenses	9	17	3	28
With other related companies –				
Other expenses	1	4	57	531
<b>Balances:</b>				
With Sunritz –				
Other investments		¥2	¥2	\$19
With SE GAKUEN –				
Other current assets		4	4	37
Payables		1	–	–

## 20. 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, LCD projectors, HDTV LCD projection television, LCD monitors, label writers, mini-printers, printers for use in POS systems and personal computers.

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

Precision products segment, including watches, watch movements, plastic corrective lenses, optical devices, 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, 2003, 2004 and 2005:

	Millions of yen					
	Year ended March 31, 2003					
	Business segment				Eliminations and corporate	Consolidated
Information-related equipment	Electronic devices	Precision products	Other			
Net sales:						
Customers	¥911,459	¥328,460	¥77,155	¥ 5,379	–	¥1,322,453
Inter-segment	4,398	25,828	2,590	20,931	¥ (53,747)	–
Total	915,857	354,288	79,745	26,310	(53,747)	1,322,453
Operating expenses	835,431	382,288	79,100	30,042	(53,768)	1,273,093
Operating income (loss)	¥ 80,426	¥ (28,000)	¥ 645	¥ (3,732)	¥ 21	¥ 49,360
Identifiable assets	¥384,968	¥402,248	¥50,706	¥143,225	¥214,933	¥1,196,080
Depreciation and amortization	¥ 34,042	¥ 75,111	¥ 4,037	¥ 12,619	¥ –	¥ 125,809
Capital expenditures	¥ 27,656	¥ 35,720	¥ 3,393	¥ 22,342	¥ –	¥ 89,111

	Millions of yen					
	Year ended March 31, 2004					
	Business segment				Eliminations and corporate	Consolidated
Information-related equipment	Electronic devices	Precision products	Other			
Net sales:						
Customers	¥917,116	¥413,540	¥77,736	¥ 4,851	–	¥1,413,243
Inter-segment	3,264	27,613	3,366	24,606	¥ (58,849)	–
Total	920,380	441,153	81,102	29,457	(58,849)	1,413,243
Operating expenses	874,478	400,532	78,292	41,480	(58,940)	1,335,842
Operating income (loss)	¥ 45,902	¥ 40,621	¥ 2,810	¥ (12,023)	¥ 91	¥ 77,401
Identifiable assets	¥366,410	¥352,755	¥52,216	¥149,122	¥285,988	¥1,206,491
Depreciation and amortization	¥ 33,312	¥ 58,006	¥ 4,013	¥ 14,983	¥ –	¥ 110,314
Capital expenditures	¥ 34,797	¥ 20,574	¥ 4,283	¥ 10,725	¥ –	¥ 70,379

	Millions of yen					
	Year ended March 31, 2005					
	Business segment				Eliminations and corporate	Consolidated
Information-related equipment	Electronic devices	Precision products	Other			
Net sales:						
Customers	¥942,401	¥454,616	¥76,827	¥ 5,906	–	¥1,479,750
Inter-segment	3,628	27,995	4,316	28,604	¥ (64,543)	–
Total	946,029	482,611	81,143	34,510	(64,543)	1,479,750
Operating expenses	884,474	444,058	78,707	47,514	(65,970)	1,388,783
Operating income (loss)	¥ 61,555	¥ 38,553	¥ 2,436	¥ (13,004)	¥ 1,427	¥ 90,967
Identifiable assets	¥373,172	¥468,588	¥50,352	¥147,448	¥258,230	¥1,297,790
Depreciation and amortization	¥ 30,488	¥ 54,685	¥ 3,930	¥ 15,138	¥ –	¥ 104,241
Capital expenditures	¥ 26,182	¥109,197	¥ 4,899	¥ 17,257	¥ –	¥ 157,535

	Thousands of U.S. dollars					
	Year ended March 31, 2005					
	Business segment				Eliminations and corporate	Consolidated
Information-related equipment	Electronic devices	Precision products	Other			
Net sales:						
Customers	\$8,775,500	\$4,233,318	\$715,402	\$ 54,996	–	\$13,779,216
Inter-segment	33,784	260,685	40,190	266,356	\$ (601,015)	–
Total	8,809,284	4,494,003	755,592	321,352	(601,015)	13,779,216
Operating expenses	8,236,093	4,135,003	732,908	442,444	(614,303)	12,932,145
Operating income (loss)	\$ 573,191	\$ 359,000	\$ 22,684	\$ (121,092)	\$ 13,288	\$ 847,071
Identifiable assets	\$3,474,923	\$4,363,423	\$468,871	\$1,373,014	\$2,404,600	\$12,084,831
Depreciation and amortization	\$ 283,900	\$ 509,219	\$ 36,595	\$ 140,963	\$ –	\$ 970,677
Capital expenditures	\$ 243,803	\$1,016,826	\$ 45,619	\$ 160,695	\$ –	\$ 1,466,943

The amounts of corporate assets included in "Eliminations and corporate" were ¥227,464 million, ¥299,661 million and ¥277,312 million (\$2,582,289 thousand) at March 31, 2003, 2004 and 2005, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

