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April 27, 2004

CONSOLIDATED RESULTS FOR YEAR ENDED MARCH 31, 2004

Consolidated Financial Highlights

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

<Income statements and cash flows data>

	Year ended March 31, 2004	Year ended March 31, 2003	Change	Year ended March 31, 2002	Year ended March 31, 2004
Statements of Income Data:					
Net sales	¥1,413,243	¥1,322,453	6.9%	¥1,274,109	$13,371,587
Operating income	77,401	49,360	56.8%	26,196	732,340
Income (loss) before income taxes and minority interest	65,058	31,629	105.7%	(18,382)	615,555
Net income (loss)	38,031	12,510	204.0%	(18,432)	359,835
Statements of Cash Flows Data:					
Cash flows from operating activities	182,669	159,504	14.5%	151,284	1,728,347
Cash flows from investing activities	(65,329)	(107,943)	(39.5%)	(278,358)	(618,119)
Cash flows from financing activities	(40,918)	9,111	(549.1%)	101,701	(387,151)
Cash and cash equivalents at end of the year	265,183	192,288	37.9%	131,309	2,509,064
Per Share Data:					
Net Income (loss) per share -Basic	¥204.70	¥81.08	152.5%	¥(121.37)	$1.94
-Diluted	¥204.53	-	- %	-	$1.94

Notes

I. The consolidated figures are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

III. As a result of a change in accounting standards, bonuses to directors and statutory auditors, which are appropriated from retained earnings subsequent to fiscal year end and not reflected in the statement of income of the fiscal year, were reflected in the calculation of net income per share for the year ending March 31, 2003 as if they were charged to income in such fiscal year. Comparative figures have been presented as though the new standard had been applied retroactively. Diluted net income per share are presented only if there are dilutive factors present.

IV. U.S. dollar amounts are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. The rate of ¥105.69 = U.S.$1 at March 31, 2004 has been used for the purpose of presentation.

<Balance Sheets data>

	March 31, 2004	March 31, 2003	March 31, 2004
Total assets	¥1,206,491	¥1,196,080	$11,415,375
Shareholders' equity	414,367	¥281,316	3,920,589
Debt / Equity ratio (%)	34.3%	23.5%	34.3%
Shareholders' equity per share	¥2,110.20	1,851.13	$19,965.94

Overview of the Business Group

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

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

Information-related equipment business segment:
This segment includes imaging and information products business, visual instruments business, system device business, and personal computers business. This segment develops, manufactures and sells mainly printers, LCD projectors, mini-printers and personal computers.

Operations	Main products	Main subsidiaries and affiliates	
		Manufacturing company	Sales company
Imaging and information products	Inkjet printers, laser printers, dot matrix printers, large format inkjet printers, and related supplies Color image scanners and others	Tohoku Epson Corporation Orient Watch Co., Ltd. Epson Portland Inc. Epson El Paso, Inc. Epson Telford Ltd. Epson Precision (Hong Kong) Ltd. Singapore Epson Industrial Pte. Ltd. P.T. Indonesia Epson Industry Epson Precision (Philippines), Inc.	Epson Sales Japan Corporation Epson OA Supply Corporation Epson America, Inc. Epson (U.K.) Ltd. Epson Deutschland GmbH Epson France S.A. Epson Italia s.p.a. Epson Iberica, S.A. Epson Korea Co., Ltd. Epson(Shanghai)Information Equipment Co., Ltd. Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd. Epson Australia Pty. Ltd.
Visual instruments	LCD projectors LCD monitors, label writers and others	Epson Precision (Hong Kong) Ltd.	
System devices	Mini-printers POS system-related products and others	Epson Precision (Hong Kong) Ltd.	
Personal computers	PC	-	Epson Sales Japan Corporation Epson Direct Corporation

Electronic devices business segment:

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

Operations	Main products	Main subsidiaries and affiliates	
		Manufacturing company	Sales company
Display	Small and medium-sized LCD modules High-temp. Poly-Si TFT LCD modules for LCD projectors and others	Suzhou Epson Co., Ltd. Epson Precision (Hong Kong) Ltd.	Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd.
Semiconductor	CMOS LSI and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd. Yasu Semiconductor Corporation	
Quartz device	Crystal units, crystal oscillators and others	Orient Watch Co., Ltd. Suzhou Epson Co., Ltd. Epson Precision (Malaysia) Sdn. Bhd. Epson Precision (Philippines), Inc.	

Precision products business segment:

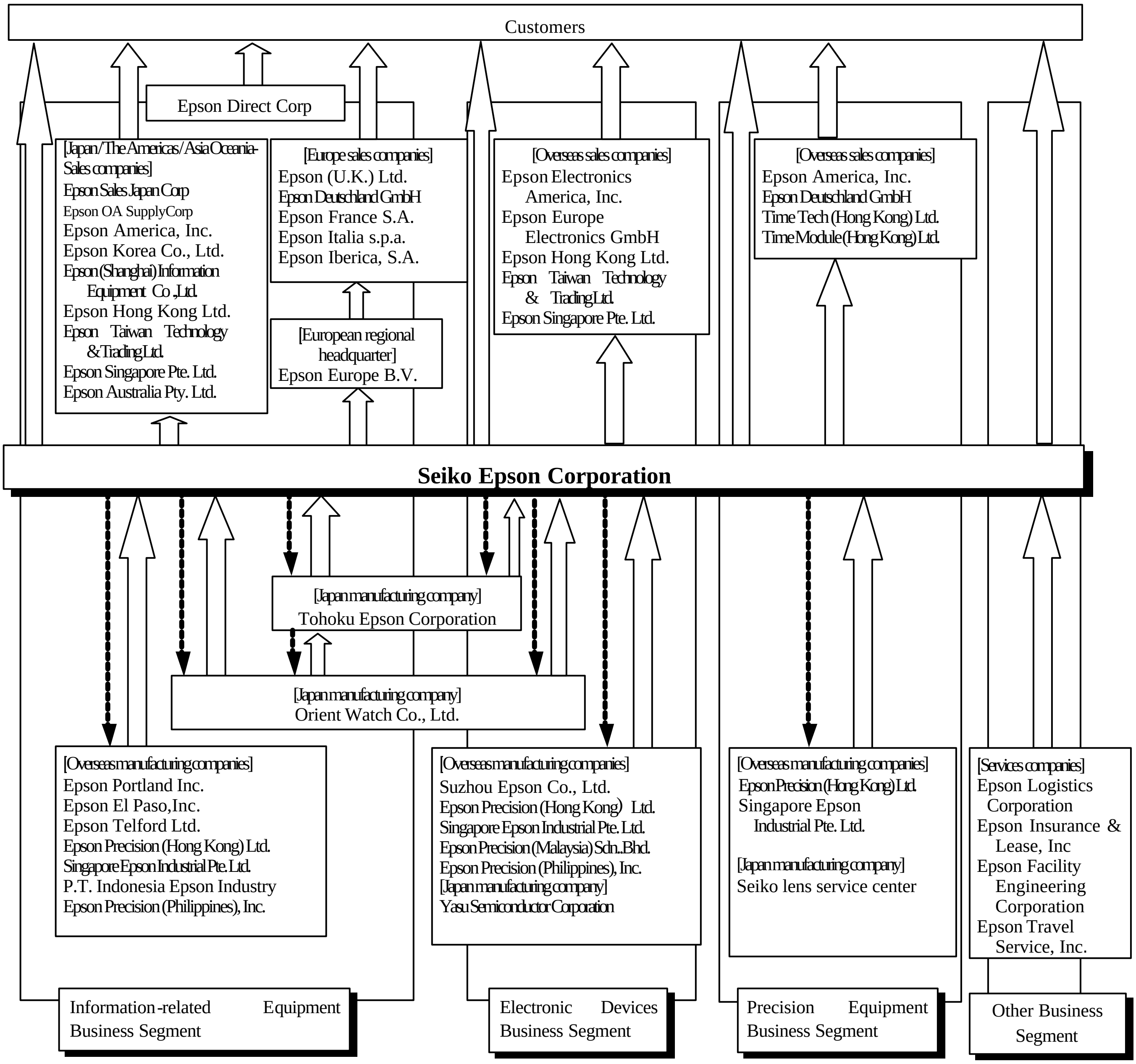
This segment includes watch business, optical products business, and factory automation systems business. This segment develops, manufactures and sells mainly watches, watch movements, plastic corrective lenses, precision industrial robots and others.

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

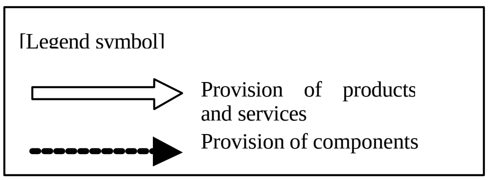
Other business segment:

This segment comprises the businesses of subsidiaries that offers services within Epson and new business still in the start-up phase that are aimed to make the best use of management resources.

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



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



Management Policy

As a publicly owned company, Seiko Epson strives to fulfill its responsibilities as a good corporate citizen on a variety of fronts. These include giving detailed attention to corporate ethics and risk management, improving customer satisfaction and product quality, and environmental management. With creativity and challenge" as the focal point for the Group's collective capabilities, Seiko Epson is aiming to further enhance its enterprise value.

