EPSON
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Seiko Epson Corporation

Annual Report 2009

April 2008-March 2009

Cautionary Statement

This report includes forward-looking statements that are based on management's views in light of information available at the time of the announcement. These statements involve risks and uncertainties. Actual results may be materially different from those discussed in the forward-1ooking statements. The factors that may affect Epson include, but are not limited to, general economic conditions, the ability of Epson to continue new products and services on a timely basis, consumption trends, compensation trends, competition, technology trends and exchange rate fluctuations.

In this annual report,"Epson"refers to the Epson Group, while "the Company" may refer to the Group or the parent company, Seiko Epson Corporation.

Table of Contents

Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2004	2005	2006	2007	2008	**2009**	**2009**
Statements of income data							
Net sales	¥1,413,243	¥1,479,750	¥1,549,568	¥1,416,032	¥1,347,841	**¥1,122,497**	**$11,427,232**
Information-related equipment	920,380	946,029	976,443	916,330	902,970	**769,850**	**7,837,252**
Electronic devices	441,153	482,611	526,967	444,703	395,197	**311,626**	**3,172,411**
Precision products	81,102	81,143	85,778	87,744	83,927	**72,697**	**740,058**
Other	29,457	34,510	32,977	30,310	29,124	**31,828**	**324,014**
Eliminations and corporate	(58,849)	(64,543)	(72,597)	(63,055)	(63,378)	**(63,506)**	**(646,503)**
Gross profit	399,284	409,739	354,787	356,773	368,449	**289,443**	**2,946,584**
Selling, general and administrative expenses	321,883	318,772	329,029	306,430	310,871	**291,031**	**2,962,750**
Operating income (loss)	77,401	90,967	25,758	50,343	57,577	**(1,588)**	**(16,166)**
Income (loss) before income taxes and minority interests	65,058	73,647	(20,047)	3,476	52,045	**(89,559)**	**(911,727)**
Net income (loss)	38,031	55,689	(17,917)	(7,094)	19,093	**(111,322)**	**(1,133,279)**

Research and development costs	90,485	89,042	92,939	84,690	82,870	**82,058**	**835,365**
Capital expenditures	70,379	157,535	118,283	77,548	64,991	**58,947**	**600,091**
Depreciation and amortization	110,314	104,241	109,305	89,603	79,209	**78,406**	**798,187**

Net cash provided by (used in) operating activities	182,669	162,489	117,497	160,229	112,060	**44,253**	**450,503**
Net cash provided by (used in) investing activities	(65,329)	(99,396)	(95,266)	(76,419)	(50,770)	**(61,002)**	**(621,011)**
Free cash flow	117,340	63,093	22,231	83,810	61,289	**(16,748)**	**(170,497)**
Net cash provided by (used in) financing activities	(40,918)	(96,373)	19,123	(30,150)	(70,663)	**(9,558)**	**(97,302)**

	Millions of yen						Thousands of U.S. dollars
	2004	2005	2006	2007	2008	**2009**	**2009**
Balance sheet data							
Current assets	¥709,169	¥746,712	¥795,402	¥813,274	¥737,245	**¥617,677**	**$6,288,079**
Property, plant and equipment (net of accumulated depreciation)	393,031	441,355	426,118	379,032	343,261	**253,712**	**2,582,836**
Total assets	1,206,491	1,297,790	1,325,206	1,284,412	1,139,165	**917,342**	**9,338,715**
Current liabilities	417,573	504,601	507,371	476,125	385,123	**283,848**	**2,889,626**
Noncurrent liabilities	372,009	293,662	311,610	313,952	282,595	**314,862**	**3,205,366**
Net assets	414,367	472,870	474,520	494,335	471,446	**318,631**	**3,243,723**
Number of employees	84,899	85,647	90,701	87,626	88,925	**72,326**	**—**

Per share data (yen and U.S. dollars)							
Net income (loss)	¥204.70	¥283.60	(¥91.24)	(¥36.13)	¥97.24	**(¥566.92)**	**($5.77)**
Cash dividends	18.00	22.00	29.00	32.00	32.00	**35.00**	**0.35**
Shareholders’ equity	2,110.20	2,408.13	2,416.54	2,395.14	2,277.45	**1,541.16**	**15.68**

Financial ratios (%)						
Shareholders’ equity ratio	34.3	36.4	35.8	36.6	39.3	**33.0**
ROE (net income (loss)/average shareholders’ equity at beginning and end of year)	10.9	12.6	(3.8)	(1.5)	4.2	**(29.7)**
ROA (income (loss) before income taxes and minority interests/ average total assets at beginning and end of year)	5.4	5.9	(1.5)	0.3	4.3	**(8.7)**
ROS (income (loss) before income taxes and minority interest/ net sales)	4.6	5.0	(1.3)	0.2	3.9	**(8.0)**

Notes

1. Amounts for periods prior to April 1, 2007, are rounded off. However, amounts for periods from or subsequent to April 1, 2007, are rounded down. Please refer to the “Basis of presenting consolidated financial statements” on page 53.
2. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥98.23=U.S.$1 as of March 31, 2009.
3. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
4. Shareholders’ equity is net assets excluding minority interests.

Message from the President

To Our Stakeholders,

The fiscal year ended March 31, 2009, was characterized by a business environment that deteriorated severely as the financial crisis in the United States developed into a global recession and the economic difficulties began to impact the real economy. Exporters in particular were affected by the rapid and dramatic appreciation of the yen.

Against this harsh background, Epson launched its SE15 Long-Range Corporate Vision and its SE15 (First Half) Mid-Range Business Plan*. Under its new business plan, Epson will rebuild its business foundations with the aim of becoming “a community of robust businesses,” as described in its new SE15 vision.

To achieve this, we will concentrate our management resources on printers, 3LCD projectors and quartz devices—businesses with growth potential and strategic importance. On the other hand, we are also implementing far-reaching measures in small- and medium-sized displays and semiconductors—businesses where we are facing a difficult profit scenario.

