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April 26, 2007

CONSOLIDATED RESULTS FOR YEAR ENDED MARCH 31, 2007

Consolidated Financial Highlights

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

	Year ended March 31			Change	Year ended March 31,
	2005	2006	**2007**		**2007**
Statements of Income Data:					
Net sales	¥1,479,750	¥1,549,568	**¥1,416,032**	(8.6%)	**$11,995,188**
Operating income	90,967	25,758	**50,343**	95.5%	**426,455**
Income (loss) before income taxes and minority interest	73,647	(20,047)	**3,476**	- %	**29,445**
Net income (loss)	55,689	(17,917)	**(7,094)**	- %	**(60,093)**
Statements of Cash Flows Data:					
Cash flows from operating activities	162,489	117,497	**160,229**	36.4%	**1,357,298**
Cash flows from investing activities	(99,396)	(95,266)	**(76,419)**	(19.8%)	**(647,344)**
Cash flows from financing activities	(96,373)	19,123	**(30,150)**	- %	**(255,400)**
Cash and cash equivalents at the end of the year	234,904	280,114	**334,873**	19.5%	**2,836,705**
Per Share Data:					
Net income (loss) per share -Basic	¥283.60	¥(91.24)	**¥(36.13)**	- %	**$(0.31)**
-Diluted	¥-	¥-	**¥-**	- %	**$-**

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

	March 31		
	2006	**2007**	**2007**
Total assets	¥1,325,206	**¥1,284,412**	**$10,880,237**
Shareholders' equity	474,520	**470,317**	**3,984,049**
Shareholders' equity ratio (%)	35.8%	**36.6%**	**36.6%**
Shareholders' equity per share	¥2,416.54	**¥2,395.14**	**$20.29**

Notes

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

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

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

IV. U.S. dollar amounts are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. The rate of ¥118.05 = U.S.$1 at March 31, 2007 has been used for the purpose of presentation.

Operating Performance Highlights and Financial Condition

1. Fiscal 2006 Full-Year Overview

A global economic recovery continued throughout the period under review. The recovery was underpinned by continued economic growth in China and across the rest of Asia, as well as by a recovery in Europe. The U.S. economy also continued to grow, though the pace of expansion eased somewhat. Meanwhile, the Japanese economy also recovered despite a slowdown in personal spending, as improved corporate earnings spurred a rise in capital spending and production.

The Epson Group's ("Epson") main markets were as follows. The inkjet printer market, which continued shifting further toward multifunction ("all-in-one") printers, saw demand outside Asia contract year-on-year. The laser printer market saw solid growth in monochrome units, particularly in developing countries, and robust growth in color units, primarily in developed countries.

The total projector market expanded, particularly outside Japan. Low-priced models fueled growth in the business market, while rising demand for home-theater projectors fed an expansion of the home market.

The market for electronic devices used in mobile phones remained firm. This firmness was due primarily to strong demand for replacement handsets in North America, Europe and China, as well as to new subscriber demand in the developing countries of Asia and Africa.

Meanwhile, however, the markets for Epson's information-related equipment and electronic device products suffer from continued price erosion due to fierce competition in every segment and a relentless shift of demand toward the low-price zone.

In the precision products market, demand for solar-powered radio-controlled watches remained steady in Japan while demand for eyeglass lenses shifted toward the low-price zone. In factory automation systems, meanwhile, there was a second-half backlash following the strong first half, when sales were driven higher by robust demand for semiconductors used in goods such as mobile phones.

Epson responded to deterioration in its financial performance last year by launching, in March 2006, a new mid-range business plan called “Creativity and Challenge 1000.” Seiko Epson Corporation (“the Company”) began driving a variety of actions designed to improve business performance and restart growth in line with this plan.

The mid-range business plan yielded some progress and positive results in the year under review in the inkjet printer business. Here, the company painstakingly restructured its regional product mixes so as to maximize profitability, and began strategically reducing shipments of low print-volume, low-profit models.

On the other hand, Epson reduced its fixed costs during the previous fiscal year via fixed-cost restructuring initiatives that primarily targeted the electronic devices segment. However, the small- and medium-sized display business has been slow to recover, largely because the business landscape assumed by the mid-range business plan has undergone unforeseen upheaval. In response to this situation, Epson is readjusting its business strategy and implementing further structural changes. Accordingly, the company recorded ¥41,165 million in reorganization costs, for costs associated impairments and other actions. As a result, Epson is now financially positioned to pursue its business strategies.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year under review were ¥117.02 and ¥150.09, respectively. This represents a 3% depreciation in the value of the yen against the dollar and a 9% depreciation in the value of the yen against the euro compared to the prior year.

As a result of the foregoing factors, net sales for the full fiscal year were ¥1,416,032 million ($11,995,188 thousand), down 8.6% from the prior year. Operating income was ¥50,343 million ($426,455 thousand), up

95.5% from the prior year. Income before income taxes and minority interest was ¥3,476 million ($29,445 thousand), compared to a loss of ¥20,047 million in the previous year. And net loss was ¥7,094 million ($60,093 thousand), compared to a net loss of ¥17,917 million in the previous year.

Operating Performance Highlights by Business Segments

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

Information-related equipment:

In the printer business as a whole, net sales declined. Inkjet printer (including consumables, as in all printer discussions below) net sales benefited from a weaker yen but declined due to a pair of factors. One was an initiative, conducted in line with the first year of Epson's mid-range business plan, to strategically reduce shipments of low-profit inkjet models that contribute negligibly to sales of supplies. The other was price erosion. Dot-matrix printers benefited from a weaker yen and a rise in unit volume, though low-priced models rose as a percentage of total sales. Terminal module sales benefited from an increase in demand for high added-value models, as well as from a weaker yen. In laser printers, unit shipments of low-profit models were strategically pared amid intensified price competition.

In the visual instruments business, demand for liquid crystal monitors for the amusement sector declined, as did demand for OEM projection TV engines. On the other hand, 3LCD projector demand grew sharply, especially for popularly priced business models. Together, these factors resulted in slightly higher sales revenues in the visual instruments business as a whole.

Operating income in the information-related equipment segment increased. A number of factors contributed to the increase, including a marketing strategy that emphasizes inkjet and laser printer profitability, higher revenue from terminal modules and 3LCD projectors, reduced selling, general and administrative expenses, and a weaker yen.

As a result of the foregoing factors, full-year net sales in the information-related equipment segment were ¥916,330 million ($7,762,219 thousand), down 6.2% from the prior year, while operating income was ¥84,236 million ($713,562 thousand), up 87.1% from the prior year.

Please note that, effective as of the start of the fiscal year under review, "printer business" is used instead of "imaging and information products business."

Electronic devices:

The display business as a whole posted sharply lower revenue. Although display sales benefited from a rise in handset demand, prices for MD-TFD LCDs, amorphous-silicon TFT LCDs, and color STN LCDs were driven lower by intensified competition. Meanwhile, there was continued general weakness in orders for low-temperature polysilicon TFT LCDs.

Revenues in the semiconductor business as a whole declined. System LSI volume declined as competition intensified. Volumes and prices of other semiconductor products also declined.

In the quartz device business, prices declined across the board, but revenues were sharply higher as a result of the business merger with Toyo Communication Equipment.

Operating income in the electronic device segment declined. The decline was due to a steep drop in LCD revenue. This drop in revenue more than offset the higher revenues created by the quartz device business merger and negated an improvement in profitability in the semiconductor business, which shed fixed costs in conjunction with the reorganization carried out last fiscal year.

As a result of the foregoing factors, full-year net sales in the electronic devices segment were ¥444,703 million ($3,767,073 thousand), down 15.6% from the prior year, while operating loss was ¥26,055 million ($220,712 thousand) versus an operating loss of ¥9,759 million a year ago.

Precision products:

The precision product segment as a whole reported higher revenue. Although revenue was adversely affected by a move that placed the optical device business under the electronic device segment, total revenues benefited chiefly from sales of new industrial inkjet systems and from increased sales of mid- and high-end watch products.

Operating income in the precision product segment rose due to an increase in sales of high added-value watch products in the medium- and high-price ranges.

As a result of the foregoing factors, full-year net sales in the precision product segment were ¥87,744 million ($743,278 thousand), up 2.3% from the prior year, while operating income was ¥3,576 million ($30,292 thousand), up 52.1% from the prior year.

Operating Performance Highlights by Geographic Segments

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

Japan:

Quartz device and 3LCD projector revenues increased. Meanwhile, MD-TFD LCD, low-temperature polysilicon TFT LCD, amorphous-silicon TFT LCD, and laser printer revenues declined. As a result, net sales were ¥1,243,158 million ($10,530,775 thousand), down 4.9% from the prior year, while operating income was ¥35,088 million ($297,230 thousand) versus an operating loss of ¥16,327 million last year.

The Americas:

3LCD projector and terminal module market revenues grew, while inkjet printer revenue declined. As a result, net sales were ¥291,638 million ($2,470,461 thousand), down 5.6% from the prior year, while operating income was ¥11,903 million ($100,830 thousand), down 5.8% from last year.

Europe:

Revenues were up for 3LCD projectors but were down for inkjet printers and laser printers. As a result, net sales were ¥299,384 million ($2,536,078 thousand), down 4.6% from the prior year, while operating loss was ¥408 million ($3,456 thousand) versus operating income of ¥7,676 million last year.

Asia / Oceania:

This region saw revenue growth in amorphous-silicon TFT LCDs and quartz devices, but witnessed a decline in revenues from inkjet printers, MD-TFD LCDs, and low-temperature polysilicon TFT LCDs. As a result, net sales were ¥787,487 million ($6,670,792 thousand), down 6.2% from the prior year, while operating income was ¥21,194 million ($179,534 thousand), down 16.6% from last year.

2. Cash Flow Performance

Cash flows from operating activities during the full year included net loss of ¥7,094 million ($60,093 thousand). For adjustments to reconcile net loss to net cash provided by operating activities, depreciation and amortization, principally in the electronic devices and information-related equipment segments, was ¥88,830 million ($752,478 thousand). For changes to assets and liabilities, notes and accounts receivable, trade decreased by ¥29,897 million ($253,257 thousand), while notes and accounts payable, trade decreased by ¥10,864 million ($92,029 thousand). Inventories decreased by ¥21,281 million ($180,271 thousand). Income taxes paid were ¥13,774 million ($116,679 thousand) As a result, net cash provided by operating activities was ¥160,229 million ($1,357,298 thousand).

Cash outflows from investing activities were ¥76,419 million ($647,344 thousand) due to capital expenditures, principally in the electronic devices and information-related equipment segments amounted to ¥79,316 million ($671,884 thousand).

Cash outflows from financing activities were ¥30,150 million ($255,400 thousand). There was a ¥30,000 million ($254,130 thousand) increase from a new issue of corporate bonds. Short-term borrowings and long-term borrowings were reduced by ¥52,896 million ($448,081 thousand) due to corporate bond refinancing and repayment at maturity.

As a result, cash and cash equivalents at the end of this fiscal year was ¥334,873 million ($2,836,705 thousand).