**(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 the years ended March 31, 2003, 2004 and 2005:

	Millions of yen					
	Year ended March 31, 2003					
	Geographic region				Eliminations and corporate	Consolidated
Japan	The Americas	Europe	Asia/Oceania			
Net sales:						
Customers	¥ 637,544	¥230,263	¥258,278	¥196,368	–	¥1,322,453
Inter-segment	478,441	39,315	5,573	439,632	¥(962,961)	–
Total	1,115,985	269,578	263,851	636,000	(962,961)	1,322,453
Operating expenses	1,097,056	262,468	260,665	620,376	(967,472)	1,273,093
Operating income	¥ 18,929	¥ 7,110	¥ 3,186	¥ 15,624	¥ 4,511	¥ 49,360
Identifiable assets	¥ 785,754	¥ 83,814	¥ 73,667	¥204,989	¥ 47,856	¥1,196,080

	Millions of yen					
	Year ended March 31, 2004					
	Geographic region				Eliminations and corporate	Consolidated
Japan	The Americas	Europe	Asia/Oceania			
Net sales:						
Customers	¥ 686,553	¥224,683	¥297,772	¥204,235	–	¥1,413,243
Inter-segment	491,089	42,320	2,497	478,878	¥(1,014,784)	–
Total	1,177,642	267,003	300,269	683,113	(1,014,784)	1,413,243
Operating expenses	1,141,043	255,937	290,719	664,517	(1,016,374)	1,335,842
Operating income	¥ 36,599	¥ 11,066	¥ 9,550	¥ 18,596	¥ 1,590	¥ 77,401
Identifiable assets	¥ 758,593	¥ 74,024	¥ 73,820	¥193,401	¥ 106,653	¥1,206,491

	Millions of yen					
	Year ended March 31, 2005					
	Geographic region					Eliminations and corporate
Japan	The Americas	Europe	Asia/Oceania			
Net sales:						
Customers	¥ 694,344	¥242,898	¥325,998	¥216,510	–	¥1,479,750
Inter-segment	540,694	41,618	2,525	481,541	¥(1,066,378)	–
Total	1,235,038	284,516	328,523	698,051	(1,066,378)	1,479,750
Operating expenses	1,192,107	271,363	317,000	677,897	(1,069,584)	1,388,783
Operating income	¥ 42,931	¥ 13,153	¥ 11,523	¥ 20,154	¥ 3,206	¥ 90,967
Identifiable assets	¥ 851,767	¥ 77,661	¥ 74,867	¥185,522	¥ 107,973	¥1,297,790

	Thousands of U.S. dollars					
	Year ended March 31, 2005					
	Geographic region					Eliminations and corporate
Japan	The Americas	Europe	Asia/Oceania			
Net sales:						
Customers	\$ 6,465,630	\$2,261,831	\$3,035,646	\$2,016,109	–	\$13,779,216
Inter-segment	5,034,864	387,540	23,512	4,484,040	\$(9,929,956)	–
Total	11,500,494	2,649,371	3,059,158	6,500,149	(9,929,956)	13,779,216
Operating expenses	11,100,727	2,526,892	2,951,858	6,312,478	(9,959,810)	12,932,145
Operating income	\$ 399,767	\$ 122,479	\$ 107,300	\$ 187,671	\$ 29,854	\$ 847,071
Identifiable assets	\$ 7,931,530	\$ 723,168	\$ 697,150	\$1,727,554	\$ 1,005,429	\$12,084,831

The amounts of corporate assets included in “Eliminations and corporate” were ¥227,464 million, ¥299,661 million and ¥277,312 million (\$2,582,289 thousand) at March 31, 2003, 2004 and 2005, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

### (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, 2003, 2004 and 2005:

	Millions of yen						Thousands of U.S. dollars
	Year ended March 31						Year ended March 31,
	2003		2004		2005		2005
Overseas sales:							
The Americas	¥ 239,936	18.1%	¥ 235,116	16.6%	¥ 266,649	18.0%	\$ 2,482,997
Europe	318,575	24.1	363,424	25.7	386,091	26.1	3,595,223
Asia/Oceania	274,307	20.8	310,806	22.0	292,276	19.8	2,721,631
Total	¥ 832,818	63.0%	¥ 909,346	64.3%	¥ 945,016	63.9%	\$ 8,799,851
Consolidated net sales	¥1,322,453	100.0%	¥1,413,243	100.0%	¥1,479,750	100.0%	\$13,779,216

## Report of Independent Auditors

To the Board of Directors of  
Seiko Epson Corporation

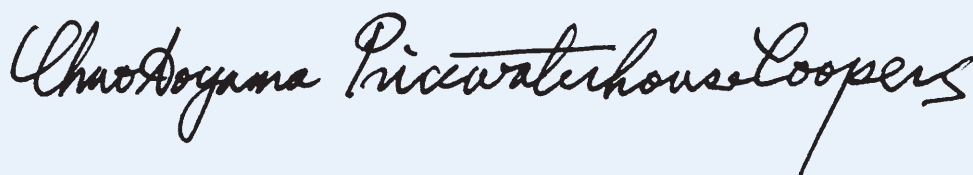
We have audited the accompanying consolidated balance sheets of Seiko Epson Corporation and its consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and its consolidated subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 (8), effective as of March 31, 2004, Seiko Epson Corporation and its consolidated subsidiaries have adopted new Japanese accounting standards for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