As a result of these measures, Epson posted an extraordinary loss of ¥76,244 million on business structure improvement expenses and an impairment loss. Consolidated net sales came to ¥1,122,497 million, down 16.7% from the previous fiscal year. Operating loss was ¥1,588 million, compared with a ¥57,577 million profit in the previous year. Ordinary income was ¥5,301 million, down 91.6%, with a net loss of ¥111,322 million, compared with a ¥19,093 million profit in the previous year.

Taking into account the operating loss and the net loss, in addition to the ongoing difficult conditions in our operating environment, we regretfully reduced our year-end dividend payment to ¥7 per share (¥16 in the previous year) from our previous forecast of ¥19.

We are facing an extremely challenging business situation. However, I assure all our stakeholders that everyone at Epson is working together to successfully implement the new business plan as we seek to realize the goals set out in our SE15 vision. I thank you for your ongoing support.

July 2009

Minoru Usui

Minoru Usui, President

* Details of the SE15 Long-Range Corporate Vision and the SE15 (First Half) Mid-Range Business Plan can be found on page 6.

Epson's Mid-Range Business Plan

Epson has announced its SE15 Long-Range Corporate Vision and SE15 (First Half) Mid-Range Business Plan (FY2009-FY2011). These plans determine the direction Epson will take in the medium- to long-term, and the measures it will take to achieve its aims.

1. Review of the "Creativity and Challenge 1000 Mid-Range Business Plan" (FY2006-FY2008)
Epson pursued the following five management policies as part of its Creativity and Challenge 1000 Mid-Range Business Plan. Here we will look at the first three policies, which have a direct impact on Epson's net sales and profitability.

Mid-Range Business Policies (FY2006-FY2008)

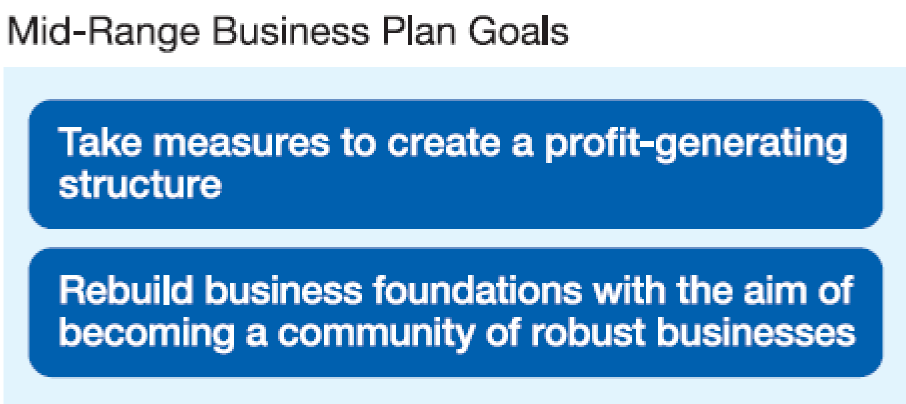
1. Redefine and reinforce the business and product portfolios
2. Reorganize the electronic device businesses
3. Streamline costs
4. Reform the governance system
5. Reform the corporate culture

Redefine and reinforce the business and product portfolios
Epson was able to increase sales volumes in its strategically important printer and 3LCD projector businesses by launching competitive new products. Epson anticipates medium- to long-term growth as a result of its entry into the commercial and industrial inkjet printer markets in which it sees high growth potential.
Reorganize the electronic device businesses
Despite successes in consolidating business sites and driving efficiencies in human resources, Epson was unable to return to profitability in these businesses. This was largely due to a delay in shifting to high-value-added markets and to a steep decline in sales volumes due to the economic recession.
Streamline costs
Here Epson succeeded in cutting variable costs through measures such as reducing the number of printer platforms. However, these benefits were offset by the effects of the economic recession and the appreciation of the yen.

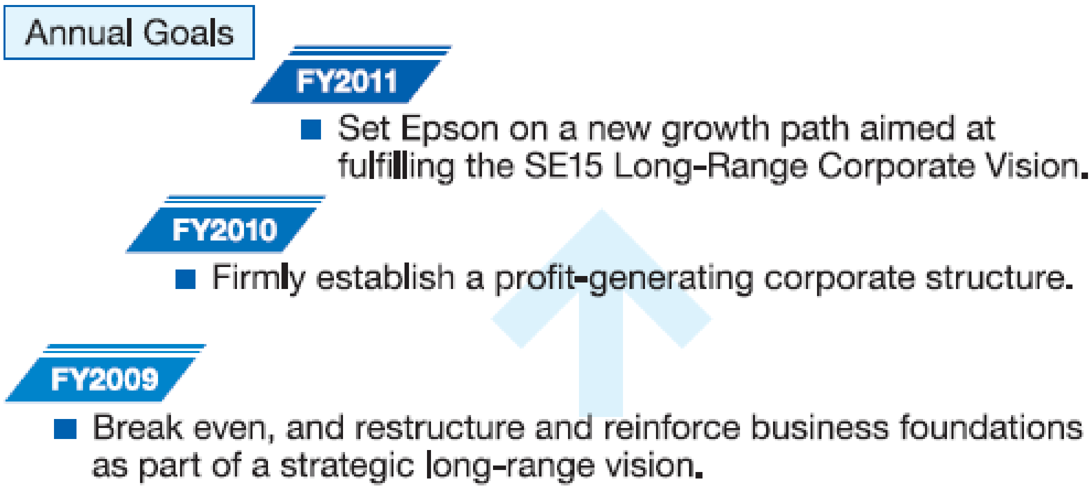
2. SE15 Long-Range Corporate Vision
In establishing its Long-Range Corporate Vision and Mid-Range Business Plan, Epson concluded that the economic recession and the appreciation of the yen would continue for the foreseeable future, as would the downward spiral of prices and declining demand.
In these difficult circumstances, Epson will maximize the benefits achieved by Creativity and Challenge 1000 in SE15, and will tackle the remaining issues going forward by implementing bold measures.
Epson's aim is to become "a community of robust businesses" by refining and further leveraging "compact, energy-saving, high-precision technologies," as its core strengths since its foundation, and by creating products and services that emotionally engage customers.