3. Basic Policy on Profit Allocation

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

Although Epson booked a net loss as a result of impairment losses and other factors, it has decided to proceed with its planned dividend allocation of ¥32 per share (including an interim dividend of ¥16 per share). This is because structural reforms in core businesses have laid the ground for a return to profitability, and to fulfill shareholders’ expectations of stable dividends.

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

Dividend allocation for the next period is also planned at ¥32 per share.

4. Fourth-Quarter Operating Performance

Fourth-quarter net sales were ¥341,934 million ($2,896,518 thousand), a decline of 8.6% compared to the same period last year. A number of factors contributed to the decline. Chief among them were lower unit volume and price erosion in inkjet printers, and a decline in orders and lower prices for MD-TFD LCDs and amorphous-silicon TFT LCDs due to fierce competition. Operating income was ¥4,018 million ($34,036 thousand), up 52.7% from the same period last year. Although operating income was adversely affected by the sharp decline in display business revenue, operating income increased overall primarily due to an inkjet printer marketing strategy that emphasizes sales of higher-profit models, increased revenue from terminal modules, reduced selling, general and administrative expenses, and a weaker yen. Loss before income taxes and minority interest was ¥36,620 million ($310,208 thousand), as compared to a loss of ¥39,978 million in the same period last year. Net loss for the quarter was ¥21,035 million ($178,187 thousand), versus a net loss of ¥25,848 million in the same period last year, as the company recorded

¥39,161 million ($331,732 thousand) in reorganization costs associated primarily with impairment losses and a reorganization of production sites in the display business.

5. Fiscal 2007 forecast

The global economic recovery is expected to continue during the 2007 fiscal year ending March 31, 2008, though the effect of crude oil prices on the Japanese and other economies remains a source of uncertainty that will need to be monitored.
The U.S. economy is expanding moderately on higher spending, while the economies of Asia, and particularly China, continue to expand. In addition, with the European economy in recovery mode, a sustained global economic recovery appears likely. In Japan, where strength in the corporate sector is spreading to the consumer sector, domestic demand is seen contributing to a continuation of the current economic recovery.

The expectations in Epson's core markets are summarized below. Inkjet printer market demand is expected to continue shifting away from single-function printers and toward multifunction printers (all-in-ones) and photo printers. Meanwhile, multifunction printer prices will likely continue downward under intense market competition. In the laser printer market, prices are expected to drop due to market competition. The total projector market is expected to grow, but prices will likely continue to slide further under the weight of heavy market competition.
In the market for small- and medium-sized displays, volume is expected to rise, but continued price erosion is predicted. The semiconductor market, meanwhile, should gradually expand, but prices are expected to further decline in a fiercely competitive marketplace.

Given these expectations, Epson projects the situation in each of its three business segments to be as follows. In the information-related equipment segment, total sales are expected to decline. Growth is forecast for sales of dot-matrix printers in the South American and Southeast Asian markets, as well as for sales of terminal modules in the European and American markets. Projector sales are also seen rising, primarily in business use in the European and American markets. Conversely, however, inkjet printer sales revenues are expected to be adversely affected by falling prices, despite rising printer volume. Moreover, laser printer sales revenues are expected to decline mainly due to intentional reduction in the number of low-priced models.
In the electronic devices segment, total sales revenue is expected to decline. Quartz device business sales are projected to rise due to an expansion of the market for mobile phones and personal computers. On the other hand, revenue in the display business is forecast to decline. Although a concentration of resources on amorphous-silicon TFT LCDs and low-temperature polysilicon TFT LCDs will lead to an increase in shipments, this will be offset by a fall in volume associated with the termination of the MD-TFD LCD business and by price erosion. Likewise in the semiconductor business, the Company expects declining sales revenue, primarily due to lower unit volume and price erosion.
In the precision product segment, sales revenues are expected to decline. The decline is anticipated due to a slowdown in orders for factory automation equipment and despite increased sales of high added-value products in the watch and optical products businesses.

The figures in the outlook are based on assumed exchange rates of ¥114 to the U.S. dollar and ¥148 to the euro.

Taking into account the foregoing factors, Epson’s expectations for the 2007 fiscal year (ending March 31, 2008) are as follows.

Consolidated Half-Year Results Outlook

	FY2006	**FY2007**	Change	
Net sales	¥677.4 billion	**¥656.0 billion**	-¥21.4 billion	(- 3.2%)
Operating income	¥21.0 billion	**¥19.0 billion**	-¥2.0 billion	(- 9.3%)
Income before income taxes and minority interest	¥16.2 billion	**¥16.0 billion**	-¥0.2 billion	(- 1.3%)
Net income	¥0.4 billion	**¥7.0 billion**	+¥6.6 billion	(- %)
Foreign exchange rate	$1USD = ¥115 1 EURO = ¥146	**$1USD = ¥114** **1 EURO = ¥148**		

Consolidated Full-Year Results Outlook

	FY2006	**FY2007**	Change	
Net sales	¥1,416.0 billion	**¥1,393.0 billion**	-¥23.0 billion	(- 1.6%)
Operating income	¥50.3 billion	**¥61.0 billion**	+¥10.7 billion	(+ 21.2%)
Income before income taxes and minority interest	¥3.5 billion	**¥55.0 billion**	+¥51.5 billion	(- %)
Net income (loss)	(¥7.1 billion)	**¥30.0 billion**	+¥37.1 billion	(- %)
Foreign exchange rate	$1USD = ¥117 1 EURO = ¥150	**$1USD = ¥114** **1 EURO = ¥148**		

Cautionary Statement

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

Overview of the Business Group

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

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

Information-related equipment business segment:

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

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

Electronic devices business segment:

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

<table>
<tr><th rowspan="2">Operations</th><th rowspan="2">Main products</th><th colspan="2">Main subsidiaries and affiliates</th></tr>
<tr><th>Manufacturing company</th><th>Sales company</th></tr>
<tr><td>Display</td><td>Small- and medium-sized
LCDs,
HTPS-TFT panels for 3LCD
projectors and others</td><td>Epson Imaging Devices Corporation
Suzhou Epson Co., Ltd.
Epson Imaging Devices (H.K.) Ltd.
Epson Imaging Devices (Phils.) Inc.</td><td rowspan="3">Epson Toyocom Corporation
Epson Imaging Devices Corporation
Epson Electronics America, Inc.
Epson Europe Electronics GmbH
Epson (China) Co., Ltd.
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.</td></tr>
<tr><td>Semiconductor</td><td>CMOS LSI and others</td><td>Tohoku Epson Corporation
Yasu Semiconductor Corporation
Singapore Epson Industrial Pte. Ltd.</td></tr>
<tr><td>Quartz device</td><td>Crystal units,
crystal oscillators,
optical devices and others</td><td>Epson Toyocom Corporation
Orient Watch Co., Ltd.
Suzhou Epson Co., Ltd.
Epson Toyocom Malaysia Sdn. Bhd.
Epson Toyocom (Thailand) Ltd.</td></tr>
</table>

Note: Yasu Semiconductor Corporation (YSC) became a wholly-owned subsidiary of the Company on July 1, 2006 and its dissolution took place on March 30, 2007 along with a transfer of business assets to Omron Corp. and Omron Semiconductors Co., Ltd. YSC is currently in the process of liquidation.

Precision products business segment:

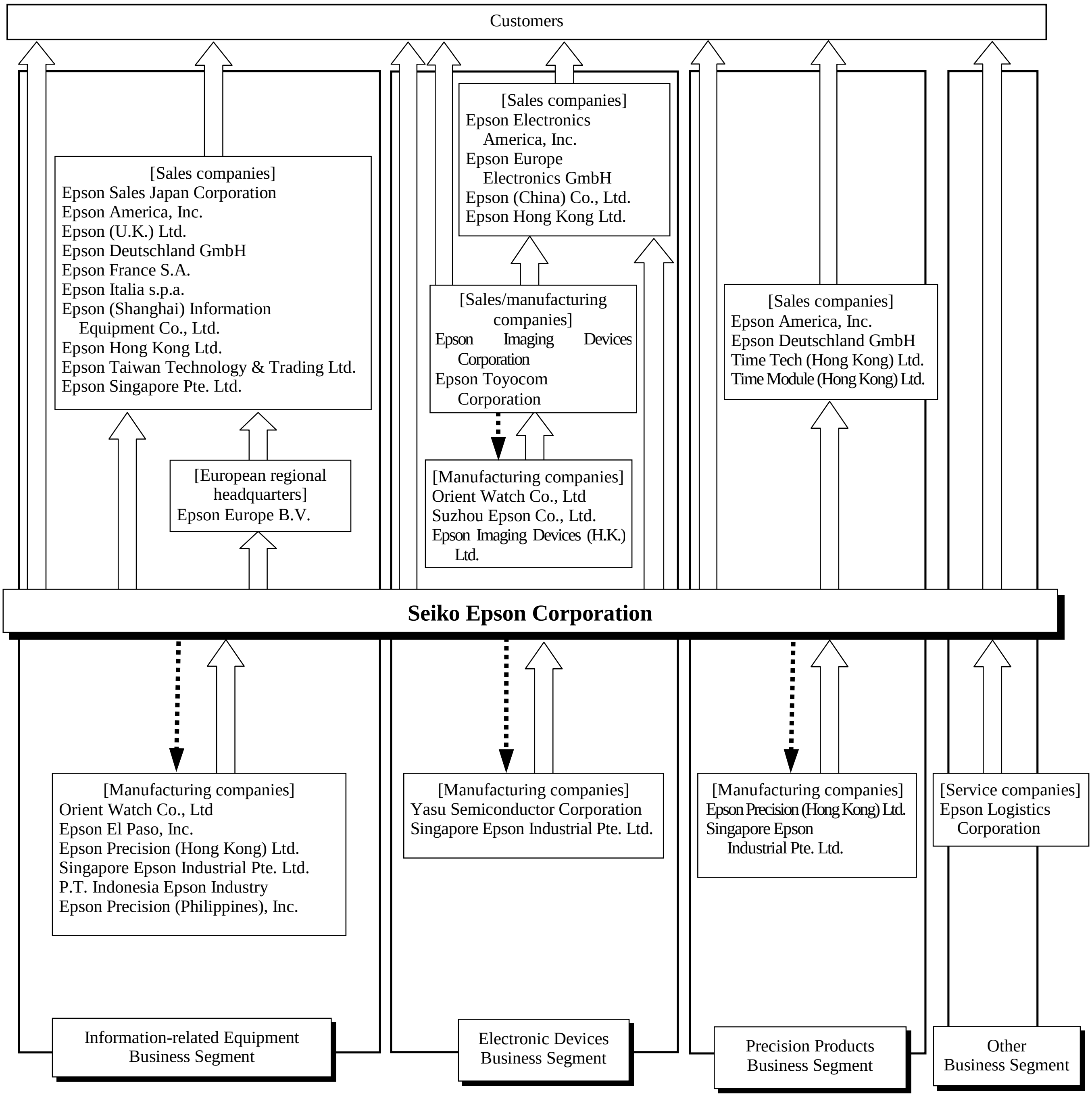
This segment includes the watch business, the optical products business, and the factory automation systems business. This segment develops, manufactures and sells mainly watches, watch movements, plastic corrective lenses, precision industrial robots and others.