This commitment is summarized in the following management philosophy:

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

This management philosophy is the foundation from which Seiko Epson conducts its business operations.

Medium- to Long-term Management Strategy

As the global economy stabilizes, the Japanese economy's modest recovery is expected to continue, despite lingering uncertainty surrounding consumer spending and currency rates.

In the IT industry, fields related to screens and imaging—areas of expertise for Epson—are predicted to undergo further growth in the years ahead, against the backdrop of the ongoing spread of digitization and broadband in the ubiquitous networked society. Meanwhile, Epson's operating environment is expected to remain exceptionally difficult, as market changes accelerate and price competition intensifies.

In this climate, Epson drafted a medium-to-long-term fundamental concept, *SE07*, as a guiding policy for achieving steady growth and to take optimal advantage of its business base forged as a leading name in providing imaging solutions via color printers, LCD projectors and small and medium-sized LCD displays. "Digital Image Innovation" is the key slogan for *SE07*, which aims to concentrate management resources in the so-called 3i imaging fields of imaging on paper (i1), imaging on screen (i2), and imaging on glass (i3). Printers, LCD projectors and displays are currently the three products symbolizing these high-growth business domains, respectively, which Epson is seeking to further expand by linking its finished product and electronic devices businesses to each domain. At the same time, Epson will emphasize close teamwork and fuse the "3i" fields to create new markets and businesses.

In March 2004, Epson drafted the aptly named *Action07*, set to run from fiscal 2004 to fiscal 2006, as a medium-term action plan for attaining the objectives of *SE07* by 2007. Epson's targets for fiscal 2006 include consolidated net sales of ¥1,770 billion, and an increase in the ratio of recurring profit to net sales of more than 9% on a consolidated basis. At the same time, Epson will work to realize a resilient financial structure as quickly as possible by generating stable cash flows.

To achieve the objectives of *Action07*, Epson will pool the collective strengths of the Group to pursue structural reforms under the banner, "One Epson." Epson will pursue far-reaching reforms, particularly in the embattled Information-Related Equipment segment, which continues to face a severe operating environment amid declining prices and changes to its business model. Epson's goal is to build a stable earnings structure by pairing this business with its Electronic Devices segment.

To realize this aim, the Seiko Epson Group will adopt the following three policies:

1. Reform the earnings structure from the ground up
2. Ensure development of products and technologies required to accomplish the objectives of *SE07*
3. Accelerate reform of the mindset at Epson and encourage employees to tackle lofty objectives

For policy 1, Epson is leveraging actions for reducing the total cost ratio to conduct an extensive review of its business structure. These actions include a targeted reduction of 10 points in the total cost ratio over the next three years. The aim is to use cost reduction activities to date, which encompass progress made on reforming procurement and distribution, as well as innovations in manufacturing and product quality, to create an earnings structure that will allow Epson to generate stable profits irrespective of market conditions. Efforts to cut costs are focusing on sales companies as well as manufacturing, with one goal being to reform the earnings structure by integrating design, technology, production and sales. The effects stemming from these reductions will not only improve profit margins, but go far in covering the cost of future business strategies.

For policy 2, Epson will take definitive steps to convert R&D themes for achieving growth in the "3i" business domains where its imaging strengths rest—the printer business (i1), which is generating printing demand to spur growth; the LCD projector business (i2), using unique Epson technology as a driving force for its market development; and the LCD display business (i3), where Epson seeks to become the leading supplier of small and medium-sized LCD displays—as well as R&D themes targeting the core devices underpinning these domains, into new products and businesses. Epson's goal here is to realize "Digital Image Innovation," the predominant theme of the *SE07* medium-term plan. Epson is also steadily laying the groundwork for the new research seeds and business domains that will form the foundations for growth over the coming decade.

For policy 3, Epson is infusing its corporate culture with the benefits of reforms enacted over the past two years. While taking this process even further, Epson is working to raise awareness among employees. The aim is to encourage employees to "think outside the box" as they face new challenges with lofty objectives and speed in mind.

Basic Policy regarding the Allocation of Profits

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

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

Status of Corporate Governance

At Seiko Epson, we are reinforcing oversight functions and ensuring full compliance with corporate ethical standards as we pursue ongoing growth in our enterprise value. These efforts underscore Epson's commitment to conducting sound, highly transparent management in the eyes of all stakeholders, including clients, shareholders, and employees. Supporting and sustaining responsible management of this kind lies at the heart of Epson's fundamental stance on corporate governance.

Governance at Epson is currently underpinned by the statutory auditor system. At the core of this system is a four-member Board of Statutory Auditors, including two external statutory auditors. All four auditors, including the external appointments, are typically in attendance for each of the board's monthly meetings. These auditors are also present at meetings of the Board of Directors, the Management Deliberative Committee, and other sessions vital to business execution. Statutory auditors are thus in a position to conduct their audits based on the same level of information as members of the Board of Directors. In a drive to further heighten the independence of our auditors and increase transparency, we intend to propose the appointment of a third external statutory auditor at the General Shareholders' Meeting scheduled for June this year. One outgoing standing statutory auditor and two outgoing external statutory auditors will also be replaced. If approved, these appointments will increase the Board of Statutory Auditors to five members.

In contrast to the organizational separation of business execution and oversight common to the "Company with Committees" governance framework, Epson vests monitoring functions in the Board of Directors, which is underpinned by the aforementioned Board of 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 is appointing suitably qualified directors with laudable credentials in both business execution and management oversight, and broadening the jurisdictional scope of the Board of Directors, as it maintains a unified governance structure backed by the Board of Corporate Statutory Auditors. As these actions strengthen Epson's hand on the operational front, the search for an optimized governance structure will remain an ongoing issue.

Epson is also moving to increase transparency in the nomination of directors and their compensation. Two committees specifically responsible for exploring these issues have been in place since the fiscal year ended March 2004. The Nominating Committee handles all aspects of nomination: from the setting of nomination criteria, to the actual selection of eligible candidates. The Compensation Committee, meanwhile, is charged with everything from defining the parameters of the compensation system, to drafting the policies governing directors' pay packages. These committees conduct extensive deliberations in each respective area, ultimately presenting their recommendations to the Board of Directors.

Epson has a framework in place with preventative mechanisms vital to conducting legally compliant management on a day-to-day basis. This framework includes an internal system of checks and balances designed to prevent any potential legal or internal regulatory violations at Epson's operational divisions during the course of business execution. Epson's Auditing Office, under the direct control of the president, regularly audits the operations of business divisions and Epson subsidiaries, reporting its findings directly to the president. Epson has also set up a Compliance Management Committee. Among other tasks, this committee operates Epson's Compliance Hotline, for reporting legal compliance issues.

Operating Performance Highlights

The global economy got off to a shaky start in the first half year because of many destabilizing factors, particularly the SARS (severe acute respiratory syndrome) epidemic, and concerns over international affairs. However, due to the recovery of the U.S. economy and the economic expansion of China, the global economy showed signs of recovery. Also signs of economic restoration in Europe and Asia were observed

In Japan, due to lackluster personal and capital expenditures and moderate exports, business conditions for the first half of the year progressed flatly. The latter half or the year showed signs of a turnaround, mainly in the fields of increasing capital expenditure and export.

In the main markets of the Epson Group ("Epson"), the shift to multi-function printers (printers that can print, scan, and copy) in the ink-jet printer market continued in the information-related business, extending to Japan where single function printers had been dominant. In the first half of the year, the appearance of multi-function printers for $99 had a considerable impact, further eroding the price of the products. In the latter half of the year, the market conditions of the U.S. and Europe showed recovery, thus leading to stabilizing the product price. The digital camera market continued to expand resulting in intense competition among printer manufacturers as they focused their energies into improving the quality of printed pictures by inkjet printers. Laser printers experienced increasingly lower prices and further demand for color laser printers. The market continued to expand for LCD (liquid-crystal display) projectors due to the continuous growth in office use markets and increased in quantity however, suffered lower price. The home entertainment market for projection TV in the U.S. is increasing drastically due to demand for high resolution, slim profile, large scale TV caused by shift to high-vision and digital audio-visual contents. Demand was up in the electronics devices business, which includes color LCD's, color LCD drivers for mobile phones and image processing IC's, due to continued transition to color mobile phones displays in Europe and the United States and demand seen in replacement purchases to 3G mobile phones and mobile phones equipped with high resolution cameras in Japan. The precision product business faced tough markets with stagnant domestic personal spendin g, however, toward the fiscal year end, showed improvements.

Under these market conditions, Epson introduced new products fitted with Epson's unique "*Tsuyo-ink*" or strong ink, which is an ink that combines the characteristics of high-quality resolution and durability in the domestic market and the "**DURA**Brite" in the overseas market, both differentiating its predicts from our competitors. Epson launched its new multi-function printers in Japan through sales of its PM-A850, an All-In-One multi-function printer that can handle high-resolution pictures. Epson also launched its compact lightweight low priced A3 color laser printer LP-9000C and LP-7000C, strategically enhance demand to replace monochrome printers used in offices. In the visual instruments business, Epson made entry to the LCD projection TV business, where market growth is expected. For its electronic devices business, Epson focused its managerial resources into color LCDs and color LCD drivers where Epson has technological advantage. Furthermore, Epson focused its corporate reforms by promoting cost and procurement reduction, closing its monochrome STN LCD manufacturing plant. Epson reached an agreement with Sanyo Electric Co., Ltd to merge LCD businesses.