To achieve this, we will concentrate on the following themes:
1. Move ahead by focusing on areas in which we can leverage our strengths
2. Thoroughly reinforce the foundations of core businesses
3. Use technological assets and selling power to create new products and establish new businesses

3. SE15 Mid-Range Business Plan (FY2009-FY2011)
To achieve the aims of SE15 and become a community of robust businesses, Epson is in its Mid-Range Business Plan seeking to create a profit-generating structure and rebuild the foundations of its business. Going forward, Epson will continue to rebuild its business and product portfolios, and will go beyond its traditional operational framework as it takes the steps to achieve its aims.



Epson will urgently shift human and other management resources to businesses where it can demonstrate its strengths, to growth businesses, and to strategically important businesses.



4. Bold actions in the electronic device businesses

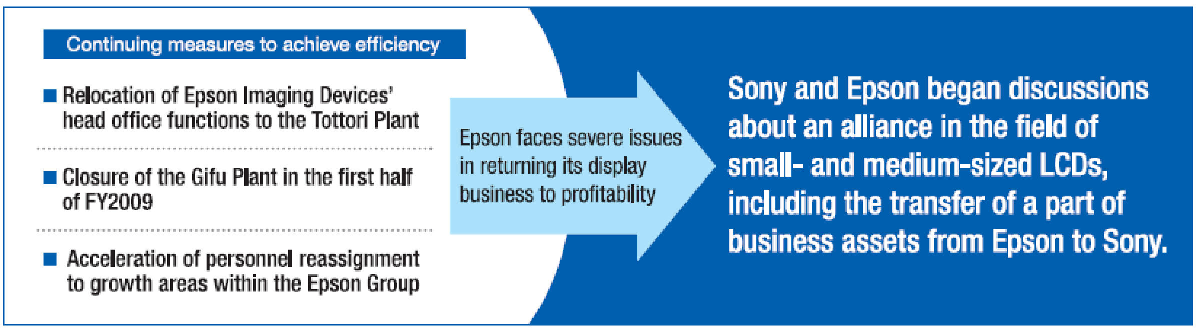
As it launches its new Mid-Range Business Plan, Epson has concluded that while its small- and medium-sized display and semiconductor businesses possess their own unique strengths, the worsening business environment has made a return to profitability unlikely and that further growth is unlikely. Epson has therefore decided to embark on bold actions in these businesses.

Small- and medium-sized displays

As explained earlier, Epson's recent efforts to return this business to profitability have borne some fruit. However, profitability has suffered as a result of the economic downturn. Epson has therefore continued with its efforts to consolidate production sites and transfer staff to growth businesses and to strategic businesses within the Group.

Epson understands the difficulty of returning this business to profitability by its own efforts. In March 2009, the Company therefore came to an agreement to begin discussions with Sony Corporation over an alliance in the field of small- and medium-sized liquid crystal displays (LCDs), including the transfer of a part of business assets of the Company to Sony. Combining the technical, product design, and manufacturing capabilities of the two companies will help meet internal demand and improve the ability to respond to customer needs and increase product competitiveness.

Direction of the small- and medium-sized display business



Semiconductors

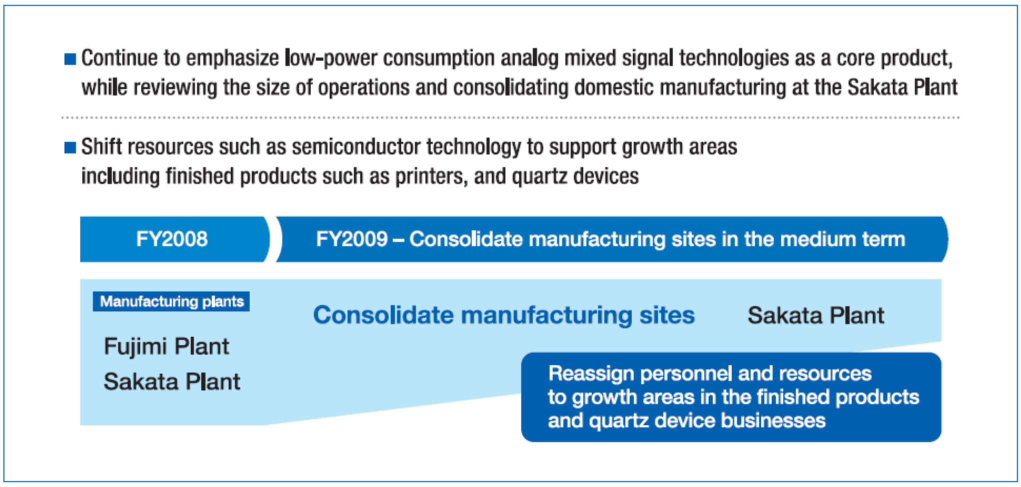
Epson has to date aimed to maintain plant utilization rates by promoting hybrid ICs that take advantage of its expertise in low-power-consumption and low-leak technologies, and by accepting silicon foundry orders. However, demand has fallen due to the economic recession, and profitability has declined rapidly.

Epson forecasts that even if the economy recovers, a return to profitability in semiconductors is unlikely. It has therefore decided to reposition the semiconductor business into a business that will leverage its technical assets to support other parts of the Group as Epson seeks to expand into the growth areas and strategic areas defined in SE15. Epson will continue to emphasize its low-power consumption analog mixed-signal technologies as a core product line, but will aim to establish a thoroughly streamlined operation.

In the medium-term, this will mean consolidating two domestic manufacturing sites into one. At the same time, personnel will be reassigned with the purpose of reinforcing product design and manufacturing technology resources in other parts of the Group.

Epson intends to leverage its semiconductor technological assets to reinforce its products and the overall competitiveness of its finished products and other electronic device businesses. In particular, Epson anticipates that its semiconductors can add value to inkjet printers and crystal devices.