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

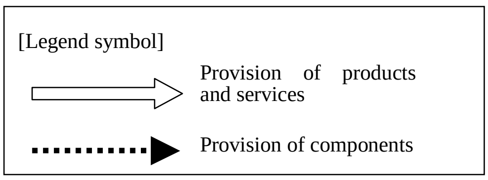
Other business segment:

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

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



Note: 1. Time Module (Hong Kong) Ltd. is an equity method affiliate. All others are consolidated subsidiaries.
2. Epson Toyocom Corporation, a subsidiary of the Company, is listed on the first section of Tokyo Stock Exchange.



Management Policy

1. Basic Management Policy

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

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

2. Medium- to Long-Term Management Strategy and Issues

In 2003, Epson charted its future course with a medium- to long-term corporate vision, SE07. SE07 outlines the Company's plans for achieving steady growth into the future and for fully capitalizing on its core competencies as a leading name in imaging solutions. Targeting the convergence of imaging domains is at the heart of the corporate vision. In line with this vision, Epson is concentrating its management resources in business domains where it can leverage its strengths; namely, the so-called "3i" imaging fields: imaging on paper (i1), imaging on screen (i2), and imaging on glass (i3). Epson seeks to further expand each domain by leveraging teamwork and synergies between its finished product and electronic device businesses, while at the same time creating new markets and businesses by emphasizing teamwork and convergence in the "3i" fields.

Epson remains committed to the original direction of SE07 but is operating in an extremely difficult business environment. The Company is faced with intensifying price competition and shrinking product cycle times. These are largely a result of two factors. One is the escalating competition brought about by advances in digital technology that have lowered barriers to market entry. The other is product and technology maturation, which is making differentiation increasingly difficult.

Under these difficult market conditions, Epson established, in March 2006, a new mid-range business plan called “Creativity and Challenge 1000” and began driving a variety of actions designed to improve the profitability of its businesses. The new plan is meeting with some success. In its core inkjet printer business, Epson improved its financial performance in large part by pursuing a sales and marketing strategy that is more tightly focused on profitability. As a company, moreover, Epson exceeded the fiscal 2006 ordinary income target it set for itself in its mid-range business plan. On the other hand, the small- and medium-sized display business has been slow to recover, largely because the business landscape assumed by the mid-range business plan has undergone unforeseen upheaval. In response to this situation, Epson is reassessing the direction of this business. In conjunction with this, Epson has taken a loss on impairment of fixed assets this year, thereby putting itself in a financial position to pursue its business strategies. Going forward, Epson will seek to use its distinctive, differentiated technologies to make its LCD products more competitive. Toward that end, the company will allocate its resources to amorphous-silicon TFT LCDs and low-temperature polysilicon TFT LCDs, and will restore the basic focus of the small- and medium-sized display business so as to make further strides in areas of traditional strength: low-power designs, thin profiles and high image quality.

For the 2007 fiscal year ending March 31, 2008, Epson will strive to further improve profitability but expects net income to decline from the prior year, primarily in the small- and medium-sized display business. Fiscal 2007, the second year in Epson's mid-range business plan, will be a period for accelerating the actions outlined in the plan. These actions are designed to leverage the company's core technologies to create "real customer value" and to achieve growth in income-generating net sales revenue in and beyond fiscal 2008. Individual action plans and strategies will be developed on the basis of the Epson Group's mid-range management policies outlined below.

Epson believes that these actions will enable it to reach its commitment of ¥100 billion in ordinary income in fiscal 2008.

Epson Group Mid-Range Business Policies

- Redefine & reinforce the business and product portfolio
  Reinforce and maintain No. 1 product families and further enhance capabilities in research, technology and product development to drive solid growth in the future.
- Streamline costs
  Rebuild all businesses and operations around cost, driving home efficiency of all costs.
- Reform the corporate culture
  Everyone must go back to the fundamentals of Epson found in the spirit of “Creativity and challenge,” “S&A (Start together and achieve together)” and “One Epson” to radically boost earnings potential and ensure solid future growth.
- Reform the governance system
  During the year under review Epson introduced a corporate executive officer system, reduced the number of directors, and shortened the terms of directors. Moving forward, the Company will strive for greater separation between the corporate management and oversight function and the operations function. Moreover, Epson will seek to increase transparency and energy at all levels of management.
- Reorganize the device businesses
  During the year under review Epson carried out various measures designed to improve the efficiency and profitability of its semiconductor and display businesses, but further reorganization steps will be taken to ensure a recovery in the future.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2006	**2007**	**2007**
ASSETS			
Current assets:			
Cash and cash equivalents	¥280,114	**¥334,873**	**$2,836,705**
Time deposits	2,363	**2,222**	**18,823**
Short-term investments	2,000	**-**	**-**
Notes and accounts receivable, trade	244,770	**218,988**	**1,855,044**
Inventories	192,015	**178,623**	**1,513,113**
Deferred income taxes	34,952	**33,235**	**281,533**
Other current assets	42,865	**48,991**	**415,002**
Allowance for doubtful accounts	(3,677)	**(3,658)**	**(30,987)**
Total current assets	795,402	**813,274**	**6,889,233**
Property, plant and equipment:			
Buildings and structures	450,071	**443,713**	**3,758,687**
Machinery and equipment	568,293	**560,587**	**4,748,725**
Furniture and fixtures	208,944	**207,930**	**1,761,372**
Land	66,874	**63,384**	**536,925**
Construction in progress	6,060	**5,804**	**49,166**
Other	140	**222**	**1,881**
	1,300,382	**1,281,640**	**10,856,756**
Accumulated depreciation	(874,264)	**(902,608)**	**(7,645,981)**
	426,118	**379,032**	**3,210,775**
Investments and other assets:			
Investment securities	47,479	**45,739**	**387,454**
Investments in affiliates	2,331	**2,443**	**20,695**
Deferred income taxes	11,142	**6,451**	**54,646**
Intangible assets	24,287	**24,895**	**210,885**
Other assets	18,901	**12,925**	**109,488**
Allowance for doubtful accounts	(454)	**(347)**	**(2,939)**
	103,686	**92,106**	**780,229**
Total assets	¥1,325,206	**¥1,284,412**	**$10,880,237**

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

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2006	**2007**	**2007**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	¥49,804	**¥37,498**	**$317,645**
Current portion of long-term debt	113,731	**96,364**	**816,298**
Notes and accounts payable, trade	128,605	**118,815**	**1,006,481**
Accounts payable, other	102,341	**107,969**	**914,604**
Income taxes payable	12,274	**7,578**	**64,193**
Deferred income taxes	609	**359**	**3,041**
Accrued bonuses	11,833	**16,950**	**143,583**
Accrued warranty costs	17,974	**12,726**	**107,802**
Accrued litigation and related expenses	6,191	**4,816**	**40,796**
Other current liabilities	64,009	**73,050**	**618,806**
Total current liabilities	507,371	**476,125**	**4,033,249**
Long-term liabilities:			
Bonds	52,700	**80,000**	**677,679**
Long-term debt	212,859	**190,046**	**1,609,877**
Accrued pension and severance costs	31,397	**25,556**	**216,485**
Accrued directors' and statutory auditors' retirement allowances	2,096	**-**	**-**
Accrued recycle costs	554	**738**	**6,251**
Accrued warranty costs	-	**1,496**	**12,672**
Accrued litigation and related expenses	2,349	**826**	**6,997**
Deferred income taxes	1,143	**1,978**	**16,756**
Other long-term liabilities	8,512	**13,312**	**112,766**
Total long-term liabilities	311,610	**313,952**	**2,659,483**
Minority interest in subsidiaries	31,705	**24,018**	**203,456**
Shareholders' equity:			
Common stock			
Authorized - 607,458,368 shares, Issued - 196,364,592 shares	53,204	**53,204**	**450,690**
Additional paid-in capital	79,501	**79,501**	**673,452**
Retained earnings	327,324	**313,946**	**2,659,432**
Net unrealized gains on other securities	10,567	**9,821**	**83,194**
Net unrealized losses on derivative instruments	-	**(35)**	**(296)**
Translation adjustments	3,929	**13,886**	**117,628**
Treasury stock, at cost 2006 - 1,307 shares, 2007 - 1,595 shares	(5)	**(6)**	**(51)**
Total shareholders' equity	474,520	**470,317**	**3,984,049**
Contingent liabilities			
Total liabilities and shareholders' equity	¥1,325,206	**¥1,284,412**	**$10,880,237**

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,
	2005	2006	**2007**	**2007**
Net sales	¥1,479,750	¥1,549,568	**¥1,416,032**	**$11,995,188**
Cost of sales	1,070,011	1,194,781	**1,059,259**	**8,972,969**
Gross profit	409,739	354,787	**356,773**	**3,022,219**
Selling, general and administrative expenses:				
Salaries and wages	76,917	78,381	**79,582**	**674,138**
Advertising	32,522	31,643	**26,215**	**222,067**
Sales promotion	31,556	31,538	**27,476**	**232,749**
Research and development costs	42,903	44,570	**43,054**	**364,710**
Shipping costs	19,374	21,537	**20,607**	**174,561**
Provision for doubtful accounts	112	66	**409**	**3,465**
Other	115,388	121,294	**109,087**	**924,074**
	318,772	329,029	**306,430**	**2,595,764**
Operating income	90,967	25,758	**50,343**	**426,455**
Other income:				
Interest and dividend income	2,457	3,751	**5,998**	**50,809**
Net gain on foreign exchange	-	425	**-**	**-**
Rental income	1,531	1,469	**1,620**	**13,723**
Gain on change in interest due to business combination	-	12,424	**-**	**-**
Other	4,041	6,752	**11,313**	**95,832**
	8,029	24,821	**18,931**	**160,364**
Other expenses:				
Interest expenses	5,816	6,730	**6,631**	**56,171**
Net loss on foreign exchange	3,905	-	**7,191**	**60,915**
Loss on disposal of fixed assets	3,312	2,331	**4,451**	**37,704**
Reorganization costs	4,608	45,532	**41,165**	**348,708**
Provision for litigation and related expenses	-	8,540	**1,129**	**9,564**
Prior pension costs for foreign subsidiaries	2,285	-	**-**	**-**
Other	5,423	7,493	**5,231**	**44,312**
	25,349	70,626	**65,798**	**557,374**
Income (loss) before income taxes and minority interest	73,647	(20,047)	**3,476**	**29,445**
Income taxes:				
Current	21,394	16,564	**10,784**	**91,351**
Deferred	(1,493)	(7,377)	**6,837**	**57,916**
	19,901	9,187	**17,621**	**149,267**
Income (loss) before minority interest	53,746	(29,234)	**(14,145)**	**(119,822)**
Minority interest in subsidiaries	(1,943)	(11,317)	**(7,051)**	**(59,729)**
Net income (loss)	¥55,689	¥(17,917)	**¥(7,094)**	**$(60,093)**
	Yen			U.S. dollars
Per share:				
Net income (loss)	¥283.60	¥(91.24)	**¥(36.13)**	**$(0.31)**
Cash dividends	¥22.00	¥29.00	**¥32.00**	**$0.27**