The average exchange rate for this year were ¥113.07 for the yen against the US dollar and ¥132.61 for the yen against the Euro. Compared with the same period last year, these rates represent a 7% strengthening of the yen against the dollar but a 10% weakening of the yen against the Euro.

As a result of the above circumstances, Epson's net sales for this year increased by 6.9% compared to last year to ¥1,413,243 million ($13,371,587 thousand). Operating income rose by 56.8% compared to last year to ¥77,401 million ($732,340 thousand), and income before income taxes and minority interest also increased to 105.7% to ¥65,058 million ($615,555 thousand). Net income shot up by 204.0% to ¥38,031 million ($359,835 thousand).

Operating Performance Highlights by Business Segments

Information-related equipment:

Epson worked hard to differentiate its products by promoting ink with photo durability and introducing separate color ink components which are economical. Epson also strengthened its strategy to boost sales of color laser printers by promoting replacement from monochrome laser printers and also strengthened lineup of home use visual instruments such as the projection TV

In the imaging and information products business, improved sales of laser printers (including their related supplies, and the same applies to various printers mentioned below) was achieved through growth in sales of related supplies caused by climbing sales of color printers and an increase in the number of printers being in use (including monochrome printers). Inkjet printers were affected by reduction in sales of single-function printers and a drop in prices, but increased sales of multi-function printers and ink cartridges led to slightly higher income. Sales of scanners fell as a result of the continuing shift in sales toward multi-function printers with scanner functions. Overall, sales increased slightly for the imaging and information product business.

The visual instruments business did not fare as well, with monitor modules experiencing a considerable drop in sales for completed monitors. By the new entry of projector lineups in the home entertainment field, LCD projectors expanded appreciably in volume, however sales amount decreased, due to further price reductions. As a result of price pressure, sales decreased in the visual instruments business.

In the system devices business and personal computer business, system devices business enjoyed demand for electronic check processor printers in the North American market and was able to successfully maintain the direct marketing approach to customers implemented in Europe and America. As a result, sales of terminal modules increased. Consequently, the system devices and personal computer businesses were able to post an overall increased sales.

Operating income in the information-related business decreased as a result of, among other things, reduced market prices mainly for ink jet printers and also by increased selling expenses.

Net sales for the information-related equipment business segment for the this year increased by 0.5% compared to last year to ¥920,380 million ($8,708,298 thousand), and operating income decreasing by 42.9% compared to last year to ¥45,902 million ($434,308 thousand).

Electronic devices:

In the electronics device segment, Epson made considerable efforts such as actively introducing products to match with high performance color LCD mobile phones. Furthermore, reductions in procurement costs and cuts in fixed expenses were carried out.

In the display business, Epson achieved significant increased sales of color STN LCDs and MD-TFD LCDs due to favorable market conditions such as overseas transition to color LCDs for mobile phones and the introduction of new mobile phone models in Japan. In order to meet the high demands of color LCDs, reduction of manufacturing monochrome STN LCDs and shift to manufacturing color LCDs were made, resulting in significant increase of sales for color STN LCDs and MD-TFD LCDs. Consequently, the display division posted considerable sales increase overall.

The semiconductor business performed well, ending this year with substantial sales growth. This growth was led by increase in sales of color LCD drivers, which have high average prices resulting from overseas demand for color display mobile phones. Sales of image processing semiconductors that are used increasingly in products such as high performance mobile phones equipped with built-in cameras also increased.

Epson also improved sales in the quartz devices business through increase sales of crystal oscillators and real-time clock modules for mobile phones and digital still cameras.

Operating income for the electronic devices segment thus shows significant profit recovery through increased sales for all businesses and through decreases in fixed expenses (such as depreciation) and reduction activities for cost of sales.

Net sales for the electronic devices business segment for this year increasing by 24.5% compared to last year to ¥441,153 million ($4,174,028 thousand), and operating income was ¥40,621 million ($384,341 thousand) (operating loss was ¥28,000 million last year).

Precision products:

Despite the harsh market conditions. Epson's precision products business succeeded in developing products to match customer needs and implementing cost reduction plans. Furthermore, the watch business consolidated its domestic manufacturing plant in order to achieve cost savings.

In the watch business, high-priced products showed steady sales in the domestic market and average unit price increased, however, volume of medium-priced products, which are Epson's core products decreased. Steady increase in sales of optical devices for LCD projectors increased sales for the optical business and due to the recovery of the semiconductor market, the factory automation business enjoyed higher sales of IC handlers. As a result, sales in the precision instruments business increased overall.

Operating income increased for the precision products segment as a result managing to cut costs in the watch business, and due to order increases for the factory automation business.

This resulted in net sales for the precision products business segment for this year increasing by 1.7% compared to last year to ¥81,102 million ($767,358 thousand), and operating income increasing by 336.1% compared to last year to ¥2,810 million ($26,588 thousand).

Operating Performance Highlights by Geographic Segments

Japan:

Sales increased for MD-TFD LCDs and color STN LCDs. As a result, in spite of sales decrease for ink-jet printers, net sales increased 5.5% compared to last year to ¥1,177,642 million ($11,142,417 thousand), and operating income increased by 93.4% compared to last year to ¥36,599 million ($346,287 thousand).

The Americas:

Scanners and inkjet printers experienced reduced sales, but sales for Logic IC increased. As a result, net sales decreased 1.0% compared to last year to ¥267,003 million ($2,526,284 thousand), and operating income increased by 55.6% compared to last year to ¥11,066 million ($104,702 thousand).

Europe:

Sales rose for inkjet printers, laser printers and color STN LCDs. As a result, net sales increased 13.8% compared to last year to ¥300,269 million ($2,841,035 thousand), and operating income increased by 199.8% compared to last year to ¥9,550 million ($90,358 thousand).

Asia / Oceania:

Sales were up for MD-TFD LCDs and LCD projectors, however, scanners decreased. As a result, net sales increased 7.4% compared to last year to ¥683,113 million ($6,463,365 thousand), and operating income increased by 19.0% compared to last year to ¥18,596 million ($175,949 thousand).

Cash Flow Performance

Net income for the fiscal year ended March 31, 2004 was ¥38,031 million ($359,835 thousand). Depreciation and amortization, principally in the electronic devices business segment, was ¥110,081 million ($1,050,412 thousand). As for changes to assets and liabilities, Accrued pension and severance costs, including prepaid pension and severance cost, decreased by ¥13,338 million ($126,199 thousand) reflecting partial transfer of the tax-qualified defined benefit plan of the Company to the defined contribution plan, accounts receivable decreased by ¥6,224 million ($58,889 thousand), accounts payable increased by ¥13,247 million ($125,338 thousand) and inventories decreased by ¥4,042million ($38,244 thousand). As a result, cash inflows from operating activities came to ¥182,669 million ($1,728,347 thousand).

Cash outflows from investing activities were ¥65,329 million ($618,119 thousand) due to capital expenditures, principally in the imaging and information products business, and amounts that came due during this period for tangible and intangible fixed assets acquired at the end of last period which amounted to ¥73,333 million ($693,850 thousand).

Cash flows from financing activities were negative at ¥40,918 million ($387,151 thousand), primary resulting from proceeds of ¥109,915 million ($1,039,975 thousand) from the issuance of new stocks, which was due to Epson’s listing on the stock exchange including the exercise of over allotment and net payments of ¥147,850 million ($1,398,902 thousand) from short- and long-term loans in accordance with new loans and loan repayments.

As a result, cash and cash equivalents as of March 31, 2004 was ¥265,183 million ($2,509,064 thousand).

Highlights of the Fourth Quarter

Net sales for the fourth quarter rose by 4.9% on the same period last year to ¥357,319 million ($3,380,821 thousand), supported by the increases in sales in the electronic device business, primary resulted from successful sales in LCDs and related products for mobile phones and in the precision product business with the sales of IC handlers. Operating income also increased by 202.1% to ¥12,388 million ($117,211 thousand) as a result of improved profitability through the depreciation and amortization decrease contributed by careful review of the capital expenditure in the electronic device business in addition to sales increase. However, income before income taxes and minority interest decreased by 61.4% to ¥7,125 million ($67,414 thousand) due to the gain on transfer to government of substitutional portion of pension liabilities recognized in the same period last year. Net income also decreased by 49.7% to ¥4,300 million ($40,685 thousand).

Forecast for fiscal year ending March 31, 2005

The world economy is recovering as evidenced by the strong improvement in US economy supported by the increasing capital expenditures and profits in corporate section, the Chinese economy getting better and the gentle development of Euro economy in spite of the negative impact from Middle Eastern situation such as Iraq.

Under these circumstances, as for the imaging and information products business, intensive competition in the ink-jet printer market resulting from the rapid shift of market demand from single function printers to multi-function printers and the competitors targeting at photo-quality printers, are expected. Despite the competitive market situation, Epson forecasts a sales increase through the introduction of new line-ups of ink-jet printers and profit improvement in the second half to be achieved by structural innovations now undergoing, joining to sales increase of LCD projectors and projection TV.