Key points to semiconductor business structural reforms



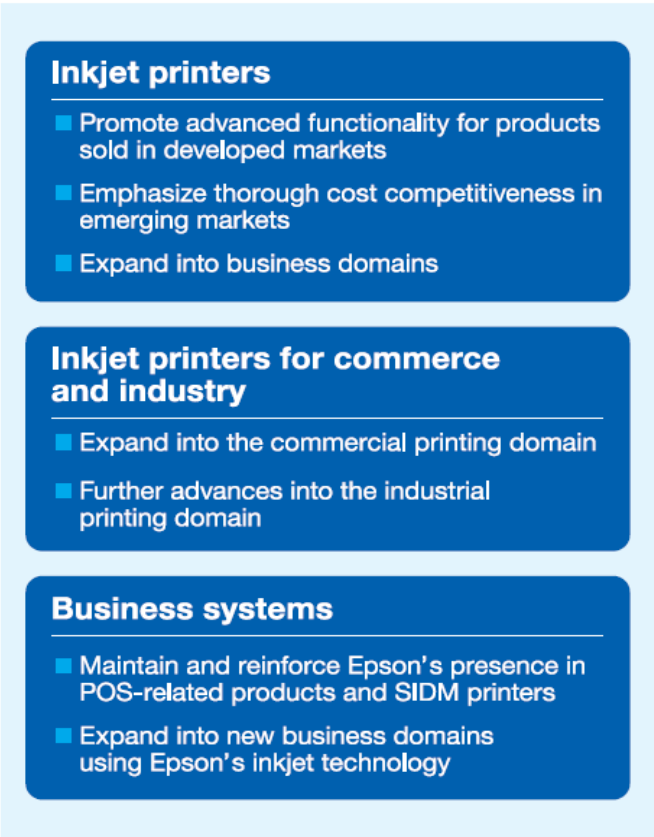
5. Growth businesses and strategic businesses in which Epson will concentrate its management resources

As Epson seeks to realize the goals of SE15 and the Mid-Range Business Plan, it will shift management resources such as personnel to business domains in which it can leverage its strengths, to growth domains and to strategic businesses.

Printers

Epson will leverage its core proprietary Micro Piezo technology to expand into new business domains.

Direction for the printer business



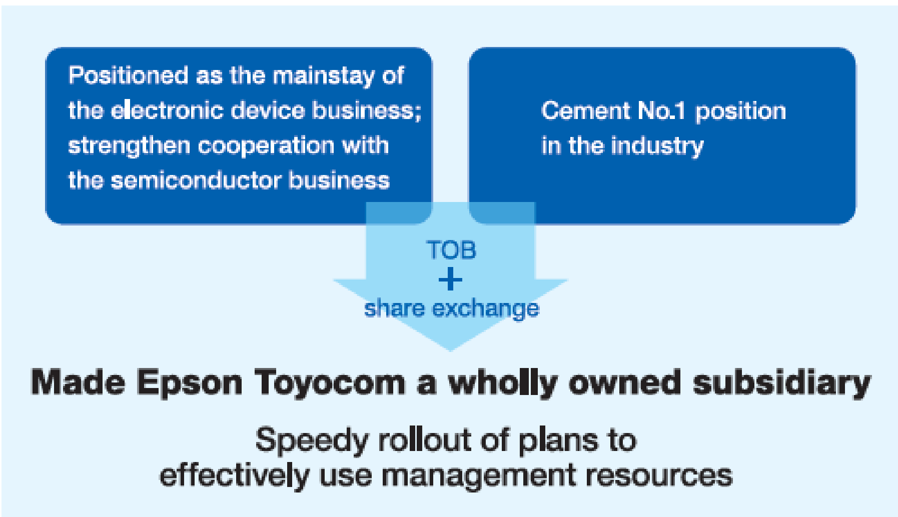
Inkjet printers
In developed countries, Epson will continue to create products that emphasize ease of use and functionality, and which emotionally engage with customers. In emerging markets with growth potential, Epson will look to further respond to the needs of customers. Epson will also continue its efforts to drive down costs as it seeks to reinforce the foundations of its business.
In the business domain, Epson will take full advantage of the benefits of its Micro Piezo technology, including high-speed and high-quality printing, reduced environmental impact, stable print quality, and low running costs. This will enable it to expand usage in the print-on-demand (POD) and office markets.

Commercial and industrial (C&I) inkjet printers
As a result of technical capabilities that allow printing mechanisms to fire minute ink droplets at high speed and which permit a wide range of ink compositions, Epson is looking to widen the scope of its inkjet technology to include manufacturing applications such as LCD color filters, digital textile printers, industrial label printers, etc. In addition to forming strategic alliances, Epson will take advantage of the industrial robot technology of its Factory Automation Operations Division.

Projectors
Epson aims to boost its world-leading projector market share.
In addition to confirming its position as the leading manufacturer of products in the volume zone, Epson aims to establish a firm presence in all price zones by taking advantage of its ability to manufacture high-temperature polysilicon (HTPS) TFT liquid crystal panels (“HTPS-TFT panels”), the key device used in projection systems, with the goal of increasing its presence in the market for high-brightness projectors. Epson will also propose solutions in a wide range of usage scenarios to broaden the scope of projector applications.

Quartz devices
Epson has positioned its quartz device business as the mainstay of its electronic device business. With its market-leading quartz device subsidiary Epson Toyocom Corporation working closely with the Semiconductor Operations Division, Epson has positioned its proprietary micro-sensing devices as a core technology, and will take advantage of sensors and other applications for crystal-related devices as it looks to roll out crystal modules for electronic appliances requiring data input and output.
Confirming its position as the market leader, Epson will strengthen the foundations of its electronic device businesses. To achieve this, Epson has determined that it needs to develop a closer relationship with Epson Toyocom’s management resources. Accordingly, the Company has made Epson Toyocom a wholly owned subsidiary by conducting a TOB and share exchange. By strengthening the capital relationship between the two companies, Epson believes that it will be possible to effectively deploy management resources and speedily roll out the necessary measures.