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,
	2006	**2007**	**2007**
Net sales	¥374,204	**¥341,934**	**$2,896,518**
Cost of sales	287,355	**257,223**	**2,178,932**
Gross profit	86,849	**84,711**	**717,586**
Selling, general and administrative expenses:			
Salaries and wages	19,584	**19,940**	**168,912**
Advertising	6,633	**6,784**	**57,467**
Sales promotion	8,006	**8,461**	**71,673**
Research and development costs	11,570	**11,246**	**95,265**
Shipping costs	5,472	**5,120**	**43,372**
Provision for doubtful accounts	(144)	**(479)**	**(4,058)**
Other	33,096	**29,621**	**250,919**
	84,217	**80,693**	**683,550**
Operating income	2,632	**4,018**	**34,036**
Other income:			
Interest and dividend income	1,212	**2,018**	**17,094**
Rental income	374	**396**	**3,355**
Gain on change in interest due to business combination	133	**-**	**-**
Other	2,395	**4,355**	**36,891**
	4,114	**6,769**	**57,340**
Other expenses:			
Interest expenses	2,047	**1,935**	**16,391**
Net loss on foreign exchange	1,862	**1,586**	**13,435**
Loss on disposal of fixed assets	941	**1,038**	**8,793**
Reorganization costs	28,298	**39,161**	**331,732**
Provision for litigation and related expenses	8,540	**1,129**	**9,564**
Other	5,036	**2,558**	**21,669**
	46,724	**47,407**	**401,584**
Loss before income taxes and minority interest	(39,978)	**(36,620)**	**(310,208)**
Income taxes	(180)	**(16,422)**	**(139,111)**
Loss before minority interest	(39,798)	**(20,198)**	**(171,097)**
Minority interest in subsidiaries	(13,950)	**837**	**7,090**
Net loss	¥(25,848)	**¥(21,035)**	**$(178,187)**

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

Consolidated Statements of Changes in Shareholders' Equity

Year ended March 31:

	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Net unrealized losses on derivative instruments	Translation adjustments	Treasury stock, at cost	Total
		Millions of yen							
Balance at March 31, 2004	196,364,592	¥53,204	¥79,501	¥299,575	¥3,087	¥-	¥(20,999)	¥(1)	¥414,367
Net income	-	-	-	55,689	-	-	-	-	55,689
Cash dividends	-	-	-	(4,320)	-	-	-	-	(4,320)
Net unrealized gains on other securities	-	-	-	-	656	-	-	-	656
Translation adjustments	-	-	-	-	-	-	6,480	-	6,480
Changes in treasury stock	-	-	-	-	-	-	-	(2)	(2)
Balance at March 31, 2005	196,364,592	53,204	79,501	350,944	3,743	-	(14,519)	(3)	472,870
Net loss	-	-	-	(17,917)	-	-	-	-	(17,917)
Cash dividends	-	-	-	(5,695)	-	-	-	-	(5,695)
Decrease due to affiliate excluded under the equity method	-	-	-	(8)	-	-	-	-	(8)
Net unrealized gains on other securities	-	-	-	-	6,824	-	-	-	6,824
Translation adjustments	-	-	-	-	-	-	18,448	-	18,448
Changes in treasury stock	-	-	-	-	-	-	-	(2)	(2)
Balance at March 31, 2006	196,364,592	53,204	79,501	327,324	10,567	-	3,929	(5)	474,520
Net loss	-	-	-	**(7,094)**	-	-	-	-	**(7,094)**
Cash dividends	-	-	-	**(6,284)**	-	-	-	-	**(6,284)**
Net unrealized losses on other securities	-	-	-	-	**(746)**	-	-	-	**(746)**
Effect of change in the accounting standards	-	-	-	-	-	**(35)**	-	-	**(35)**
Translation adjustments	-	-	-	-	-	-	**9,957**	-	**9,957**
Changes in treasury stock	-	-	-	-	-	-	-	**(1)**	**(1)**
Balance at March 31, 2007	**196,364,592**	**¥53,204**	**¥79,501**	**¥313,946**	**¥9,821**	**¥(35)**	**¥13,886**	**¥(6)**	**¥470,317**

	Common stock	Additional paid-in Capital	Retained earnings	Net unrealized gains on other securities	Net unrealized losses on derivative instruments	Translation adjustments	Treasury stock, at cost	Total
	Thousands of U.S. dollars							
Balance at March 31, 2006	$450,690	$673,452	$2,772,757	$89,513	$-	$33,283	$(42)	$4,019,653
Net loss	-	-	**(60,093)**	-	-	-	-	**(60,093)**
Cash dividends	-	-	**(53,232)**	-	-	-	-	**(53,232)**
Net unrealized losses on other securities	-	-	-	**(6,319)**	-	-	-	**(6,319)**
Effect of change in the accounting standards	-	-	-	-	**(296)**	-	-	**(296)**
Translation adjustments	-	-	-	-	-	**84,345**	-	**84,345**
Changes in treasury stock	-	-	-	-	-	-	**(9)**	**(9)**
Balance at March 31, 2007	**$450,690**	**$673,452**	**$2,659,432**	**$83,194**	**$(296)**	**$117,628**	**$(51)**	**$3,984,049**

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

Three months ended March 31:

	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Net unrealized losses on derivative instruments	Translation adjustments	Treasury stock, at cost	Total
		Millions of yen							
Balance at December 31, 2005	196,364,592	¥53,204	¥79,501	¥353,173	¥10,128	¥-	¥4,286	¥(4)	¥500,288
Net loss for the three months ended March 31, 2006	-	-	-	(25,848)	-	-	-	-	(25,848)
Decrease due to affiliate excluded under the equity method	-	-	-	(1)	-	-	-	-	(1)
Net unrealized gains on other securities	-	-	-	-	439	-	-	-	439
Translation adjustments	-	-	-	-	-	-	(357)	-	(357)
Changes in treasury stock	-	-	-	-	-	-	-	(1)	(1)
Balance at March 31, 2006	196,364,592	¥53,204	¥79,501	¥327,324	¥10,567	¥-	¥3,929	¥(5)	¥474,520
Balance at December 31, 2006	196,364,592	¥53,204	¥79,501	¥334,981	¥9,308	¥(784)	¥14,677	¥(5)	¥490,882
Net loss for the three months ended March 31, 2007	-	-	-	**(21,035)**	-	-	-	-	**(21,035)**
Net unrealized gains on other securities	-	-	-	-	**513**	-	-	-	**513**
Net unrealized gains on derivative instruments	-	-	-	-	-	**749**	-	-	**749**
Translation adjustments	-	-	-	-	-	-	**(791)**	-	**(791)**
Changes in treasury stock	-	-	-	-	-	-	-	**(1)**	**(1)**
Balance at March 31, 2007	**196,364,592**	**¥53,204**	**¥79,501**	**¥313,946**	**¥9,821**	**¥(35)**	**¥13,886**	**¥(6)**	**¥470,317**

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on other securities	Net unrealized losses on derivative instruments	Translation adjustments	Treasury stock, at cost	Total
	Thousands of U.S. dollars							
Balance at December 31, 2006	$450,690	$673,452	$2,837,619	$78,848	$(6,641)	$124,329	$(42)	$4,158,255
Net loss for the three months ended March 31, 2007	-	-	**(178,187)**	-	-	-	-	**(178,187)**
Net unrealized gains on other securities	-	-	-	**4,346**	-	-	-	**4,346**
Net unrealized gains on derivative instruments	-	-	-	-	**6,345**	-	-	**6,345**
Translation adjustments	-	-	-	-	-	**(6,701)**	-	**(6,701)**
Changes in treasury stock	-	-	-	-	-	-	**(9)**	**(9)**
Balance at March 31, 2007	**$450,690**	**$673,452**	**$2,659,432**	**$83,194**	**$(296)**	**$117,628**	**$(51)**	**$3,984,049**

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,
	2005	2006	**2007**	**2007**
Cash flows from operating activities:				
Net income (loss)	¥55,689	¥(17,917)	**¥(7,094)**	**$(60,093)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities -				
Depreciation and amortization	105,006	109,662	**88,830**	**752,478**
Reorganization costs	4,608	45,532	**41,068**	**347,886**
Accrual for net pension and severance costs, less payments	9,188	9,917	**(5,102)**	**(43,219)**
Net loss on sales and disposal of fixed assets	3,566	2,250	**3,363**	**28,488**
Gain on change in interest due to business combination	-	(12,424)	**-**	**-**
Equity in net gains under the equity method	(232)	(168)	**(138)**	**(1,169)**
Deferred income taxes	(1,493)	(7,377)	**6,837**	**57,916**
Decrease in allowance for doubtful accounts	(214)	(537)	**(355)**	**(3,007)**
Provision for litigation and related expenses	-	8,540	**1,129**	**9,564**
(Increase) decrease in notes and accounts receivable, trade	(43,371)	23,987	**29,897**	**253,257**
(Increase) decrease in inventories	(6,063)	(1,695)	**21,281**	**180,271**
Increase (decrease) in notes and accounts payable, trade	11,221	(20,526)	**(10,864)**	**(92,029)**
Increase (decrease) in accrued income taxes	5,748	(1,932)	**(2,990)**	**(25,328)**
Other	18,836	(19,815)	**(5,633)**	**(47,717)**
Net cash provided by operating activities	162,489	117,497	**160,229**	**1,357,298**
Cash flows from investing activities:				
Proceeds from maturities of short-term investments	-	1,000	**2,000**	**16,942**
Payments for purchases of property, plant and equipment	(92,441)	(96,099)	**(67,803)**	**(574,358)**
Proceeds from sales of property, plant and equipment	1,978	1,315	**7,317**	**61,982**
Payments for purchases of intangible assets	(7,439)	(9,272)	**(11,513)**	**(97,526)**
Payments of long-term prepaid expenses	(1,009)	(3,296)	**(945)**	**(8,005)**
Payments for acquisition of additional stock of an affiliate	-	-	**(3,306)**	**(28,005)**
Payments for purchases of subsidiaries' stock	-	(1,034)	**(2,000)**	**(16,942)**
Proceeds from business combination, net of payment	140	12,204	**-**	**-**
Other	(625)	(84)	**(169)**	**(1,432)**
Net cash used in investing activities	(99,396)	(95,266)	**(76,419)**	**(647,344)**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(40,577)	18,471	**(12,657)**	**(107,217)**
Proceeds from long-term debt	2,000	66,300	**90,880**	**769,843**
Repayments of long-term debt	(52,745)	(111,786)	**(131,119)**	**(1,110,707)**
Proceeds from issuance of bonds	-	50,000	**30,000**	**254,130**
Proceeds from issuance of subsidiaries' stock	-	2,674	**-**	**-**
Cash dividends	(4,320)	(5,694)	**(6,284)**	**(53,232)**
Other	(731)	(842)	**(970)**	**(8,217)**
Net cash provided by (used in) financing activities	(96,373)	19,123	**(30,150)**	**(255,400)**
Effect of exchange rate fluctuations on cash and cash equivalents	3,001	3,687	**1,099**	**9,309**
Net increase (decrease) in cash and cash equivalents	(30,279)	45,041	**54,759**	**463,863**
Cash and cash equivalents at the beginning of the year	265,183	234,904	**280,114**	**2,372,842**
Cash and cash equivalents increased by merger of unconsolidated subsidiaries	-	169	**-**	**-**
Cash and cash equivalents at the end of the year	¥234,904	¥280,114	**¥334,873**	**$2,836,705**
Supplemental disclosures of cash flow information:				
Cash received and paid during the year for -				
Interest and dividend received	¥2,594	¥3,794	**¥5,983**	**$50,682**
Interest paid	¥(5,854)	¥(6,678)	**¥(6,417)**	**$(54,358)**
Income taxes paid	¥(15,646)	¥(18,496)	**¥(13,774)**	**$(116,679)**