As for the electronic device business, steady demands are expected to continue in the first half seizing the demand shift of mobile phones towards color and high-resolution displays in the oversea market. However, in the second half, price erosion in such products as MD-TFD LCDs and color STN LCDs is expected under the intensified competition in the market.

In the precision product business, sales of optical devices for projectors and other products is expected to stay healthy.

The exchange rate for the year is assumed as U.S.$1 = ¥105 and Euro1 = ¥130.

Note: Today Epson has announced that the joint venture agreement of liquid crystal business merger with SANYO Co., Ltd (SANYO) has been made. However, the forecast above does not include its effect. On the assumption of this merger, projected sales and income would be affected. As for projected net income, the interest of SANYO in the joint venture, which is 45%, would be deducted.

Outlook for Consolidated Results

Half year

	FY 2003	Current Outlook	Change
Net Sales	¥657.9 billion	¥678.0 billion	¥20.1 billion
Income before income tax and minority interest	¥28.8 billion	¥19.5 billion	-¥9.3 billion
Net income	¥16.6 billion	¥11.0 billion	-¥5.6 billion

Full year

	FY 2003	Current Outlook	Change
Net Sales	¥1,413.2 billion	¥1,479.0 billion	¥65.8 billion
Income before income tax and minority interest	¥65.1 billion	¥72.1 billion	¥7.0 billion
Net income	¥38.0 billion	¥43.0 billion	¥5.0 billion

Cautionary Statement

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

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥265,183	¥192,288	$2,509,064
Time deposits	509	498	4,816
Notes and accounts receivable, trade	210,381	218,280	1,990,548
Inventories	155,856	167,478	1,474,652
Deferred income taxes	37,082	34,508	350,856
Other current assets	43,858	36,502	414,969
Allowance for doubtful accounts	(3,700)	(4,244)	(35,008)
Total current assets	709,169	645,310	6,709,897
Property, plant and equipment:			
Buildings and structures	376,195	378,268	3,559,419
Machinery and equipment	469,448	472,977	4,441,745
Furniture and fixtures	176,867	177,972	1,673,451
Land	52,106	53,794	493,008
Construction in progress	11,553	10,983	109,310
Other	835	979	7,900
	1,087,004	1,094,973	10,284,833
Accumulated depreciation	(693,973)	(652,204)	(6,566,118)
	393,031	442,769	3,718,715
Investments and other assets:			
Investment securities	28,207	24,778	266,884
Investments in affiliates	10,878	11,128	102,924
Long-term loans receivable	317	2,038	2,999
Deferred income taxes	2,764	9,929	26,152
Intangible assets	23,160	26,955	219,132
Other assets	39,720	34,053	375,816
Allowance for doubtful accounts	(755)	(880)	(7,144)
	104,291	108,001	986,763
Total assets	¥1,206,491	¥1,196,080	$11,415,375

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

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	¥62,851	¥142,198	$594,673
Current portion of long-term debt	47,380	70,258	448,292
Notes and accounts payable, trade	132,331	115,966	1,252,067
Accounts payable, other	81,785	77,492	773,820
Income taxes payable	6,731	8,316	63,686
Deferred income taxes	267	895	2,526
Accrued bonuses	17,083	13,590	161,633
Accrued warranty costs	14,283	14,275	135,141
Other current liabilities	54,862	50,097	519,084
Total current liabilities	417,573	493,087	3,950,922
Long-term liabilities:			
Long-term debt	346,769	396,934	3,281,001
Accrued pension and severance costs	8,055	9,242	76,214
Accrued directors' and statutory auditors' retirement allowances	1,729	2,403	16,359
Deferred income taxes	7,733	347	73,167
Other long-term liabilities	7,723	10,143	73,072
Total long-term liabilities	372,009	419,069	3,519,813
Minority interest in subsidiaries	2,542	2,608	24,051
Shareholders' equity:			
Common stock, no par value			
2004 - Authorized 607,458,368 shares, issued 196,364,592 shares	53,204	-	503,397
2003 - Authorized 607,458,368 shares, issued 151,864,592 shares	-	12,531	-
Additional paid-in capital	79,501	10,259	752,209
Retained earnings	299,575	264,874	2,834,469
Net unrealized gains on other securities	3,087	167	29,208
Translation adjustments	(20,999)	(6,515)	(198,685)
Treasury stock	(1)	(0)	(9)
Total shareholders' equity	414,367	281,316	3,920,589
Commitments and contingent liabilities			
Total liabilities and shareholders' equity	¥1,206,491	¥1,196,080	$11,415,375

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

Consolidated Statements of Income
Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Net sales	¥1,413,243	¥1,322,453	¥1,274,109	$13,371,587
Cost of sales	1,013,959	959,865	938,001	9,593,708
Gross profit	399,284	362,588	336,108	3,777,879
Selling, general and administrative expenses:				
Salaries and wages	77,748	72,597	68,380	735,623
Advertising	30,854	30,138	28,765	291,929
Sales promotion	31,740	30,364	34,741	300,313
Research and development costs	41,139	42,787	40,998	389,242
Shipping costs	20,527	19,756	17,624	194,219
Provision for doubtful accounts	414	665	91	3,917
Other	119,461	116,921	119,313	1,130,296
	321,883	313,228	309,912	3,045,539
Operating income	77,401	49,360	26,196	732,340
Other income:				
Interest and dividend income	1,684	1,289	1,311	15,933
Gain on transfer to government of the substitutional portion of pension liabilities	-	17,577	-	-
Reversal of specific warranty costs	-	2,982	-	-
Other	6,381	7,950	7,947	60,365
	8,065	29,798	9,258	76,308
Other expenses:				
Interest expenses	6,478	6,257	7,097	61,292
Net loss on foreign exchange	500	5,552	5,198	4,731
Loss on disposal of property, plant and equipment	3,711	3,233	7,484	35,112
Reorganization costs	2,044	23,955	4,865	19,340
Provision for specific warranty costs	-	-	21,797	-
Other	7,675	8,532	7,395	72,618
	20,408	47,529	53,836	193,093
Income (loss) before income taxes and minority interest	65,058	31,629	(18,382)	615,555
Income taxes:				
Current	15,210	12,368	6,618	143,911
Deferred	11,363	6,289	(6,948)	107,513
	26,573	18,657	(330)	251,424
Income (loss) before minority interest	38,485	12,972	(18,052)	364,131
Minority interest in subsidiaries	454	462	380	4,296
Net income (loss)	¥38,031	¥12,510	(¥18,432)	$359,835
	Yen			U.S. dollars
Per share:				
Net income (loss)	¥204.70	¥81.08	(¥121.37)	$1.94
Cash dividends	¥18.00	¥18.00	¥18.00	$0.17

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

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2004	2003	2004
Net sales	¥357,319	¥340,753	$3,380,821
Cost of sales	260,811	252,531	2,467,698
Gross profit	96,508	88,222	913,123
Selling, general and administrative expenses:			
Salaries and wages	19,919	17,820	188,466
Advertising	8,789	10,161	83,158
Sales promotion	8,373	9,641	79,222
Research and development costs	10,630	11,233	100,577
Shipping costs	5,320	4,219	50,336
Provision for doubtful accounts	(47)	(145)	(445)
Other	31,136	31,191	294,598
	84,120	84,120	795,912
Operating income	12,388	4,102	117,211
Other income:			
Interest and dividend income	476	393	4,504
Other	1,678	22,873	15,876
	2,154	23,266	20,380
Other expenses:			
Interest expenses	1,505	1,699	14,240
Net loss on foreign exchange	763	1,427	7,219
Loss on disposal of property, plant and equipment	1,073	1,294	10,152
Reorganization costs	-	327	-
Other	4,076	4,161	38,566
	7,417	8,908	70,177
Income before income taxes and minority interest	7,125	18,460	67,414
Income taxes	2,778	9,799	26,284
Income before minority interest	4,347	8,661	41,130
Minority interest in subsidiaries	47	120	445
Net income	¥4,300	¥8,541	$40,685

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

Consolidated Statements of Changes in Shareholders' Equity
Year ended March 31:

	Millions of yen							
	Number of shares issued	Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at March 31, 2001	151,864,592	¥12,531	¥10,259	¥1,565	(¥9,877)	(¥1)	276,305	290,782
Net loss	-	-	-	-	-	-	(18,432)	(18,432)
Cash dividends	-	-	-	-	-	-	(2,734)	(2,734)
Bonuses to directors and statutory auditors	-	-	-	-	-	-	(208)	(208)
Net unrealized loss on other securities	-	-	-	(279)	-	-	-	(279)
Translation adjustments	-	-	-	-	11,219	-	-	11,219
Changes in treasury stock	-	-	-	-	-	1	-	1
Balance at March 31, 2002	151,864,592	12,531	10,259	1,286	1,342	(0)	254,931	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)
Balance at March 31, 2003	151,864,592	12,531	10,259	167	(6,515)	(0)	264,874	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)
Balance at March 31, 2004	196,364,592	¥53,204	¥79,501	¥3,087	(¥20,999)	(¥1)	¥299,575	¥414,367