Direction for Epson Toyocom Corporation



6. Other measures

In accordance with the Mid-Range Business Plan, Epson will continue to transfer resources to growth businesses and strategic businesses. In addition, Epson will steadily replace temporary workers with full-time workers as it seeks to stem the outflow of labor costs.

Other plans call for a review and consolidation of domestic and overseas business sites, strict selection of capital expenditures, and rigorous analysis and selection of research and development themes. These efforts are expected to yield fixed cost savings of approximately ¥20 billion in FY2009.

The benefits expected to be realized as a result of the ¥76.2 billion in business structure improvement expenses and the impairment loss generated by the measures taken in the electronic device businesses are as follows.

Business structure improvement expenses and impairment loss

FY2008
¥76.2 billion

Financial benefits over the next three years

Correct as of March 12, 2009

FY2009	FY2010	FY2011
¥11 billion	¥9 billion	¥6 billion

According to the new Mid-Range Business Plan, Epson, facing harsh economic conditions, will take various measures to return to profitability and transfer its management resources to strategic areas. Epson will steadily move forward with its plan as it seeks to realize the goals of SE15.

* Please refer to the following for a more information about Epson’s business plan:
Explanatory presentation:
http://www.epson.co.jp/e/IR/pdf/20090312_presentation_eng.pdf
Press release:
http://www.epson.co.jp/e/newsroom/2009/news_20090311_2.htm
Interview with the president:
http://www.epson.co.jp/e/newsroom/manage_news/manage_090430.htm

Information on the Company

1. Overview of the business group

The Epson Group (“Epson” or the “Group”), includes Seiko Epson Corporation (“the Company”) and related companies, and is mainly comprised of businesses responsible for the development, manufacture and sales of information-related equipment, electronic devices, precision products, and other products.

Research and development and product development are mainly conducted by the Company. Manufacture 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.

(1) Information-related equipment business segment
This segment comprises the printer business, the visual instruments business and others. This segment mainly includes the development, manufacture and sales of printers, 3LCD projectors, and personal computers (PCs).

Details of the main businesses are as follows.

Printer business
Based on its digital control technologies and digital color image processing technologies, the printer business is responsible for the development, manufacture and sales of products that offer total solutions of color digital data from input through to output. The main products in this business include inkjet printers, page printers, serial impact dot matrix (“SIDM”) printers, large-format inkjet printers and related supplies, color image scanners, mini-printers, point-of-sale (“POS”) system products and others.

Visual instruments business
The visual instruments business is responsible for the development, manufacture and sales of 3LCD projectors, LCD monitors, label writers and others. The manufacture of high-temperature polysilicon (“HTPS”) TFT liquid crystal panels (“HTPS-TFT panels”), which are the key components in 3LCD projectors, is included in the display business.

Others
In the PC business, PCs for the Japanese market are sold through a domestic subsidiary.

The major subsidiaries and affiliates involved in each segment are as follows:

<table>
<tr><th rowspan="2">Business category</th><th rowspan="2">Main products</th><th colspan="2">Main subsidiaries and affiliates</th></tr>
<tr><th>Manufacturing companies</th><th>Sales companies</th></tr>
<tr><td>Printer business</td><td>Inkjet printers, page printers, SIDM printers, large-format inkjet printers and related supplies, color image scanners, mini-printers, POS system products and others</td><td>Tohoku Epson Corporation
Orient Watch Co., Ltd.
Epson Portland Inc.
Epson El Paso, Inc.
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 Europe B.V.
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 business</td><td>3LCD projectors, LCD monitors, label writers and others</td><td>Epson Precision (Hong Kong) Ltd.</td></tr>
</table>

Others	PCs and others	–	Epson Sales Japan Corporation Epson Direct Corporation

(2) Electronic devices business segment
This segment comprises the display business, the quartz device business, and the semiconductor business. This segment mainly includes the development, manufacture and sales of small- and medium-sized LCDs, crystal oscillators and CMOS LSIs.

Based on their ultra-fine and ultra-precision processing technologies, low-power consumption technologies and high-density mounting technologies, businesses in this segment offer a wide range of electronic devices that are compact, thin, and which save energy. Products are aimed at mobile phones and various other applications. Products are also developed and manufactured to respond to the needs of other businesses within the Group.

Details of the main businesses are as follows.

Display business
The display business is responsible for the development, manufacture and sales of small- and medium-sized LCDs mainly for mobile phone terminals, and HTPS-TFT panels for 3LCD projectors, and others.

Quartz device business
The quartz device business is responsible for the development, manufacture and sales of crystal units, crystal oscillators, and optical devices for industrial and consumer products in a wide range of markets.

Semiconductor business
The semiconductor business is responsible for the development, manufacture and sales of CMOS LSIs and others with low drive voltage, low power consumption and high durability mainly for mobile phone terminals and other information communications equipment, and PC peripherals. It also develops semiconductors and base technologies for other Group businesses.

The major subsidiaries and affiliates involved in each segment are as follows:

Business category	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Display business	Small- and medium-sized LCDs, HTPS-TFT panels for 3LCD projectors and others	Epson Imaging Devices Corporation Suzhou Epson Co., Ltd. Epson Imaging Devices (Phils.) Inc.	Epson Imaging Devices Corporation Epson Toyocom 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.
Quartz device business	Crystal units, crystal oscillators, optical devices and others	Epson Toyocom Corporation Orient Watch Co., Ltd. Epson Toyocom Malaysia Sdn. Bhd.	
Semiconductor business	CMOS LSIs and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd.	

(3) Precision products business segment
This segment comprises the watch business, the optical products business, and the factory automation products business. This segment mainly includes the development, manufacture and sales of watches, watch movements, plastic corrective lenses, horizontally articulated robots and others.

Based on their ultra-fine and ultra-precision processing technologies that originated in mechanical watches, and high-density mounting technologies, this segment is the birthplace of Epson’s micromechatronics technologies.