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,
	2006	**2007**	**2007**
Cash flows from operating activities:			
Net loss	¥(25,848)	**¥(21,035)**	**$(178,187)**
Adjustments to reconcile net loss to net cash provided by operating activities -			
Depreciation and amortization	28,746	**23,355**	**197,840**
Reorganization costs	28,298	**39,155**	**331,681**
Accrual for net pension and severance costs, less payments	1,611	**(2,197)**	**(18,611)**
Net loss on sales and disposal of fixed assets	1,059	**538**	**4,557**
Gain on change in interest due to business combination	(133)	**-**	**-**
Equity in net gains under the equity method	(27)	**(17)**	**(144)**
Deferred income taxes	(12,461)	**(8,453)**	**(71,605)**
Decrease in allowance for doubtful accounts	(503)	**(889)**	**(7,531)**
Provision for litigation and related expenses	8,540	**1,129**	**9,564**
Decrease in notes and accounts receivable, trade	69,733	**43,673**	**369,954**
Decrease in inventories	30,300	**22,621**	**191,622**
Decrease in notes and accounts payable, trade	(62,539)	**(9,560)**	**(80,983)**
Increase (decrease) in accrued income taxes	9,986	**(11,704)**	**(99,144)**
Other	(18,783)	**(7,175)**	**(60,779)**
Net cash provided by operating activities	57,979	**69,441**	**588,234**
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(21,995)	**(16,830)**	**(142,567)**
Proceeds from sales of property, plant and equipment	96	**6,433**	**54,494**
Payments for purchases of intangible assets	(2,318)	**(1,474)**	**(12,486)**
Payments of long-term prepaid expenses	(2,202)	**(93)**	**(788)**
Other	330	**129**	**1,093**
Net cash used in investing activities	(26,089)	**(11,835)**	**(100,254)**
Cash flows from financing activities:			
Decrease in short-term borrowings	(12,937)	**(13,968)**	**(118,323)**
Proceeds from long-term debt	26,300	**90,880**	**769,843**
Repayments of long-term debt	(96,711)	**(78,422)**	**(664,312)**
Other	(142)	**(177)**	**(1,499)**
Net cash used in financing activities	(83,490)	**(1,687)**	**(14,291)**
Effect of exchange rate fluctuations on cash and cash equivalents	(1,007)	**(636)**	**(5,387)**
Net increase (decrease) in cash and cash equivalents	(52,607)	**55,283**	**468,302**
Cash and cash equivalents at the beginning of the period	332,721	**279,590**	**2,368,403**
Cash and cash equivalents at the end of the period	¥280,114	**¥334,873**	**$2,836,705**
Supplemental disclosures of cash flow information:			
Cash received and paid during the period for -			
Interest and dividend received	¥1,240	**¥1,973**	**$16,713**
Interest paid	¥(2,317)	**¥(1,903)**	**$(16,120)**
Income taxes paid	¥(2,296)	**¥(3,735)**	**$(31,639)**

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

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements:

(1) Nature of operations -

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

(2) Basis of presenting consolidated financial statements -

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

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

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

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates -

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

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

The difference between the cost and the underlying net asset of investments in subsidiaries is recognized as a "goodwill" and is included in intangible assets account (if the cost is in excess) or in other long-term liabilities account (if the underlying net asset is in excess). The goodwill is amortized on a straight-line basis over a period of five years.

(2) Foreign currency translation and transactions -

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

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

(3) Cash and cash equivalents -

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

(4) Financial instruments -

(a) Investments in debt and equity securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, or 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 values in the consolidated balance sheets. Changes in unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost computed based on the straight-line method in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving-average cost method. Other-than-temporary declines in the value of other securities are reflected in current income.

(b) Derivative 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.

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) issued an Accounting Standard - ASBJ Statement No. 5 "Accounting Standards for Presentation of Net Assets in the Balance Sheet" and its Implementation Guidance - ASBJ Guidance No. 8 "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet". Effective as of April 1, 2006, Epson has adopted these new accounting standards. Prior to April 1, 2006, if certain hedging criteria are met, such gains and losses arising from changes in fair value were deferred as assets or liabilities. Under the new accounting standards, such gains and losses are recorded as a separate component of shareholders' equity, net of tax.

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

(c) Allowance for doubtful accounts:

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

(5) Inventories -

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

(6) Property, plant and equipment -

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

The estimated useful lives of significant 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 -

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered to be impaired, an impairment charge is recorded for the excess of the carrying value of the long-lived asset over its fair value.

(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 for the services provided up to the balance sheet dates.

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

(10) Accrued warranty costs -

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

(11) Accrued litigation and related expenses -

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

(12) Income taxes -

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

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

(13) Pension and severance costs -

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

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

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

Most of the Company's foreign subsidiaries have various retirement plans, which are primarily defined contribution plans.

Prior to June 23 2006, with respect to the Company's directors and statutory auditors, who are not covered by the benefit plans for employees described above, provision was made for retirement benefits based on internal rules regarding directors' and statutory auditors' retirement benefits. On June 23, 2006, such plan was terminated and the benefits granted prior to the termination date are included in other long-term liabilities account.

(14) Accrued recycle costs -

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

(15) Revenue recognition -

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

(16) Research and development costs -

Research and development costs are expensed as incurred.

(17) Leases -

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

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

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

(18) Net income per share -

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

(19) Dividends -

Dividends are charged to retained earnings in the fiscal year in which they are paid after approval by the shareholders. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the shareholders of record as of September 30 of each year.

(20) Reclassifications -

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2007.

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. 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 ¥118.05 = U.S.$1, the rate of exchange prevailing at March 31, 2007, has been used.

4. Acquisitions:

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

On October 1, 2004, the Company and Sanyo Electric Co., Ltd. ("Sanyo"), including its subsidiaries Tottori Sanyo Electric Co., Ltd. and Sanyo LCD Engineering Co., Ltd. transferred their liquid crystal businesses to a joint venture company called Sanyo Epson Imaging Devices Corporation ("Sanyo Epson"), whose name is now Epson Imaging Devices Corporation. The paid-in capital of Sanyo Epson was ¥15,000 million and it is owned 55% and 45% by the Company and by Sanyo, respectively, at the time of transfer. Sanyo Epson is a consolidated subsidiary of the Company.

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

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

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

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

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

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

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

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

	Millions of yen
	Year ended March 31, 2006
Current assets	¥32,128
Fixed assets	31,224
Short-term borrowings	(100)
Current portion of long-term debt	(7,144)
Current liabilities	(8,773)
Bonds	(5,400)
Long-term debt	(273)
Long-term liabilities	(8,402)
Consolidation adjustment	(6,840)
Minority interest in subsidiaries	(13,996)
Change in interest due to business combination	(12,424)
Cash and cash equivalents held by the Toyo Group	12,204
Proceeds from business combination, net of payment	¥12,204

(3) Acquisition of Yasu Semiconductor Corporation -

The Company held 50% of the total outstanding shares of Yasu Semiconductor Corporation ("YSC"), a 50:50 joint venture established with International Business Machines Corporation and its affiliates (collectively, "IBM"), with the aim of, among other things, operating a facility that produces semiconductors.

IBM had an option to sell its 50% of YSC shares to the Company for ¥9,450 million ($80,051 thousand) effective from the end of June 2006, while the Company had an option to buy those shares for the same amount effective from the same date. Their respective options were exercised on July 1, 2006. As a result, YSC became a wholly owned subsidiary of the Company.

The goodwill arising from the acquisition of the shares totaled ¥ 1,937 million ($16,408 thousand). Due to the dissolution of YSC, the goodwill was impaired in the full amount as reorganization costs for the year ended March 31, 2007.

The consolidated financial statements include YSC's financial results from July 1, 2006 to March 31, 2007.

The assets and liabilities acquired on the date of the business combination in accordance with purchase method were ¥10,075 million ($85,345 thousand) and ¥3,324 million ($28,158 thousand), respectively.

Upon acquisition, net cash payments of ¥3,306 million ($28,005 thousand) represented cash and cash equivalents of ¥6,144 million ($52,046 thousand) held by YSC at the date of the acquisition, offset by the cash consideration of ¥9,450 million ($80,051 thousand) for the acquisition. It was disclosed as "Payments for acquisition of additional stock of an affiliate" in the consolidated statements of cash flows for the year ended March 31, 2007.

The composition of the assets and liabilities increased by the acquisition of YSC in the year ended March 31, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ended March 31, 2007	Year ended March 31, 2007
Current assets	¥8,554	$72,461
Fixed assets	1,521	12,885
Current liabilities	(1,401)	(11,868)
Long-term liabilities	(1,161)	(9,835)
Goodwill	1,937	16,408
Consideration for acquisition	¥9,450	$80,051

The business combination is not expected to have a material affect on the consolidated statements of income for the year ended March 31, 2007, assuming the combination is completed on the first day of the year.

5. Notes receivable and notes payable maturing at fiscal year-end:

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2007 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled were included in the ending balance of notes and accounts receivable, trade account and notes and accounts payable, trade account as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥272	$2,304
Notes payable	¥463	$3,922

6. 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, 2006 and 2007 were ¥14,383 million and ¥13,960 million ($118,255 thousand), respectively.

7. 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.

Detail of the aggregate cost, market value (carrying value) and net unrealized gains is not disclosed herein since it is insignificant to the consolidated results.

8. Derivative instruments:

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

Epson's 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 forward exchange committee (which comprises representatives of Epson's management) and executed based on authorization of the general manager of Epson in charge of the finance function in accordance with internal rules and policies developed regarding derivative transaction management.

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

Detail of the contract amounts and fair values of derivatives is not disclosed herein since it is insignificant to the consolidated results.

9. Credit agreements:

As at March 31, 2007, the Company had line-of-credit agreements with eleven banks for an aggregate maximum amount of ¥80,000 million ($677,679 thousand). As at March 31, 2007, there were unused credit lines of ¥50,000 million ($423,549 thousand) outstanding and available.