	Thousands of U.S. dollars						
	Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at March 31, 2003	$118,564	$97,067	$1,580	($61,643)	($0)	$2,506,141	$2,661,709
Net income	-	-	-	-	-	359,835	359,835
Issuance of common stock under public offering	384,833	655,142	-	-	-	-	1,039,975
Cash dividends	-	-	-	-	-	(29,653)	(29,653)
Bonuses to directors and statutory auditors	-	-	-	-	-	(1,854)	(1,854)
Net unrealized gain on other securities	-	-	27,628	-	-	-	27,628
Translation adjustments	-	-	-	(137,042)	-	-	(137,042)
Changes in treasury stock	-	-	-	-	(9)	-	(9)
Balance at March 31, 2004	$503,397	$752,209	$29,208	($198,685)	($9)	$2,834,469	$3,920,589

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

Three months ended March 31:

	Number of shares issued	Millions of yen: Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at December 31, 2002	151,864,592	¥12,531	¥10,259	(¥753)	(¥7,314)	(¥0)	¥256,334	¥271,057
Net income for the three months ended March 31, 2003	-	-	-	-	-	-	8,541	8,541
Increase due to affiliates newly accounted for under the equity method	-	-	-	-	-	-	(1)	(1)
Net unrealized gain on other securities	-	-	-	920	-	-	-	920
Translation adjustments	-	-	-	-	799	-	-	799
Balance at March 31, 2003	151,864,592	¥12,531	¥10,259	¥167	(¥6,515)	(¥0)	¥264,874	¥281,316
Balance at December 31, 2003	196,364,592	¥53,204	¥79,501	¥1,941	(¥18,527)	(¥1)	¥295,275	¥411,393
Net income for the three months ended March 31, 2004	-	-	-	-	-	-	4,300	4,300
Net unrealized gain on other securities	-	-	-	1,146	-	-	-	1,146
Translation adjustments	-	-	-	-	(2,472)	-	-	(2,472)
Balance at March 31, 2004	196,364,592	¥53,204	¥79,501	¥3,087	(¥20,999)	(¥1)	¥299,575	¥414,367

	Thousands of U.S. dollars: Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at December 31, 2003	$503,397	$752,209	$18,365	($175,296)	($9)	$2,793,784	$3,892,450
Net income for the three months ended March 31, 2004	-	-	-	-	-	40,685	40,685
Net unrealized gain on other securities	-	-	10,843	-	-	-	10,843
Translation adjustments	-	-	-	(23,389)	-	-	(23,389)
Balance at March 31, 2004	$503,397	$752,209	$29,208	($198,685)	($9)	$2,834,469	$3,920,589

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

Consolidated Statements of Cash Flows
Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Cash flows from operating activities:				
Net income (loss)	¥38,031	¥12,510	(¥18,432)	$359,835
Adjustments to reconcile net income (loss) to net cash provided by operating activities -				
Depreciation and amortization	111,018	127,406	129,151	1,050,412
Reorganization costs	2,044	23,002	4,509	19,340
Accrual for net pension and severance costs, less payments	(13,338)	(18,212)	(9,590)	(126,199)
Net loss on sales and disposal of property, plant and equipment	5,511	1,978	5,067	52,143
Equity in net (gains) losses under the equity method	(172)	95	(976)	(1,627)
Deferred income taxes	11,363	6,289	(6,948)	107,513
Decrease in allowance for doubtful accounts	(261)	(459)	(1,230)	(2,470)
Decrease in accrued income taxes	(1,826)	(1,839)	(18,520)	(17,277)
Decrease in notes and accounts receivable, trade	6,224	20,636	73,680	58,889
Decrease in inventories	4,042	2,471	48,221	38,244
Increase (decrease) in notes and accounts payable, trade	13,247	(3,613)	(53,317)	125,338
Other	6,786	(10,760)	(331)	64,206
Net cash provided by operating activities	182,669	159,504	151,284	1,728,347
Cash flows from investing activities:				
Payment for purchases of property, plant and equipment	(65,416)	(85,274)	(222,300)	(618,942)
Proceeds from sales of property, plant and equipment	4,309	7,872	3,645	40,770
Payments for purchases of intangible assets	(7,917)	(8,898)	(10,980)	(74,908)
Payments of long-term prepaid expenses	(441)	(10,943)	(30,376)	(4,172)
Other	4,136	(10,700)	(18,347)	39,133
Net cash used in investing activities	(65,329)	(107,943)	(278,358)	(618,119)
Cash flows from financing activities:				
Decrease in short-term borrowings	(76,076)	(56,723)	(82,668)	(719,803)
Proceeds from long-term debt	92,530	150,644	222,222	875,485
Repayments of long-term debt	(164,304)	(81,568)	(34,488)	(1,554,584)
Issuance of common stock	109,915	-	-	1,039,975
Cash dividends	(3,134)	(2,734)	(2,734)	(29,653)
Other	151	(508)	(631)	1,429
Net cash provided (used) by financing activities	(40,918)	9,111	101,701	(387,151)
Effect of exchange rate fluctuations on cash and cash equivalents	(3,527)	307	2,389	(33,371)
Net increase (decrease) in cash and cash equivalents	72,895	60,979	(22,984)	689,706
Cash and cash equivalents at beginning of the year	192,288	131,309	154,293	1,819,358
Cash and cash equivalents at end of the year	¥265,183	¥192,288	¥131,309	$2,509,064
Supplemental disclosures of cash flow information:				
Cash received and paid during the year for -				
Interest and dividend received	¥1,681	¥2,227	¥1,449	$15,905
Interest paid	(¥6,610)	(¥6,143)	(¥7,446)	($62,541)
Income taxes paid	(¥17,036)	(¥14,207)	(¥25,138)	($161,188)

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

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31, 2004
	2004	2003	
Cash flows from operating activities:			
Net income	¥4,300	¥8,541	$40,685
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	29,130	35,200	275,617
Accrual for net pension and severance costs, less payments	(10,908)	(18,019)	(103,207)
Net loss on sales and disposal of property, plant and equipment	3,297	222	31,195
Equity in net (gains) losses under the equity method	(6)	58	(57)
Deferred income taxes	3,013	6,141	28,508
Decrease in allowance for doubtful accounts	(315)	(717)	(2,980)
Increase (decrease) in accrued income taxes	(5,391)	1,397	(51,008)
Decrease in notes and accounts receivable, trade	42,621	29,449	403,264
Decrease in inventories	10,779	27,214	101,987
Decrease in notes and accounts payable, trade	(28,344)	(38,789)	(268,181)
Other	(4,097)	(173)	(38,764)
Net cash provided by operating activities	44,079	50,524	417,059
Cash flows from investing activities:			
Payment for purchases of property, plant and equipment	(13,104)	(20,279)	(123,985)
Proceeds from sales of property, plant and equipment	597	3,264	5,649
Payments for purchases of intangible assets	(1,822)	(3,495)	(17,239)
Payments of long-term prepaid expenses	(93)	(6,604)	(880)
Other	878	(8,374)	8,307
Net cash used in investing activities	(13,544)	(35,488)	(128,148)
Cash flows from financing activities:			
Decrease in short-term borrowings	(10,836)	(37,872)	(102,526)
Proceeds from long-term debt	40,030	27,716	378,749
Repayments of long-term debt	(100,762)	(25,049)	(953,373)
Other	(31)	(81)	(294)
Net cash used in financing activities	(71,599)	(35,286)	(677,444)
Effect of exchange rate fluctuations on cash and cash equivalents	(724)	621	(6,850)
Net decrease in cash and cash equivalents	(41,788)	(19,629)	(395,383)
Cash and cash equivalents at beginning of the period	306,971	211,917	2,904,447
Cash and cash equivalents at end of the period	¥265,183	¥192,288	$2,509,064
Supplemental disclosures of cash flow information:			
Cash received and paid during the year for-			
Interest and dividend received	¥454	¥402	$4,296
Interest paid	(¥1,884)	(¥1,272)	($17,826)
Income taxes paid	(¥5,156)	(¥2,261)	($48,784)

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

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

(1) Background -

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

(2) Basis of presenting consolidated financial statements -

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively "Epson") as of March 31, 2004, and for the year ended March 31, 2004 are an English translation of the Japanese consolidated financial statements of Epson, which have been prepared in accordance with accounting principles and practices generally accepted in 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 and practices 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.

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 and affiliates accounted for under the equity method 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.

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 sheet as a separate component of shareholders' equity.

(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 represent low risk of fluctuation in value.

(4) Financial instruments -

(a) Investments in debt and equity securities:

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

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at 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, based on the weighted average cost method. Other than temporary declines in the value of other securities are reflected in current income.

(b) Derivative financial instruments:

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

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

(c) Allowance for doubtful accounts:

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

(5) Inventories -

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

(6) Property, plant and equipment -

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

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 a new accounting standard 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 asset impairment.

As a result of adopting the new accounting standards, property, plant and equipment at March 31, 2004 decreased by ¥1,671 million ($15,810 thousand), 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 fiscal years beginning on or after April 1, 2003. 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 net income of the current year. Under the new accounting standards, "bonuses to directors and statutory auditors" are expensed as incurred. Epson has adopted these new accounting standards from the fiscal year commencing on April 1, 2003.

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

(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 returns 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 maintain a defined benefit pension plan covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements 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 these companies and their employees.

To supplement the welfare 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.

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) 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.