Details of the main businesses are as follows.

Watch business
The watch business is responsible for the development, manufacture and sales of Seiko brand watches and watch movements.

Optical products business
The optical products business is responsible for the development, manufacture and sales of Seiko brand plastic corrective lenses.

Factory automation products business
The factory automation products business is responsible for the development, manufacture and sales of horizontally articulated robots and semiconductor testing equipment known as IC handlers, and industrial inkjet equipment.

The major subsidiaries and affiliates involved in each segment are as follows:

Business category	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Watch business	Watches, watch movements and others	Epson Precision (Hong Kong) Ltd. Singapore Epson Industrial Pte. Ltd.	Time Module (Hong Kong) Ltd.
Optical products business	Plastic corrective lenses and others	Seiko Lens Service Center Corporation	–
Factory automation products business	Horizontally articulated robots, IC handlers, industrial inkjet equipment and others	–	Epson America, Inc. Epson Deutschland GmbH

(4) Other business segment
This segment comprises the businesses of subsidiaries that offer services within Epson, and business incubation projects still in the start-up phase that are aimed at optimizing current management resources.

Details of the main businesses are as follows.

Intra-Group service business
The intra-Group service business comprises subsidiaries providing a wide range of services for Epson. In particular, this includes Epson Logistics Corporation, which is responsible for logistics and export-related services, Epson Insurance Center, which provides insurance services, Epson Facility Engineering Corporation, which is responsible for the maintenance of facilities, and Epson & Nissin Travel Solutions Corporation, which is a travel agent.

Business incubation projects
Business incubation projects develop various projects that Epson is trying to nurture into new businesses.

2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

(1) Seiko Epson Corporation

Correct as of March 31, 2009

Name of plant (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m^2)	Other	Total	
Head Office (Suwa-shi, Nagano)	Overall administration and other	Other facilities	3,426	157	1,301 (43,888) [3,202]	258	5,143	794
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	114	–	– (–)	43	158	91
Hirooka Office (Shiojiri-shi, Nagano)	Information-related equipment, etc.	Printer manufacturing facilities Research and development facilities	24,082	10,177	5,250 (187,305) [27,773]	3,899	43,409	4,281
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Information-related equipment	Mini-printer manufacturing facilities, etc.	1,036	364	3,637 (179,759) [1,758]	568	5,606	626
Shimauchi Plant (Matsumoto-shi, Nagano)	Information-related equipment	3LCD projector component manufacturing facilities	795	353	453 (31,340) [918]	657	2,260	609
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Electronic devices Precision products	Liquid crystal panel and factory automation manufacturing facilities Other facilities	8,747	6,174	1,443 (113,082) [28,909]	1,210	17,576	1,228
Chitose Plant (Chitose-shi, Hokkaido)	Electronic devices	Liquid crystal panel manufacturing facilities	3,043	2,265	1,375 (160,528)	92	6,776	150
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Electronic devices Other	Semiconductor manufacturing facilities Research and development facilities	13,473	6,565	1,996 (247,143)	1,308	23,343	1,523
Sakata Plant (Sakata-shi, Yamagata)	Electronic devices	Semiconductor manufacturing facilities	10,183	1,685	2,104 (538,828)	187	14,160	1,140
Hino Office (Hino-shi, Tokyo)	Electronic devices	Sales facilities	3,837	0	8,303 (40,725)	146	12,288	357
Shiojiri Plant (Shiojiri-shi, Nagano)	Precision products	Watch manufacturing facilities	2,121	1,932	1,019 (41,836) [5,764]	449	5,522	685
Matsushima Plant (Minowa-machi, Kamiina-gun, Nagano)	Precision products	Plastic corrective lens manufacturing facilities	1,609	1,624	421 (8,931) [31,978]	161	3,817	444

(2) Domestic subsidiaries

Correct as of March 31, 2009

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m^2)	Other	Total	
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Information-related equipment Electronic devices	Printer component and semiconductor manufacturing facilities	6	4	– (–)	428	439	772
Epson Imaging Devices Corporation (Azumino-shi, Nagano)	Electronic devices	LCD manufacturing facilities	2,753	19	636 (183,658) [47,687]	–	3,409	2,087
Epson Toyocom Corporation (Hino-shi, Tokyo)	Electronic devices	Crystal device manufacturing facilities	7,898	7,485	7,609 (266,923) [12,265]	486	23,479	2,008
Orient Watch Co., Ltd. (Chiyoda-ku, Tokyo)	Information-related equipment Electronic devices	Printer component and quartz device manufacturing facilities	1,664	511	761 (202,126)	290	3,227	1,345

(3) Overseas subsidiaries

Correct as of March 31, 2009

Company name (location)	Business segment	Type of facilities	Book value (Millions of yen)					Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area: m²)	Other	Total	
Epson Precision (Hong Kong) Ltd. (Hong Kong, China)	Information-related equipment Precision products	Printer, mini-printer, visual instrument and watch manufacturing facilities	2,860	3,203	— (—) [64,104]	2,080	8,143	11,928
Singapore Epson Industrial Pte. Ltd. (Singapore)	Information-related equipment Electronic devices Precision products	Scanner, semiconductor and watch manufacturing facilities	2,503	2,354	55 (41,065) [41,567]	362	5,275	4,319
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Information-related equipment	Printer manufacturing facilities	1,675	1,011	— (—) [137,131]	1,210	3,898	6,369
Epson Precision (Philippines), Inc. (Cabuyao, Philippines)	Information-related equipment Electronic devices	Printer and crystal device manufacturing facilities	1,705	323	60 (17,489) [173,200]	291	2,382	3,869
Epson Toyocom Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Electronic devices	Crystal device manufacturing facilities	370	1,587	315 (32,437)	34	2,306	2,556

Notes

1. The above figures do not include consumption tax.
2. “Other” in book value figures includes tools, furniture and fixtures and other property, plant and equipment, but does not include construction in progress.
3. Portions of the land are rented from companies not included in consolidated accounts. Each area of the rented land is indicated in parenthesis [ ].
4. Figures for Orient Watch Co. Ltd., Epson Precision (Hong Kong) Ltd., Singapore Epson Industrial Pte. Ltd. and Epson Precision (Philippines), Inc. are included in consolidated business results.
5. The above book value amounts are after adjustments for consolidated accounts.