10. Goodwill:

Epson had goodwill and negative goodwill as at March 31, 2006 and 2007. Negative goodwill was recorded in other long-term liabilities account after being offset against goodwill. The amount of negative goodwill as at March 31, 2006 was ¥3,968 million. The amounts of goodwill and negative goodwill before offsetting as at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Goodwill	¥256	$2,169
Negative goodwill	¥4,621	$39,144

11. Pension and severance costs:

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

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

The funded status of these plans at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31, 2007
	2006	2007	
Projected benefit obligations	¥202,922	¥218,077	$1,847,327
Plan assets at fair value	191,883	203,930	1,727,488
Unfunded status	11,039	14,147	119,839
Unrecognized items:			
Prior service cost reduction from plan amendment	7,441	6,449	54,629
Actuarial gains	7,208	3,600	30,496
Accrued pension and severance costs - net	25,688	24,196	204,964
Prepaid pension cost	5,709	1,360	11,521
Accrued pension and severance costs	¥31,397	¥25,556	$216,485

The composition of net pension and severance costs for the years ended March 31, 2005, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31, 2007
	2005	2006	2007	
Service cost	¥7,397	¥7,889	¥7,376	$62,482
Interest cost	4,355	4,862	5,415	45,870
Expected return on plan assets	(4,728)	(5,079)	(6,050)	(51,249)
Amortization and expenses:				
Prior service costs	(2,752)	(2,733)	(2,619)	(22,186)
Actuarial losses	8,849	8,382	3,119	26,421
Net pension and severance costs	13,121	13,321	7,241	61,338
Contribution to defined contribution pension plan	2,067	2,976	3,258	27,599
	¥15,188	¥16,297	¥10,499	$88,937

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2005, 2006 and 2007 were primarily as follows:

	Year ended March 31		
	2005	2006	2007
Discount rate	2.5%	2.5%	2.5%
Long-term rate of return on plan assets	3.0	3.0	3.0

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

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

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

12. Shareholders' equity:

The Japanese corporation law which came into effect on May 1, 2006 provides that an amount equal to 10% of dividends shall be appropriated as additional paid-in capital or legal reserve on the date of distribution until an aggregated amount of additional paid-in capital and legal reserve equals 25% of common stock. The Commercial Code of Japan, which was in effect before the Japanese corporation law, provided that at least 10% of appropriations of retained earnings that were paid in cash shall be appropriated as legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equaled 25% of common stock.

The Japanese corporation law stipulates requirements on distributions of retained earnings similar to those of the Commercial Code of Japan. Under the Japanese corporation law, however, such distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met.

Under the Japanese corporation law, the distributions 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 distributions are recorded at the time of resolution.

The amounts of year-end cash dividend per share and interim cash dividend per share, which the Company paid to the shareholders of record as at the respective period-ends for the years ended March 31, 2005, 2006 and 2007, were as follows:

Cash dividend per share	Yen			U.S. dollars
	Year ended March 31			Year ended March 31,
	2005	2006	2007	2007
Year-end	¥9.00	¥13.00	¥16.00	$0.14
Interim	13.00	16.00	16.00	0.14
Total	¥22.00	¥29.00	¥32.00	$0.28

The effective dates of the payment claim for year-end and interim cash dividend, which was paid during the year ended March 31, 2007, were June 26, 2006 and November 30, 2006, respectively.

The proposed cash dividend of retained earnings of the Company for the year ended March 31, 2007 that is subject to approval at the general shareholders' meeting, which will be held on June 26, 2007, is as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividend	¥3,142	$26,616
	Yen	U.S. dollars
Cash dividend per share	¥16.00	$0.14

The effective date of the payment claim is June 27, 2007.

13. Net income (loss) per share:

Calculation of net income (loss) per share for the years ended March 31, 2005, 2006 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2005	2006	2007	2007
Net income (loss) attributable to common shares	¥55,689	¥(17,917)	¥(7,094)	$(60,093)
Weighted-average number of common shares outstanding:				
-Basic	196,364,103	196,363,643	196,363,144	
-Diluted	-	-	-	
	Yen			U.S. dollars
Net income (loss) per share:				
-Basic	¥283.60	¥(91.24)	¥(36.13)	$(0.31)
-Diluted	¥-	¥-	¥-	$-

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding for the year ended March 31, 2005. Diluted net income per share was not calculated herein since Epson had no potential common shares, which have dilutive effect issuable upon conversion of convertible bonds, outstanding for the years ended March 31, 2006 and 2007.

14. 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 40.4 % for each of the years ended March 31, 2005, 2006 and 2007.

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2006	2007	2007
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥25,573	¥32,302	$273,630
Inter-company profits on inventories and write downs	8,219	9,212	78,035
Accrued pension and severance costs	9,378	8,591	72,774
Accrued bonuses	4,038	5,495	46,548
Devaluation of investment securities	5,940	4,914	41,626
Net operating tax loss carry-forwards	22,307	4,871	41,262
Accrued warranty costs	5,663	4,352	36,866
Accrued litigation and related expenses	3,453	3,637	30,809
Others	24,159	21,699	183,812
Gross deferred tax assets	108,730	95,073	805,362
Less: valuation allowance	(26,648)	(19,231)	(162,906)
Total deferred tax assets	82,082	75,842	642,456
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries and affiliates	(25,284)	(26,751)	(226,607)
Net unrealized gains on other securities	(5,908)	(5,347)	(45,295)
Net unrealized gains on land held by a subsidiary	(2,613)	(2,613)	(22,135)
Reserve for special depreciation for tax purpose	(3,383)	(2,253)	(19,085)
Others	(552)	(1,529)	(12,952)
Gross deferred tax liabilities	(37,740)	(38,493)	(326,074)
Net deferred tax assets	¥44,342	¥37,349	$316,382

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and operating tax loss carry-forwards 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, 2007 was a decrease of ¥7,417 million ($62,829 thousand).

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

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

	Year ended March 31		
	2005	2006	2007
Statutory income tax rate	40.4%	40.4%	40.4%
Reconciliation:			
Changes in valuation allowance	(0.6)	(95.8)	365.0
Unrecognized tax benefit for inter-company profit elimination	-	(20.1)	225.4
Impairment of goodwill	-	-	(43.1)
Tax for the prior period	-	4.4	(16.2)
Gain on change in interest due to business combination	-	24.8	-
Tax credits	(6.9)	-	-
Recognized tax benefit for inter-company profit elimination	(3.6)	-	-
Entertainment expenses, etc. permanently non-tax deductible	(0.1)	-	-
Others	(2.2)	0.5	(64.5)
Income tax rate per statements of income	27.0%	(45.8%)	507.0%

15. Research and development costs:

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥89,042 million, ¥92,939 million and ¥84,690 million ($717,408 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

16. Reorganization costs:

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

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

The reorganization costs for the year ended March 31, 2007 mainly comprised impairment losses, which were associated with certain business assets whose utility value declined as a result of structural reforms accompanying strategic changes in the display business, and a reorganization of production sites.

17. Impairment losses:

Epson's business assets generally are grouped by business segment under the Company's management accounting system, and their cash flows are continuously monitored. Idle assets are separately assessed for impairment on the individual asset level. Impairment tests were performed for both types of assets. The net book value of a business asset was reduced to its recoverable amount when there is substantial deterioration in the asset's future earning potential due to adverse changes in the marketplace resulting in lower product prices or due to change in utilization plan. The carrying value of idle assets is reduced to its recoverable amount when their net selling prices are substantially lower than their carrying values.

For the year ended March 31, 2006, Epson impaired the LCD production equipment, semiconductor production equipment, and other equipment. A reduction in value of ¥34,303 million was recognized in reorganization costs and other expenses account. The reduction comprised mainly ¥14,914 million for buildings and structures, ¥10,090 million for machinery and equipment, ¥1,301 million for furniture and fixtures, ¥542 million for intangible assets, and ¥7,102 million for long-term prepaid expenses.

For the year ended March 31, 2007, Epson impaired the LCD production equipment and other equipment. A reduction in value of ¥41,733 million ($353,520 thousand) was recognized in reorganization costs and other expenses account. The reduction comprised mainly ¥12,672 million ($107,344 thousand) for buildings and structures, ¥10,670 million ($90,385 thousand) for machinery and equipment, ¥3,785 million ($32,063 thousand) for furniture and fixtures, ¥2,772 million ($23,482 thousand) for goodwill, and ¥8,977 million ($76,044 thousand) for future lease payments.

The recoverable amounts of impaired business assets were calculated on the basis of the asset's value in use. The recoverable amount of idle assets were determined using their net selling prices, which were assessed on the basis of reasonable estimates. The values in use were calculated by applying 5.5% and 6.3% discount rate to the asset's expected future cash flows for the years ended March 31, 2006 and 2007, respectively.

18. Cash flow information:

Cash and cash equivalents at March 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2006	2007	2007
Cash and deposits	¥233,087	¥296,764	$2,513,884
Short-term investments	41,984	30,983	262,457
Short-term loans receivables	10,000	10,000	84,710
Sub-total	285,071	337,747	2,861,051
Less:			
Short-term borrowings (overdrafts)	(594)	(652)	(5,523)
Time deposits due over three months	(2,363)	(2,222)	(18,823)
Short-term investments due over three months	(2,000)	(-)	(-)
Cash and cash equivalents	¥280,114	¥334,873	$2,836,705

The Company obtained marketable securities, the fair value of which was ¥10,003 million and ¥9,932 million ($84,134 thousand) at March 31, 2006 and 2007, respectively, as deposit for the short-term loans receivables above.

19. Leases:

As described in Note 2 (17), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2005, 2006 and 2007 amounted to ¥10,369 million, ¥17,639 million and ¥16,232 million ($137,501 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the capital lease assets at March 31, 2006 and 2007 would have been as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2006	2007	2007
Acquisition cost:			
Buildings and structures	¥-	¥1,785	$15,121
Machinery and equipment	78,183	56,802	481,169
Furniture and fixtures	3,375	2,438	20,652
Intangible assets	592	273	2,313
	82,150	61,298	519,255
Less:			
Accumulated depreciation	(50,302)	(42,366)	(358,882)
Accumulated impairment loss	(821)	(9,024)	(76,442)
	(51,123)	(51,390)	(435,324)
Net book value	¥31,027	¥9,908	$83,931

Depreciation expenses for these leased assets for the years ended March 31, 2005, 2006 and 2007 would have been ¥9,435 million, ¥15,965 million and ¥14,637 million ($123,990 thousand), respectively, if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no residual value.

Interest expense for these capital leases for the years ended March 31, 2005, 2006 and 2007 would have been ¥982 million, ¥1,470 million and ¥920 million ($7,793 thousand), respectively.

Epson has recognized an impairment loss for future lease payments of impaired capital lease assets in accordance with Japanese accounting standards, which was recorded in reorganization costs. The amount was ¥1,184 million, ¥317 million and ¥8,977 million ($76,044 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

Future lease payments for capital leases at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2006	2007	2007
Due within one year	¥15,332	¥8,719	$73,859
Due after one year	18,033	11,134	94,316
Total	¥33,365	¥19,853	$168,175

Amounts appearing in the table above include amounts to be paid on capital leases which have accrued impairment losses amounting to ¥565 million and ¥8,989 million ($76,146 thousand) as of March 31, 2006 and 2007, respectively. Lease payments for impaired capital lease assets in the years ended March 31, 2006 and 2007 were ¥472 million and ¥188 million ($1,593 thousand), respectively.