(14) Research and development costs -

Research and development costs are expensed as incurred.

(15) 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.

(16) 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. Effective from the fiscal year commencing on April 1, 2002, bonuses to directors and statutory auditors are required to be included in the calculation of net income per share.

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

(17) 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.

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 ¥105.69 = U.S.$1, the rate of exchange prevailing at March 31, 2004, has been used.

4. 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 2003 were ¥8,300 million ($78,532 thousand) and ¥12,493 million, respectively.

5. 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 ($29,208 thousand) and ¥167 million as at March 31, 2004 and 2003, respectively, were recorded as a component of shareholders’ equity. A related deferred income tax liability thereon of ¥1,021 million ($9,660 thousand) and ¥109 million was recorded against deferred income tax assets relating to other temporary differences as at March 31, 2004 and 2003, 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 2003 were as follows:

	Millions of yen			
	March 31, 2004			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
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, 2003			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	¥4,337	¥564	(¥235)	¥4,666
Debt securities	52	5	(-)	57
Other	582	-	(42)	540
Total	¥4,971	¥569	(¥277)	¥5,263

	Thousands of U.S. dollars			
	March 31, 2004			
		Gross unrealized		Market value
	Cost	Gains	Losses	(carrying value)
Equity securities	$41,177	$38,329	($586)	$78,920
Debt securities	492	38	(-)	530
Other	5,819	1,296	(57)	7,058
Total	$47,488	$39,663	($643)	$86,508

The carrying amount of unlisted investment securities at March 31, 2004 and 2003 were ¥19,064 million ($180,376 thousand) and ¥19,515 million, respectively.

For the years ended March 31, 2003 and 2002, other-than-temporary impairments of securities with an aggregate market value of ¥2,251 million and ¥2,237 million, respectively, were charged to current income. 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.

6. Intangible assets:

A consolidation adjustment account, representing the excess of cost over net equity of investments in subsidiaries as at March 31, 2004 and 2003, included in intangible assets, were ¥270 million ($2,555 thousand) and ¥954 million, respectively.

7. 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 floating rate borrowings. Epson uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

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

Forward exchange transactions are approved by the Company's Forward Exchange Committee (composed of representatives of Epson management) and executed based on authorization of the general manager of Epson in charge of the treasury management 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 in charge of the fund management.

The table below lists contract amounts, notional amounts and fair values of derivatives as at March 31, 2004 and 2003 by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

	Millions of yen		
	March 31, 2004		
Instruments	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar	¥4,213	¥4,170	¥43
Euro	29,600	28,885	715
Sterling pound	1,593	1,538	55
Australian dollar	1,170	1,142	28
Thai bath	205	206	(1)
Polish zloty	327	327	(0)
Purchased -			
U.S. dollar	7,159	6,956	(203)
Euro	77	75	(2)
Sterling pound	678	678	(0)
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, 2003 Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar	¥8,196	¥8,239	(¥43)
Euro	20,086	20,740	(654)
Sterling pound	679	681	(2)
Australian dollar	553	555	(2)
Swiss Francs	1,541	1,552	(11)
Thai baht	150	149	1
Purchased -			
U.S. dollar	5,903	6,054	151
Euro	17	17	0
Japanese yen	214	213	(1)
Total unrealized losses from forward exchange contracts			(¥561)

There were no interest rate swap transactions outstanding at March 31, 2003.

Instruments	Thousands of U.S. dollars March 31, 2004 Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar	$39,862	$39,455	$407
Euro	280,064	273,299	6,765
Sterling pound	15,072	14,552	520
Australian dollar	11,070	10,805	265
Thai baht	1,940	1,949	(9)
Polish zloty	3,094	3,094	(0)
Purchased -			
U.S. dollar	67,736	65,815	(1,921)
Euro	729	710	(19)
Sterling pound	6,415	6,415	(0)
Total unrealized gains from forward exchange contracts			$6,008

There were no interest rate swap transactions outstanding at March 31, 2004 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. Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged item or transactions are recognized in accordance with the Japanese accounting standard.

8. Assets pledged as collateral for secured loans and debt:

Assets pledged as collateral for secured loans and debt at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Pledged assets	2004	2003	2004
Land	¥386	¥727	$3,652
Buildings and structures	1,457	1,602	13,786
Machinery and equipment	370	483	3,501
Furniture and fixtures	18	26	170
Total	¥2,231	¥2,838	$21,109

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Secured loans and debt	2004	2003	2004
Current portion of long-term debt	¥30	¥194	$284
Long-term debt	-	30	-
Total	¥30	¥224	$284

In the year ended March 31, 2004, Epson entered into line of credit agreements with four banks for an aggregate maximum amount of ¥40,000 million ($378,465 thousand). As at March 31, 2004, there were unused credit lines of ¥40,000 million ($378,465 thousand) outstanding and available.

9. Pension and severance costs:

The funded status of retirement benefit obligations at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March31,
	2004	2003	2004
Projected benefit obligations	¥202,361	¥187,269	$1,914,665
Plan assets at fair value	183,915	144,262	1,740,136
Uufunded status	18,446	43,007	174,529
Unrecognized items:			
Prior service cost reduction from plan amendment	8,133	693	76,952
Actuarial losses	(34,564)	(38,898)	(327,032)
Accrued pension and severance costs - net	(7,985)	4,802	(75,551)
Prepaid pension cost	16,040	4,440	151,765
Accrued pension and severance costs	¥8,055	¥9,242	$76,214

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, the Company will adopt "Accounting for Transition of Retirement Benefit Plans" ("Financial Accounting Standards Implementation Guidance No.1" issued by Accounting Standards Board of Japan) from the year beginning April 1, 2004. The adoption of this standards will not have a material effect on Epson's results of operations and financial position for the year ending March 31, 2005.

The composition of net pension and severance costs for the years ended March 31, 2004, 2003 and 2002 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Service cost	¥9,352	¥10,627	¥9,201	$88,485
Interest cost	5,608	6,960	7,175	53,061
Expected return on plan assets	(5,055)	(5,830)	(5,531)	(47,829)
Amortization and expenses:				
Prior service costs	(529)	(1,338)	(1,622)	(5,005)
Actuarial losses	9,537	10,309	2,951	90,236
Net pension and severance costs	18,913	20,728	12,174	178,948
Gain on transfer to government of the substitutional portion of pension liabilities	-	(17,577)	-	-
	¥18,913	¥3,151	¥12,174	$178,948

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Year ended March 31		
	2004	2003	2002
Discount rate	2.5%	3.0%	3.0%
Long-term rate of return on plan assets	3.5%	3.5%	3.5%

In addition to the above-mentioned net pension and severance costs, additional severance costs of ¥1,182 million ($11,184 thousand), ¥181 million and ¥1,701 million, which related to specific reorganization programs, were recorded in reorganization costs for years ended March 31, 2004, 2003 and 2002, respectively.

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 the 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, which in turn reduced the accrued pension and severance costs for the years ended March 31, 2004, 2003 and 2002.

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. The fair value of fund assets to be returned to the government was approximately ¥39,677 million as at 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. The related government-specified portion of the fund assets will be returned to the government in the first quarter for the year ended March 31, 2005

The Company has a retirement benefit trust agreement with an outside trust company and contributed certain marketable securities to the employee retirement benefit trust.

10. 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. The Company does not currently make such transfers. Any transferred portions will be available for dividend distribution.

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, 2004, 2003 and 2002, the Company paid a year-end cash dividend of ¥9 ($0.09) per share and interim cash dividend of ¥9 ($0.09) 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, 2004 approved at the general shareholders' meeting, which will be held on June 25, 2004, is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥9 per share	¥1,767	$16,719
	¥1,767	$16,719

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 ($1,039,975 thousand). 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 ($384,833 thousand) and ¥69,242 ($655,142 thousand), respectively. Epson intends to use the proceeds for financing capital expenditures and for research and development.

There were 225 shares and 81 shares of treasury stock as at March 31, 2004 and 2003, respectively.

11. Net income per share:

Calculation of net income per share in accordance with the new accounting standards for the year ended

March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2004	2003	2004
Net income attributable to common shares	¥38,031	¥12,510	$359,835
Less : Bonuses to directors and statutory auditors	(-)	(196)	(-)
	¥38,031	¥12,314	$359,835
Weighted average number of common shares outstanding :			
-Basic	185,782,470	151,864,511	
-Diluted	185,937,667	-	
	Yen	Yen	U.S. dollars
Net income per share:			
-Basic	¥204.70	¥81.08	$1.94
-Diluted	¥204.53	-	$1.94

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding for the year ended March 31, 2003 and 2002.

Had the new accounting standard been applied retroactively, net loss per share on a pro-forma basis would have been a net loss per share of ¥122.02 for the year ended March 31, 2002.