3. Overview of capital expenditures

Capital expenditures for the fiscal year under review were concentrated in key strategic areas including new products, developing new businesses, and preparing for future growth. In addition, Epson made moves to restrain new capital spending and efficiently utilize existing facilities in an effort to improve cash flow.

As a result of these efforts, total capital expenditures (including property, plant and equipment, software and lease rights) came to ¥55,624 million.
No equipment with a significant impact on production capacity was sold or removed.
Capital expenditures in each business segment are discussed below.

Information-related equipment
Investment for commercializing new products, and for maintaining and renewing equipment and facilities for printers and 3LCD projectors amounted to ¥26,303 million in the fiscal year under review.

Electronic devices
Investment for commercializing new products, and for maintaining and renewing equipment and facilities for small- and medium-sized LCDs, quartz devices amounted to ¥20,273 million in the fiscal year under review.

Precision products
Investment for commercializing new products, and for maintaining and renewing equipment and facilities for watches and plastic corrective lenses amounted to ¥3,685 million in the fiscal year under review.

Other businesses and company-wide
Investment in R&D and other activities amounted to ¥5,363 million in the fiscal year under review.

4. Plans for new additions or disposals

Epson plans to invest ¥58 billion in capital expenditures for the consolidated fiscal year ended March 31, 2010. The breakdown by business segment is as follows.

Business segment	Planned amount of capital expenditures (100 millions of yen)	Main types and purposes of equipment and facilities
Information-related equipment	270	Investment for commercializing new products, and for maintaining and renewing equipment and facilities for inkjet printers, 3LCD projectors, etc.
Electronic devices	200	Investment for commercializing new products, and for maintaining and renewing equipment and facilities for crystal devices, small- and medium-sized LCDs, etc.
Precision products	40	Investment for commercializing new products, and for maintaining and renewing equipment and facilities for watches, plastic corrective lenses, etc.
Other and overall	70	Investment for research and development, etc.
Total	580	–

Notes

1. The above amounts do not include consumption tax.
2. Required funds will be covered by current funds in hand.
3. There are no plans to dispose of or sell major equipment and facilities with the exception of disposals and sales associated with regular and ongoing renewals.
4. The above capital expenditure plan includes property, plant and equipment as well as software and lease rights that are included among intangible assets.

5. Major management contracts

(1) Technology license agreements

Name of contracting company	Name of other party	Country	Type of contract	Contract period
Seiko Epson Corporation	Agere Systems Inc.	U.S.A.	License to use patents relating to semiconductor equipment	January 1, 2005 to December 31, 2009
Seiko Epson Corporation	Research Corporation Technologies, Inc.	U.S.A.	License to use patents relating to printing technologies for printers	December 22, 2000 until the expiry of the patents

(2) Reciprocal technical assistance agreements

Name of contracting company	Name of other party	Country	Type of contract	Contract period
Seiko Epson Corporation	Hewlett-Packard Company	U.S.A.	License to use patents relating to inkjet printers	January 1, 2005 until the expiry of the patents
Seiko Epson Corporation	International Business Machines Corporation	U.S.A.	License to use patents relating to information-related equipment	April 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Microsoft Corporation	U.S.A.	License to use patents relating to information-related equipment and software used by such equipment	September 29, 2006 until the expiry of the patents
Seiko Epson Corporation	Eastman Kodak Company	U.S.A.	License to use patents relating to information-related equipment	October 31, 2006 until the expiry of the patents
Seiko Epson Corporation	Xerox Corporation	U.S.A.	License to use patents relating to electrophotography and inkjet printers	March 31, 2008 until the expiry of the patents
Seiko Epson Corporation	Texas Instruments Incorporated	U.S.A.	License to use patents relating to semiconductors and information-related equipment	April 1, 2008 until March 31, 2018
Seiko Epson Corporation	Canon Incorporated	Japan	License to use patents relating to information-related equipment	August 22, 2008 until the expiry of the patents

(3) Share exchange contract

A Seiko Epson Corporation board of directors' meeting held on April 30, 2009, decided to hold a share exchange by which Seiko Epson would become a 100% parent company of Epson Toyocom Corporation. The share exchange contract was concluded on the same day.

Risks Related to Epson's Business Operations

1. Epson relies to a significant degree on sales and profits from its printer business
Epson's ¥767,355 million in sales from its information-related equipment business for the year ended March 2009 constituted 68.4% of its consolidated sales, which were ¥1,122,497 million (excluding inter-segment). Inkjet and other printers and their consumables accounted for much of the sales and profits of the information-related equipment business. There is a possibility that fluctuating sales of inkjet printers and their related supplies will have a material adverse effect on Epson's results.

2. Price competition causes a downward trend in prices
Market prices of information-related equipment have been on a continuous decline because of a recent intensification of competition and a shift in demand toward low-price products. Intensifying competition or an excess of supply in mobile communications devices and related devices is currently driving a decline in prices of electronic components for mobile communications devices, such as color LCDs and semiconductors, and could similarly affect other products. Epson is striving to improve profitability by reducing production costs, for example, by using low-cost designs, and is taking measures to fight the trend of declining prices, for example, by expanding sales of high-value-added products. However, there is no assurance that these efforts will succeed, and if Epson is unable to respond effectively to counteract the downward price trend, its results might be adversely affected.

3. Epson's technologies compete with the technologies of other companies
Some of the products that Epson sells contain technology that place Epson in competition against other companies. For example:

1) Epson's Micro Piezo technology[*1] that it uses in its inkjet printers competes with the thermal inkjet technologies[*2] of other companies; and
2) Epson's 3LCD technology[*3] that it uses in its projectors competes with other companies' DLP[*4] and LCOS[*5] technologies.