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2006	2007	2007
Due within one year	¥4,482	¥5,307	$44,955
Due after one year	12,129	10,705	90,682
Total	¥16,611	¥16,012	$135,637

In addition, future lease receipts for non-cancelable operating leases as a lessor at March 31, 2006 and 2007 were as follows:

Future lease receipts	Millions of yen March 31 2006	Millions of yen March 31 2007	Thousands of U.S. dollars March 31, 2007
Due within one year	¥315	¥-	$-
Due after one year	1,505	-	-
Total	¥1,820	¥-	$-

20. Contingent liabilities:

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2006 and 2007 were ¥2,920 million and ¥2,447 million ($20,729 thousand), respectively.

21. Related party transactions:

Detail of related parties and transactions with them is not disclosed herein since it is insignificant to the consolidated results.

22. Segment information:

(1) Business segment information -

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

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

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

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

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

On April 1, 2006, the Company's optical device business (excluding the corrective lens business) was transferred to a consolidated subsidiary, Epson Toyocom Corporation. The Company's optical device business, which boasts expertise in optical components for 3LCD projectors, was merged with Epson Toyocom’s optical device business, which specializes in areas such as image correction for digital cameras and optical pickup components for DVD recorders. This reorganization seeks to efficiently combine markets, technologies, and development resources with the objective of bolstering the Epson’s technology development capabilities, enhancing its market competitiveness, and increasing the value of its business.

With this reorganization, the results of the Company's optical device business, which were formerly reported under precision products segment, are reported under electronic devices segment. This change is effective from the current fiscal year. The effect of the reorganization on segment information is immaterial and is thus not reported herein.

The table below summarizes the business segment information of Epson for the years ended March 31, 2005, 2006 and 2007:

Year ended March 31:	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2005	2006	**2007**	**2007**
Information-related equipment:				
Net sales:				
Customers	¥942,401	¥973,690	**¥913,476**	**$7,738,043**
Inter-segment	3,628	2,753	**2,854**	**24,176**
Total	946,029	976,443	**916,330**	**7,762,219**
Operating expenses	884,474	931,422	**832,094**	**7,048,657**
Operating income	¥61,555	¥45,021	**¥84,236**	**$713,562**
Identifiable assets	¥373,172	¥384,114	**¥376,770**	**$3,191,614**
Depreciation and amortization	¥30,488	¥29,668	**¥30,634**	**$259,500**
Capital expenditures	¥26,182	¥32,395	**¥38,652**	**$327,421**
Electronic devices:				
Net sales:				
Customers	¥454,616	¥489,460	**¥411,269**	**$3,483,854**
Inter-segment	27,995	37,507	**33,434**	**283,219**
Total	482,611	526,967	**444,703**	**3,767,073**
Operating expenses	444,058	536,726	**470,758**	**3,987,785**
Operating income (loss)	¥38,553	¥(9,759)	**¥(26,055)**	**$(220,712)**
Identifiable assets	¥468,588	¥414,100	**¥356,309**	**$3,018,289**
Depreciation and amortization	¥54,685	¥59,694	**¥42,226**	**$357,696**
Capital expenditures	¥109,197	¥60,560	**¥33,025**	**$279,754**
Precision products:				
Net sales:				
Customers	¥76,827	¥81,463	**¥86,903**	**$736,154**
Inter-segment	4,316	4,315	**841**	**7,124**
Total	81,143	85,778	**87,744**	**743,278**
Operating expenses	78,707	83,427	**84,168**	**712,986**
Operating income	¥2,436	¥2,351	**¥3,576**	**$30,292**
Identifiable assets	¥50,352	¥57,935	**¥60,352**	**$511,241**
Depreciation and amortization	¥3,930	¥4,146	**¥3,513**	**$29,759**
Capital expenditures	¥4,899	¥4,464	**¥4,694**	**$39,763**
Other:				
Net sales:				
Customers	¥5,906	¥4,955	**¥4,384**	**$37,137**
Inter-segment	28,604	28,022	**25,926**	**219,619**
Total	34,510	32,977	**30,310**	**256,756**
Operating expenses	47,514	45,757	**42,466**	**359,729**
Operating loss	¥(13,004)	¥(12,780)	**¥(12,156)**	**$(102,973)**
Identifiable assets	¥147,448	¥156,936	**¥133,677**	**$1,132,376**
Depreciation and amortization	¥15,138	¥15,797	**¥13,230**	**$112,071**
Capital expenditures	¥17,257	¥23,558	**¥12,251**	**$103,778**
Eliminations and corporate:				
Net sales	¥(64,543)	¥(72,597)	**¥(63,055)**	**$(534,138)**
Operating expenses	(65,970)	(73,522)	**(63,797)**	**(540,424)**
Operating income	¥1,427	¥925	**¥742**	**$6,286**
Identifiable assets	¥258,230	¥312,121	**¥357,304**	**$3,026,717**
Depreciation and amortization	¥-	¥-	**¥-**	**$-**
Capital expenditures	¥-	¥(2,694)	**¥(11,074)**	**$(93,808)**
Consolidated:				
Net sales	¥1,479,750	¥1,549,568	**¥1,416,032**	**$11,995,188**
Operating expenses	1,388,783	1,523,810	**1,365,689**	**11,568,733**
Operating income	¥90,967	¥25,758	**¥50,343**	**$426,455**
Identifiable assets	¥1,297,790	¥1,325,206	**¥1,284,412**	**$10,880,237**
Depreciation and amortization	¥104,241	¥109,305	**¥89,603**	**$759,026**
Capital expenditures	¥157,535	¥118,283	**¥77,548**	**$656,908**

The amounts of corporate assets included in “Eliminations and corporate” were ¥277,312 million, ¥327,855 million and ¥374,216 million ($3,169,979 thousand) at March 31, 2005, 2006 and 2007, respectively, and mainly comprised cash and cash equivalents, securities and short-term loans receivable.

For the year ended March 31, 2006, impairment loss, which was recorded in information-related equipment segment, electronic devices segment, precision products segment and other segment was ¥426 million, ¥33,343 million, ¥416 million and ¥118 million, respectively.

For the year ended March 31, 2007, impairment loss, which was recorded in information-related equipment segment, electronic devices segment, precision products segment and other segment was ¥209 million ($1,771 thousand), ¥41,038 million ($347,632 thousand), ¥273 million ($2,313 thousand) and ¥213 million ($1,804 thousand), respectively.

The table below summarizes the business segment information of Epson for the three months ended March 31, 2006 and 2007:

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2006	**2007**	**2007**
Information-related equipment:			
Net sales:			
Customers	¥237,713	**¥227,265**	**$1,925,159**
Inter-segment	924	**1,125**	**9,530**
Total	238,637	**228,390**	**1,934,689**
Operating expenses	223,840	**208,954**	**1,770,047**
Operating income	¥14,797	**¥19,436**	**$164,642**
Electronic devices:			
Net sales:			
Customers	¥115,878	**¥94,451**	**$800,093**
Inter-segment	6,072	**6,063**	**51,360**
Total	121,950	**100,514**	**851,453**
Operating expenses	131,831	**112,515**	**953,113**
Operating loss	¥(9,881)	**¥(12,001)**	**$(101,660)**
Precision products:			
Net sales:			
Customers	¥19,045	**¥18,844**	**$159,627**
Inter-segment	775	**153**	**1,296**
Total	19,820	**18,997**	**160,923**
Operating expenses	19,866	**19,744**	**167,251**
Operating loss	¥(46)	**¥(747)**	**$(6,328)**
Other:			
Net sales:			
Customers	¥1,568	**¥1,374**	**$11,639**
Inter-segment	7,568	**6,569**	**55,646**
Total	9,136	**7,943**	**67,285**
Operating expenses	11,576	**10,769**	**91,224**
Operating loss	¥(2,440)	**¥(2,826)**	**$(23,939)**
Eliminations and corporate:			
Net sales	¥(15,339)	**¥(13,910)**	**$(117,832)**
Operating expenses	(15,541)	**(14,066)**	**(119,153)**
Operating income	¥202	**¥156**	**$1,321**
Consolidated:			
Net sales	¥374,204	**¥341,934**	**$2,896,518**
Operating expenses	371,572	**337,916**	**2,862,482**
Operating income	¥2,632	**¥4,018**	**$34,036**

(2) Geographic segment information -

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

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

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

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

The table below summarizes the geographic segment information of Epson for the years ended March 31, 2005, 2006 and 2007:

Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2005	2006	**2007**	**2007**
Japan:				
Net sales:				
Customers	¥694,344	¥742,093	**¥640,727**	**$5,427,590**
Inter-segment	540,694	565,438	**602,431**	**5,103,185**
Total	1,235,038	1,307,531	**1,243,158**	**10,530,775**
Operating expenses	1,192,107	1,323,858	**1,208,070**	**10,233,545**
Operating income (loss)	¥42,931	¥(16,327)	**¥35,088**	**$297,230**
Identifiable assets	¥851,767	¥791,482	**¥703,822**	**$5,962,067**
The Americas:				
Net sales:				
Customers	¥242,898	¥263,196	**¥250,374**	**$2,120,915**
Inter-segment	41,618	45,701	**41,264**	**349,546**
Total	284,516	308,897	**291,638**	**2,470,461**
Operating expenses	271,363	296,267	**279,735**	**2,369,631**
Operating income	¥13,153	¥12,630	**¥11,903**	**$100,830**
Identifiable assets	¥77,661	¥102,063	**¥102,831**	**$871,080**
Europe:				
Net sales:				
Customers	¥325,998	¥310,902	**¥289,286**	**$2,450,538**
Inter-segment	2,525	2,784	**10,098**	**85,540**
Total	328,523	313,686	**299,384**	**2,536,078**
Operating expenses	317,000	306,010	**299,792**	**2,539,534**
Operating income (loss)	¥11,523	¥7,676	**¥(408)**	**$(3,456)**
Identifiable assets	¥74,867	¥75,944	**¥83,202**	**$704,803**
Asia/Oceania:				
Net sales:				
Customers	¥216,510	¥233,377	**¥235,645**	**$1,996,145**
Inter-segment	481,541	606,268	**551,842**	**4,674,647**
Total	698,051	839,645	**787,487**	**6,670,792**
Operating expenses	677,897	814,220	**766,293**	**6,491,258**
Operating income	¥20,154	¥25,425	**¥21,194**	**$179,534**
Identifiable assets	¥185,522	¥231,201	**¥232,618**	**$1,970,504**
Eliminations and corporate:				
Net sales	¥(1,066,378)	¥(1,220,191)	**¥(1,205,635)**	**$(10,212,918)**
Operating expenses	(1,069,584)	(1,216,545)	**(1,188,201)**	**(10,065,235)**
Operating income (loss)	¥3,206	¥(3,646)	**¥(17,434)**	**$(147,683)**
Identifiable assets	¥107,973	¥124,516	**¥161,939**	**$1,371,783**
Consolidated:				
Net sales	¥1,479,750	¥1,549,568	**¥1,416,032**	**$11,995,188**
Operating expenses	1,388,783	1,523,810	**1,365,689**	**11,568,733**
Operating income	¥90,967	¥25,758	**¥50,343**	**$426,455**
Identifiable assets	¥1,297,790	¥1,325,206	**¥1,284,412**	**$10,880,237**

The amounts of corporate assets included in “Eliminations and corporate” were ¥277,312 million, ¥327,855 million and ¥374,216 million ($3,169,979 thousand) at March 31, 2005, 2006 and 2007, respectively, and mainly comprised cash and cash equivalents, securities and short-term loans receivable.