12. Income taxes:

Epson is subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 43.6 % for the year ended March 31, 2004 and approximately 41.7 % for each of the years ended March 31, 2003 and 2002.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥17,511	¥19,759	$165,683
Net operating tax loss carry-forwards	13,897	16,513	131,488
Inter-company profits on inventories and write downs	7,877	9,604	74,529
Accrued bonuses	6,170	4,153	58,378
Devaluation of investment securities	4,118	1,711	38,963
Accrued warranty costs	3,749	4,422	35,472
Accrued pension and severance costs	2,678	3,901	25,338
Allowance for doubtful accounts	1,250	1,837	11,827
Others	11,579	12,212	109,556
Gross deferred tax assets	68,829	74,112	651,234
Less: valuation allowance	(13,418)	(15,754)	(126,956)
Total deferred tax assets	55,411	58,358	524,278
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(15,438)	(12,249)	(146,069)
Prepaid pension cost	(3,765)	-	(35,623)
Reserve for special depreciation for tax purpose	(3,059)	(2,626)	(28,943)
Net unrealized gains on other securities	(1,021)	(108)	(9,660)
Others	(282)	(180)	(2,668)
Gross deferred tax liabilities	(23,565)	(15,163)	(222,963)
Net deferred tax assets	¥31,846	¥43,195	$301,315

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, 2004 was a decrease of ¥2,336 million ($22,102 thousand).

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

Deferred tax assets and liabilities at March 31, 2004 and 2003 in Japan were calculated based on the consolidated tax return system.

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

	Year ended March 31		
	2004	2003	2002
Statutory income tax rate	43.6%	41.7%	41.7%
Reconciliation:			
Changes in valuation allowance	(5.2)	5.1	(24.3)
Entertainment expenses, etc. permanently non-tax deductible	1.6	2.1	(3.6)
Change in income tax rate	0.9	(2.4)	-
Unrecognized tax benefit for inter-company profit elimination	-	8.1	-
Tax credits	-	-	(21.9)
Tax for the prior period	-	-	12.7
Personal holding company tax	-	-	(0.7)
Others	0.0	4.4	(2.1)
Income tax rate per statements of income	40.9%	59.0%	1.8%

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, 2002, 41.7% was used in the calculation. 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.

Current income taxes for the year ended March 31, 2002 of ¥6,618 million consisted of current income taxes of ¥ 7,754 million and prior year income taxes adjustment of ¥1,166 million, offset by income tax refunds related to advanced pricing agreements of ¥2,302 million.

13. Research and development costs:

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥90,485 million ($856,136 thousand), ¥85,761 million and ¥79,742 million for the years ended March 31, 2004, 2003 and 2002, respectively.

14. Reorganization costs:

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

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

The reorganization costs for the year ended March 31, 2002 mainly represented loss on disposal of assets during the reorganization of certain overseas manufacturing plants.

15. Cash flow information:

Cash and cash equivalents at March 31, 2004 and 2003 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
Cash and deposits	¥266,254	¥194,334	$2,519,198
Less:			
Short-term bank loans (overdrafts)	(562)	(1,548)	(5,318)
Time deposits due over three months	(509)	(498)	(4,816)
Cash and cash equivalents	¥265,183	¥192,288	$2,509,064

16. Leases:

As described in Note 2 (15), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2004, 2003 and 2002 amounted to ¥3,211 million ($30,381 thousand), ¥9,039 million and ¥13,668 million, 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 2003 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
Acquisition cost:			
Machinery and equipment	¥2,483	¥13,728	$23,494
Furniture and fixtures	5,977	7,082	56,552
Intangible assets	1,133	1,919	10,720
	9,593	22,729	90,766
Less: accumulated depreciation	(5,450)	(17,586)	(51,566)
Net book value	¥4,143	¥5,143	$39,200

Depreciation expenses for these leased assets for the years ended March 31, 2004, 2003 and 2002 would have been ¥2,997 million ($28,357 thousand), ¥8,422 million and ¥12,711 million, respectively, if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no remaining value.

Interest expense for these capital leases for the years ended March 31, 2004, 2003 and 2002 would have been ¥97 million ($918 thousand), ¥214 million and ¥497 million, respectively.

Future lease payments for capital leases at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2004	2003	2004
Due within one year	¥1,910	¥2,812	$18,072
Due after one year	2,286	2,469	21,629
Total	¥4,196	¥5,281	$39,701

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2004	2003	2004
Due within one year	¥2,729	¥2,983	$25,821
Due after one year	8,511	10,071	80,528
Total	¥11,240	¥13,054	$106,349

In addition, future lease receipts for non-cancelable operating leases as a lessor at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease receipts	2004	2003	2004
Due within one year	¥301	¥338	$2,848
Due after one year	2,008	2,589	18,999
Total	¥2,309	¥2,927	$21,847

17. Commitments and contingent liabilities:

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2004 and 2003 were ¥3,744 million ($35,424 thousand) and ¥4,534 million, respectively. Furthermore, the amount of discounted notes, which consisted of discounted letters of credit, at March 31, 2004 and 2003 were ¥19 million ($180 thousand) and ¥160 million, respectively.

18. 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. The Company has also purchased land and buildings from Sunritz.

Mr. Yasuo Hattori, a Vice Chairman and Director of the Company, is a representative director of Aoyama Kigyo K.K. ("Aoyama"). Mr. Yasuo Hattori owns 3.6% of the outstanding shares of the Company. Aoyama owns 10.3% of the outstanding shares of the Company. Mr. Yasuo Hattori and their relatives own 26.7% and 38.5% of the outstanding shares of Aoyama, respectively. The Company has entered into lease agreements and certain other agreements with Aoyama effective from March 1, 2003.

Mr. Koichi Murano, a Statutory Auditor of the Company until June 26, 2001, is also a representative director of Seiko Corporation. Until June 26, 2001, Seiko Corporation was regarded as a related party of the Company. The Company sells its products, mainly watches, and pays certain expenses to Seiko Corporation under terms and conditions stipulated in sales agreements. The Company and Seiko Corporation have also entered into other various types of agreements. All the transactions and balances stated in the table below are up to June 30, 2001.

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

Transactions with these related parties for the years ended March 31, 2004, 2003 and 2002, and related balances at March 31, 2004 and 2003, were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Transactions:				
With Sunritz -				
Rental expenses for real estates	¥120	¥124	¥127	$1,135
Purchase of land and buildings	-	-	17	-
With Aoyama -				
Rental expense for buildings	3	1	-	28
With Seiko Corporation for the three-month period ended June 30, 2001 -				
Sales of products, mainly watches	-	-	3,857	-
Payments of expenses	-	-	55	-
With other related companies -				
Other incomes	59	11	17	558
Other expenses	18	9	15	170

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2004	2003	2004
Balances:			
With Sunritz -			
Other investments	¥2	¥2	$19
With Aoyama at March 31, 2003 -			
Other current assets	-	1	-
Other investments	-	38	-
With other related companies -			
Other current assets	4	4	38
Payables	1	-	9

19. Segment information:

(1) Business segment information- Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Information-related equipment:				
Net sales				
Customers	¥917,116	¥911,459	¥899,043	$8,677,415
Inter-segment	3,264	4,398	3,205	30,883
Total	920,380	915,857	902,248	8,708,298
Operating expenses	874,478	835,431	843,445	8,273,990
Operating income	¥45,902	¥80,426	¥58,803	$434,308
Identifiable assets	¥366,410	¥384,968	¥425,668	$3,466,837
Depreciation and amortization	¥33,312	¥34,042	¥40,672	$315,186
Capital expenditures	¥34,797	¥27,656	¥32,683	$329,236
Electronic devices:				
Net sales				
Customers	¥413,540	¥328,460	¥292,616	$3,912,764
Inter-segment	27,613	25,828	19,466	261,264
Total	441,153	354,288	312,082	4,174,028
Operating expenses	400,532	382,288	334,470	3,789,687
Operating income (loss)	¥40,621	(¥28,000)	(¥22,388)	$384,341
Identifiable assets	¥352,755	¥402,248	¥469,236	$3,337,638
Depreciation and amortization	¥58,006	¥75,111	¥70,459	$548,831
Capital expenditures	¥20,574	¥35,720	¥136,348	$194,664
Precision products:				
Net sales				
Customers	¥77,736	¥77,155	¥76,365	$735,510
Inter-segment	3,366	2,590	1,823	31,848
Total	81,102	79,745	78,188	767,358
Operating expenses	78,292	79,100	82,295	740,770
Operating income (loss)	¥2,810	¥645	(¥4,107)	$26,588
Identifiable assets	¥52,216	¥50,706	¥60,283	$494,049
Depreciation and amortization	¥4,013	¥4,037	¥4,182	$37,970
Capital expenditures	¥4,283	¥3,393	¥3,990	$40,524
Other:				
Net sales				
Customers	¥4,851	¥5,379	¥6,085	$45,898
Inter-segment	24,606	20,931	19,743	232,813
Total	29,457	26,310	25,828	278,711
Operating expenses	41,480	30,042	36,375	392,469
Operating loss	(¥12,023)	(¥3,732)	(¥10,547)	($113,758)
Identifiable assets	¥149,122	¥143,225	¥136,552	$1,410,938
Depreciation and amortization	¥14,983	¥12,619	¥12,942	$141,764
Capital expenditures	¥10,725	¥22,342	¥24,512	$101,476
Eliminations and corporate:				
Net Sales	(¥58,849)	(¥53,747)	(¥44,237)	($556,808)
Operating expenses	(58,940)	(53,768)	(48,672)	(557,669)
Operating income	¥91	¥21	¥4,435	$861
Identifiable assets	¥285,988	¥214,933	¥149,422	$2,705,913
Depreciation and amortization	-	-	¥896	-
Capital expenditures	-	-	-	-
Consolidated:				
Net Sales	¥1,413,243	¥1,322,453	¥1,274,109	$13,371,587
Operating expenses	1,335,842	1,273,093	1,247,913	12,639,247
Operating income	¥77,401	¥49,360	¥26,196	$732,340
Identifiable assets	¥1,206,491	¥1,196,080	¥1,241,161	$11,415,375
Depreciation and amortization	¥110,314	¥125,809	¥129,151	$1,043,751
Capital expenditures	¥70,379	¥89,111	¥197,533	$665,900

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, multi-function printers, large format inkjet printers, and related supplies, color image scanners, LCD projectors, LCD monitors, label writers, mini-printers, printers of use in POS systems and personal computers.