Tokyo, Japan  
June 24, 2005

## Corporate Data

(As of March 31, 2005)

■ <b>Company Name</b>	SEIKO EPSON CORPORATION
■ <b>Foundation</b>	May 1942
■ <b>Head Office</b>	3-5 Owa 3-chome Suwa, Nagano 392-8502, Japan Tel: +81-266-52-3131 (main)
■ <b>Tokyo Office</b>	Shinjuku NS Building, 4-1 Nishishinjuku 2-chome, Shinjuku-ku, Tokyo 163-0811, Japan Tel: +81-3-3348-8531 (main)
■ <b>Paid-in Capital</b>	53,204 million yen
■ <b>Number of Employees</b>	Epson Group (Consolidated): 85,647 Parent Company: 11,811
■ <b>Group Companies</b>	116 (domestic: 39, overseas: 77) * Including Seiko Epson Corporation
■ <b>Main Businesses</b>	<ul style="list-style-type: none"> <li>Information-related equipment: includes printers and related supplies, color imaging scanners, 3LCD projectors, large LCD projection TVs, LCD monitors, label writers, miniprinters, POS systems and related products, PCs, and other products</li> <li>Electronic devices: includes small and medium-sized LCDs, high-temperature polysilicon TFT-LCD panels for LCD projectors, CMOS LSIs, crystal units, crystal oscillators and other products</li> <li>Precision products: includes watches, watch movements, plastic corrective lenses, optical devices, horizontally articulated robots, IC handlers and other products</li> <li>Other businesses: includes intra-Group services, business incubation, others</li> </ul>
■ <b>URL</b>	<a href="http://www.epson.co.jp/e/">http://www.epson.co.jp/e/</a>
■ <b>Board of Directors</b>	(As of June 25, 2005)
Chairman	Directors
Saburo Kusama*	Nobuo Hashizume
Vice Chairman	Seiichi Hirano
Yasuo Hattori	Minoru Usui
President	Kenji Uchida
Seiji Hanaoka*	Noriyuki Hama
Executive Vice Presidents	Director and Advisor
Toshio Kimura*	Hideaki Yasukawa
Norio Niwa*	Auditors
Senior Managing Director	Masayoshi Omae
Masayuki Morozumi	Toshihiko Kishiro
Managing Directors	Yoshiro Yamamoto
Yasumasa Otsuki	Tomiichi Akiyama
Masao Akahane	Tatsuhiro Ishikawa
Torao Yajima	
Kenji Kubota	* Representative Director
Hiroshi Komatsu	

## Investor Information

(As of March 31, 2005)

■ <b>Number of shares</b>	
Authorized:	607,458,368
Issued:	196,364,592
Number of shareholders	33,108

### Principal shareholders

Shareholders	Number of shares held (thousand shares)	Shareholding ratio (%)
Aoyama Kigyo Kabushiki Kaisha	20,318	10.34
Sanko Kigyo Kabushiki Kaisha	14,288	7.27
Japan Trustee Services Bank, Ltd. (trust accounts)	8,458	4.30
Mizuho Corporate Bank, Ltd.	7,593	3.86
Yasuo Hattori	7,144	3.63
Reijiro Hattori	7,060	3.59
State Street Bank and Trust Company	6,831	3.47
The Master Trust Bank of Japan, Ltd. (trust accounts)	6,654	3.38
The Dai-ichi Mutual Life Insurance Company	6,240	3.17
Seiko Corporation	6,145	3.12

1. Holdings of less than 1,000 shares have been omitted from the number of shares owned.

2. The percentage of shares held has been calculated to two decimal places.

### Investor Information

Closing of Accounts	March 31
Regular General Shareholders Meeting	June
Date for Confirmation to Shareholders of the Cash Dividend Payment Date	March 31
Date for Confirmation to Shareholders of the Interim Cash Dividend Payment Date	September 30

Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
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#### Business handling place of the agent:

Head Office of Stock Transfer Agency Department  
Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo  
Tel: +81-3-5213-5213  
[http://www.tz.mizuho-tb.co.jp/english/services/stock\\_transfer\\_agent.html](http://www.tz.mizuho-tb.co.jp/english/services/stock_transfer_agent.html)

#### Intermediary offices:

Branches of Mizuho Trust & Banking Co., Ltd.  
Head Office and Branches of Mizuho Investors Securities Co., Ltd.

#### Newspaper in which Public Notices (in Japanese)

Are to Be Inserted The Nihon Keizai Shimbun

\* Please note that in lieu of placing a public notice, the Company has presented its balance sheets and statements of income on its Web site (<http://www.epson.co.jp/IR/>).