The table below summarizes the geographic segment information of Epson for the three months ended March 31, 2006 and 2007:

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2006	**2007**	**2007**
Japan:			
Net sales:			
Customers	¥167,650	**¥148,216**	**$1,255,536**
Inter-segment	121,803	**132,252**	**1,120,305**
Total	289,453	**280,468**	**2,375,841**
Operating expenses	300,260	**279,969**	**2,371,614**
Operating income (loss)	¥(10,807)	**¥499**	**$4,227**
The Americas:			
Net sales:			
Customers	¥66,007	**¥63,535**	**$538,204**
Inter-segment	9,005	**9,581**	**81,161**
Total	75,012	**73,116**	**619,365**
Operating expenses	72,162	**70,228**	**594,901**
Operating income	¥2,850	**¥2,888**	**$24,464**
Europe:			
Net sales:			
Customers	¥79,716	**¥72,953**	**$617,984**
Inter-segment	752	**1,723**	**14,595**
Total	80,468	**74,676**	**632,579**
Operating expenses	76,750	**75,950**	**643,371**
Operating income (loss)	¥3,718	**¥(1,274)**	**$(10,792)**
Asia/Oceania:			
Net sales:			
Customers	¥60,831	**¥57,230**	**$484,794**
Inter-segment	118,796	**111,376**	**943,465**
Total	179,627	**168,606**	**1,428,259**
Operating expenses	180,220	**173,174**	**1,466,955**
Operating loss	¥(593)	**¥(4,568)**	**$(38,696)**
Eliminations and corporate:			
Net sales	¥(250,356)	**¥(254,932)**	**$(2,159,526)**
Operating expenses	(257,820)	**(261,405)**	**(2,214,359)**
Operating income	¥7,464	**¥6,473**	**$54,833**
Consolidated:			
Net sales	¥374,204	**¥341,934**	**$2,896,518**
Operating expenses	371,572	**337,916**	**2,862,482**
Operating income	2,632	**¥4,018**	**$34,036**

(3) Sales to overseas customers -

The table below shows sales to overseas customers by geographic region, and as a percentage of consolidated net sales, for the years ended March 31, 2005, 2006 and 2007:

Year ended March 31:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2005	2006	**2007**	**2007**
Overseas sales:				
The Americas	¥266,649	¥285,127	**¥270,484**	**$2,291,267**
Europe	386,091	357,835	**341,524**	**2,893,045**
Asia/Oceania	292,276	421,994	**352,388**	**2,985,074**
Total	945,016	1,064,956	**964,396**	**8,169,386**
Consolidated net sales	¥1,479,750	¥1,549,568	**¥1,416,032**	**$11,995,188**
Percentage:				
The Americas	18.0%	18.4%	**19.1%**	
Europe	26.1	23.1	**24.1**	
Asia/Oceania	19.8	27.2	**24.9**	
Total	63.9%	68.7%	**68.1%**	

The table below shows sales to overseas customers by geographic region, and as a percentage of consolidated net sales, for the three months ended March 31, 2006 and 2007:

Three months ended March 31:

	Millions of yen		Thousands of U.S. dollars
	Three months ended March 31		Three months ended March 31,
	2006	**2007**	**2007**
Overseas sales:			
The Americas	¥70,982	**¥67,334**	**$570,385**
Europe	90,744	**84,472**	**715,561**
Asia/Oceania	96,024	**82,369**	**697,747**
Total	257,750	**234,175**	**1,983,693**
Consolidated net sales	¥374,204	**¥341,934**	**$2,896,518**
Percentage:			
The Americas	19.0%	**19.7%**	
Europe	24.2	**24.7**	
Asia/Oceania	25.7	**24.1**	
Total	68.9%	**68.5%**	

Supplementary Information

Consolidated year ended March 31, 2007

Cautionary Statement

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

1. Sales by division

(Unit: billion yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase %	Forecast for the year ended March 31, 2008
Information-related equipment	976.4	916.3	(6.2%)	904.0
Printer	840.1	781.6	(7.0%)	760.0
Visual instruments	104.6	106.5	1.8%	113.0
Other	38.3	28.9	(24.4%)	32.0
Intra-segment sales	(6.6)	(0.7)	-%	(1.0)
Electronic devices	527.0	444.7	(15.6%)	433.0
Display	368.3	271.0	(26.4%)	261.0
Semiconductor	102.6	91.2	(11.2%)	77.0
Quartz device	70.7	97.9	38.6%	105.0
Other	2.9	2.9	(1.1%)	3.0
Intra-segment sales	(17.6)	(18.3)	-%	(13.0)
Precision products	85.8	87.7	2 3%	86.0
Other	33.0	30.3	(8.1%)	31.0
Inter-segment sales	(72.6)	(63.0)	-%	(61.0)
Consolidated sales	1,549.6	1,416.0	(8.6%)	1,393.0

2. Business segment information

(Unit: billion yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase %	Forecast for the year ended March 31, 2008	Increase compared to year ended March 31, 2007 %
Information-related equipment					
Net sales:					
Customers	973.6	913.5	(6.2%)	902.0	(1.3%)
Inter-segment	2.8	2.8	3.7%	2.0	(29.9%)
Total	976.4	916.3	(6.2%)	904.0	(1.3%)
Operating expenses	931.4	832 1	(10.7%)	834.0	0.2%
Operating income	45.0	84.2	87.1%	70.0	(16.9%)
Electronic devices					
Net sales:					
Customers	489.5	411.2	(16.0%)	400.0	(2.7%)
Inter-segment	37.5	33.5	(10.9%)	33.0	(1.3%)
Total	527.0	444.7	(15.6%)	433.0	(2.6%)
Operating expenses	536.7	470.7	(12.3%)	433.0	(8.0%)
Operating loss	(9.7)	(26.0)	-%	-	-%
Precision products					
Net sales:					
Customers	81.5	86.9	6.7%	85.0	(2.2%)
Inter-segment	4.3	0.8	(80.5%)	1.0	18.9%
Total	85.8	87.7	2.3%	86.0	(2.0%)
Operating expenses	83.4	84.1	0.9%	81.0	(3.8%)
Operating income	2.4	3.6	52.1%	5.0	39.8%
Other					
Net sales:					
Customers	5.0	4.4	(11.5%)	6.0	36.9%
Inter-segment	28.0	25.9	(7.5%)	25.0	(3.6%)
Total	33.0	30.3	(8.1%)	31.0	2.3%
Operating expenses	45.8	42.5	(7.2%)	45.0	6.0%
Operating loss	(12.8)	(12 2)	-%	(14.0)	-%
Elimination and corporate					
Net sales	(72.6)	(63.0)	-%	(61.0)	-%
Operating expenses	(73 5)	(63.7)	-%	(61.0)	-%
Operating income	0 9	0.7	(19.7%)	-	-%
Consolidated					
Net sales	1,549.6	1,416.0	(8.6%)	1,393.0	(1.6%)
Operating expenses	1,523.8	1,365.7	(10.4%)	1,332.0	(2.5%)
Operating income	25.8	50.3	95.5%	61.0	21.2%

3. Capital expenditure / Depreciation and amortization

(Unit: billion yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase %	Forecast for the year ended March 31, 2008	Increase compared to year ended March 31, 2007 %
Capital expenditure	112.6	73.1	(35.1%)	88.0	20.4%
Information-related equipment	29.1	26.2	(9.9%)	33.0	26.2%
Electronic devices	57.4	35.3	(38.5%)	32.0	(9.4%)
Precision products	4.5	5.4	20.4%	5.0	(7.6%)
Other	21.6	6.2	(71.1%)	18.0	188.5%
Depreciation and amortization	109 3	89.6	(18.0%)	91.0	1.6%
Information-related equipment	29.7	30.7	3.3%	33.0	7.7%
Electronic devices	59.7	42.2	(29.3%)	39.0	(7.6%)
Precision products	4.1	3.5	(15.2%)	4.0	13.9%
Other	15.8	13.2	(16.2%)	15.0	13.4%

4. Research and development

(Unit: billion yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase %	Forecast for the year ended March 31, 2008	Increase compared to year ended March 31, 2007 %
Research and Development	92.9	84.7	(8.9%)	90.0	6.3%
R&D / sales ratio	6.0%	6.0%		6.5%	

5. Management indices

(Unit: %)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase Point	Forecast for the year ended March 31, 2008	Increase compared to year ended March 31, 2007 Point
Return on equity (ROE)	(3.8%)	(1.5%)	2 3	6 3%	7.8
Return on assets (ROA)	(1.5%)	0.3%	1.8	4.4%	4.1
Return on sales (ROS)	(1.3%)	0.2%	1.5	3.9%	3.7

Note 1. ROE=Net income / Beginning and ending balance average shareholders' equity
2. ROA=Income before income taxes and minority interest / Beginning and ending balance average total assets
3. ROS=Income before income taxes and minority interest / Net sales

6. Foreign exchange fluctuation effect on net sales

(Unit: billion yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Increase
Foreign exchange effect	36.1	45.5	9.4
U.S. dollars	14.4	8.2	(6.2)
Euro	6.0	23.6	17.6
Other	15.7	13.7	(2.0)
Exchange rate			
Yen / U.S. dollars	113.31	117.02	
Yen / Euro	137.86	150.09	

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

7. Inventory

(Unit: billion yen)

	September 30, 2006	March 31, 2006	March 31, 2007	Increase compared to March 31, 2006
Inventory	214.4	192.0	178.6	(13.4)
Information-related equipment	128 9	112.9	102.8	(10.1)
Electronic devices	67.8	61.6	58.8	(2.8)
Precision products	16.0	15.5	15.1	(0.4)
Other / Corporate	1.7	2.0	1.9	(0.1)
Turnover by days	58	45	46	1
Information-related equipment	56	42	41	(1)
Electronic devices	54	43	48	5
Precision products	64	66	63	(3)
Other / Corporate	21	22	23	1

Note: Turnover by days=Ending (Interim) balance of inventory / Prior 12 (6) months sales per day

8. Employees

(Unit: person)

	September 30, 2006	March 31, 2006	March 31, 2007	Increase compared to March 31, 2006
Number of employees at period end	102,025	90,701	87,626	(3,075)
Domestic	24,333	23,522	25,379	1,857
Overseas	77,692	67,179	62,247	(4,932)