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

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

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

The amounts of corporate assets included in "Eliminations and corporate" were ¥299,661 million ($2,835,282 thousand), ¥227,464 million and ¥158,417 million at March 31, 2004, 2003 and 2002, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2004	2003	2004
Information-related equipment:			
Net sales			
Customers	¥231,859	¥232,025	$2,193,765
Inter-segment	1,272	862	12,035
Total	233,131	232,887	2,205,800
Operating expenses	229,878	220,400	2,175,021
Operating income	¥3,253	¥12,487	$30,779
Electronic devices:			
Net sales			
Customers	¥105,564	¥90,190	$998,808
Inter-segment	6,716	4,404	63,544
Total	112,280	94,594	1,062,352
Operating expenses	99,814	99,718	944,403
Operating income (loss)	¥12,466	(¥5,124)	$117,949
Precision products:			
Net sales			
Customers	¥18,769	¥17,083	$177,585
Inter-segment	1,061	650	10,039
Total	19,830	17,733	187,624
Operating expenses	20,040	18,312	189,611
Operating loss	(¥210)	(¥579)	($1,987)
Other:			
Net sales			
Customers	¥1,127	¥1,455	$10,663
Inter-segment	6,645	7,477	62,873
Total	7,772	8,932	73,536
Operating expenses	10,910	11,562	103,227
Operating loss	(¥3,138)	(¥2,630)	($29,691)
Eliminations and corporate:			
Net Sales	(¥15,694)	(¥13,393)	($148,491)
Operating expenses	(¥15,711)	(13,341)	($148,652)
Operating income (loss)	¥17	(¥52)	$161
Consolidated:			
Net Sales	¥357,319	¥340,753	$3,380,821
Operating expenses	344,931	336,651	3,263,610
Operating income	¥12,388	¥4,102	$117,211

(2) Geographic segment information-
Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Japan:				
Net sales				
Customers	¥686,553	¥637,544	¥622,670	$6,495,913
Inter-segment	491,089	478,441	440,794	4,646,504
Total	1,177,642	1,115,985	1,063,464	11,142,417
Operating expenses	1,141,043	1,097,056	1,064,574	10,796,130
Operating income (loss)	¥36,599	¥18,929	(¥1,110)	$346,287
Identifiable assets	¥758,593	¥785,754	¥855,893	$7,177,529
The Americas:				
Net sales				
Customers	¥224,683	¥230,263	¥245,098	$2,125,868
Inter-segment	42,320	39,315	36,241	400,416
Total	267,003	269,578	281,339	2,526,284
Operating expenses	255,937	262,468	274,994	2,421,582
Operating income	¥11,066	¥7,110	¥6,345	$104,702
Identifiable assets	¥74,024	¥83,814	¥104,599	$700,388
Europe:				
Net sales				
Customers	¥297,772	¥258,278	¥241,202	$2,817,409
Inter-segment	2,497	5,573	4,888	23,626
Total	300,269	263,851	246,090	2,841,035
Operating expenses	290,719	260,665	241,737	2,750,677
Operating income	¥9,550	¥3,186	¥4,353	$90,358
Identifiable assets	¥73,820	¥73,667	¥79,918	$698,458
Asia / Oceania:				
Net sales				
Customers	¥204,235	¥196,368	¥165,139	$1,932,397
Inter-segment	478,878	439,632	416,944	4,530,968
Total	683,113	636,000	582,083	6,463,365
Operating expenses	664,517	620,376	571,719	6,287,416
Operating income	¥18,596	¥15,624	¥10,364	$175,949
Identifiable assets	¥193,401	¥204,989	¥217,978	$1,829,889
Eliminations and corporate:				
Net Sales	(¥1,014,784)	(¥962,961)	(¥898,867)	($9,601,514)
Operating expenses	(1,016,374)	(967,472)	(905,111)	(9,616,558)
Operating income	¥1,590	¥4,511	¥6,244	$15,044
Identifiable assets	¥106,653	¥47,856	(¥17,227)	$1,009,111
Consolidated:				
Net Sales	¥1,413,243	¥1,322,453	¥1,274,109	$13,371,587
Operating expenses	1,335,842	1,273,093	1,247,913	12,639,247
Operating income	¥77,401	¥49,360	¥26,196	$732,340
Identifiable assets	¥1,206,491	¥1,196,080	¥1,241,161	$11,415,375

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 and Portugal.

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

The amounts of corporate assets included in “Eliminations and corporate” were ¥299,661 million ($2,835,282 thousand), ¥227,464 million and ¥158,417 million at March 31, 2004, 2003 and 2002, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2004	2003	2004
Japan:			
Net sales			
Customers	¥166,342	¥164,285	$1,573,867
Inter-segment	121,465	111,556	1,149,257
Total	287,807	275,841	2,723,124
Operating expenses	284,564	275,199	2,692,440
Operating income	¥3,243	¥642	$30,684
The Americas:			
Net sales			
Customers	¥58,090	¥57,013	$549,626
Inter-segment	10,069	9,518	95,269
Total	68,159	66,531	644,895
Operating expenses	64,112	64,733	606,604
Operating income	¥4,047	¥1,798	$38,291
Europe:			
Net sales			
Customers	¥84,262	¥75,193	$797,256
Inter-segment	456	2,054	4,315
Total	84,718	77,247	801,571
Operating expenses	82,466	79,273	780,263
Operating income (loss)	¥2,252	(¥2,026)	$21,308
Asia / Oceania:			
Net sales			
Customers	¥48,625	¥44,262	$460,072
Inter-segment	109,134	100,409	1,032,586
Total	157,759	144,671	1,492,658
Operating expenses	157,925	149,150	1,494,228
Operating loss	(¥166)	(¥4,479)	($1,570)
Eliminations and corporate:			
Net Sales	(¥241,124)	(¥223,537)	($2,281,427)
Operating expenses	(244,136)	(231,704)	($2,309,925)
Operating income	¥3,012	¥8,167	$28,498
Consolidated:			
Net Sales	¥357,319	¥340,753	$3,380,821
Operating expenses	344,931	336,651	3,263,610
Operating income	¥12,388	¥4,102	$117,211

(3) Sales to overseas customers-

Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2004	2003	2002	2004
Overseas sales:				
The Americas	¥235,116	¥239,936	¥266,105	$2,224,581
Europe	363,424	318,575	279,992	3,438,585
Asia/Oceania	310,806	274,307	219,055	2,940,732
Total	909,346	832,818	765,152	8,603,898
Consolidated net sales	¥1,413,243	¥1,322,453	¥1,274,109	$13,371,587
Percentage:				
The Americas	16.6%	18.1%	20.9%	
Europe	25.7	24.1	22.0	
Asia/Oceania	22.0	20.8	17.2	
Total	64.3%	63.0%	60.1%	

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2004	2003	2004
Overseas sales:			
The Americas	¥59,260	¥59,209	$560,696
Europe	96,420	92,976	912,291
Asia/Oceania	70,982	67,843	671,606
Total	226,662	220,028	2,144,593
Consolidated net sales	¥357,319	¥340,753	$3,380,821
Percentage:			
The Americas	16.6%	17.4%	
Europe	27.0	27.3	
Asia/Oceania	19.8	19.9	
Total	63.4%	64.6%	

20. Subsequent events:

On April 27, 2004, Board of Directors of the Company approved a joint venture agreement with Sanyo Electric Co., Ltd. ("Sanyo") to combine their liquid crystal businesses based on a memorandum of understanding with Sanyo in order to become a leading manufacture of small and medium-sized LCD's.

Under the memorandum of understanding, in October, 2004, Epson and Sanyo, including its subsidiaries Tottori Sanyo Electric Co. Ltd. and K.K. Sanyo LCD Engineering will transfer their liquid crystal businesses to a joint venture company called Sanyo Epson Imaging Devices Corporation. The paid in capital of the joint venture company will be ¥15,000 million ($141,924 thousand) and it will be owned 55% and 45% by the Company and by Sanyo, respectively. The joint venture company will be a consolidated subsidiary of Seiko Epson Corporation. Mr. Teruo Tabata, Managing Director of Sanyo was appointed President of the joint venture company. Mr. Shuji Aruga, Director of the Company will be appointed Vice President of the joint venture company.

Epson will transfer its D-TFD LCD and STN LCD businesses. Sanyo and its subsidiaries will transfer 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 will not be transferred to the new entity. Transferred assets and liabilities from Sanyo and its subsidiaries have not yet been determined.