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

*1. Micro Piezo technology is an inkjet printer technology created by Epson that manipulates so-called piezoelectric elements to fire small droplets of ink from the printer nozzle.
*2. Thermal inkjet technology is a type of technology for printers whereby the ink is heated to create bubbles and the pressure from the bubbles is used to fire the ink (also sometimes referred to as bubble jet technology).
*3. 3LCD technology is a technology whereby TFT panels are used as light valves. The light from the light source is divided into the three primary colors (red, blue and green) using special mirrors, the picture is created on separate LCDs for each color and then the picture is recombined and projected on the screen.
*4. The DLP technology is a technology that uses a digital micro-mirror device (DMD) as a display device. A DMD is a semiconductor on which between hundreds of thousands and millions of micro mirrors are arranged, each mirror directing light onto its own individual pixel, and the image is created by the light from the light source being reflected from the mirrors onto the screen. DLP and DMD are trademarks of Texas Instruments Incorporated.
*5. LCOS technology is a technology that uses liquid crystal on silicon (LCOS) as a display device. It is characterized by the extremely large number of openings on the surface of the reflective LCD panel. Because the circuits and the switching elements are etched underneath the reflective layer, there is no need for the BM (a light-blocking layer that prevents light from falling on the pixel transistor area), making for a seamless display of the picture.

4. Epson might experience a reduction in the market share of genuine consumables
Consumable products for inkjet printers – ink cartridges – are particularly important to Epson's sales and profit. There are other parties who supply ink cartridges that can be used in Epson printers. These alternative products are sold at prices cheaper than genuine Epson ink cartridges, and while they have relatively low market share in Japan and the United States, they have high market share in certain Asian

countries. Against the risk posted by a decline in the share of genuine ink cartridges, Epson's policy is to continue to earn the support of its customers by maintaining and improving the quality of its genuine products and by striving to boost user-friendliness by using even longer lasting ink and creating application-specific inks. Epson will also take legal measures if any of the patent rights or trademark rights it holds over its ink cartridges are infringed.
There is no assurance, however, that any of these efforts will be effective, and if Epson's sales from consumable products for inkjet printers declines because, for example, in the future the market share of non-genuine ink cartridges increases further or Epson must reduce the prices of its brand products, then Epson's results might consequently be adversely affected.

5. A change in the market could affect Epson

Epson is concentrating management resources on core businesses in which it can leverage its unique strengths – printers, projectors, quartz devices and sensors – and on future growth areas as it seeks to strengthen its business foundations, while at the same time also cultivating new businesses that will support the next generation.
However, because technological innovation and product cycles are extremely fast changing in markets that Epson is focusing its managerial resources on, the Company may be unable to respond flexibly to such changes and develop and introduce competitive products. In addition, reduced consumption and capital expenditure in Epson's main markets stemming from the current economic recession has affected demand for the Company's products, and may do so in the future. If, for example, Epson cannot respond appropriately to the technological innovations in its main markets, and the economic recession and other reasons prevent a recovery in demand, Epson's results could consequently be adversely affected.

6. Trends in the electronic devices market might adversely affect Epson

The electronic devices market, including semiconductors and mobile communication devices, has various trends that reflect product life cycles and the economic environment. History shows that large declines in the industry are cyclical. When they occur, demand softens, there is oversupply, and prices fall.
The tough conditions in the market for electronic devices including semiconductors and for devices for mobile communication equipment are continuing. If this situation is prolonged, and the market deteriorates further, Epson's operating results could be affected. There is also no assurance that Epson can always accurately predict future trends, and it is possible that Epson might not be able to make investments that are timely or appropriate enough to respond to market trends.

7. Epson competes with other companies

Epson presently faces competition from powerful companies with abundant financial resources or strong financial compositions, and from companies in such countries and regions as Taiwan, Korea, or China that have the ability to manufacture competitive products or compete on price level in Epson's markets. This competition could adversely affect Epson's results.
In addition to such competition, there is also the possibility that powerful companies Epson is not currently in competition with may use their brand power, technological strength, ability to procure funds, marketing power, sales skills or low-cost production ability to newly enter a business area of Epson's and compete with it.

8. Expanding businesses overseas entails risks for Epson

Epson is continuing to expand its businesses overseas; 67.2% of its consolidated sales for the business year ended March 2009 were overseas sales. Epson has production sites all over Asia, including China, Indonesia, Singapore and Malaysia, as well as in the United States, the United Kingdom, Mexico, and other countries. It has also established many sales companies all over the world. Epson's employees overseas as of March 2009 accounted for approximately 70% of its overall employees.
Epson believes that this global expansion makes it possible to undertake market activities that precisely ascertain the market needs of each individual region and has many merits, such as leading to the securing of high cost-competitiveness through cuts in production costs and reduced lead times. There are, however, unavoidable risks related to producing and selling products overseas that come with expanding businesses overseas, some of which are changes in government laws, ordinances, or regulations related to production and sales, social, political or economic changes, transport delays, damage to infrastructure (e.g., power supply), restrictions on currency exchanges, insufficient skilled labor, changes in regional labor environments, changes in taxes, regulations or the like protective of trade, and laws, ordinances,

regulations, or the like related to the import and export of Epson products.

9. The intense technological innovation required of Epson entails risks

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

The rate of technological innovation required in most of the fields in which Epson is engaged, however, is so intensely fast, that in order to respond swiftly to customer needs in the face of changes in technology, Epson sometimes must undertake long-term investments or capital spending based on product predictions. Thus, while Epson is making every effort to gauge market and customer needs and will maneuver to respond to the intense technological innovation on which they depend, if Epson is unable to accurately gauge those market trends or customer needs, it may not be able to appropriately respond to the required technological innovations, and its results might be adversely affected.

10. The short lifecycle of certain products makes Epson vulnerable to certain risks

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

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

11. Procuring products and outsourcing the manufacture of products entails risks for Epson

Epson procures parts, semi-finished products and finished products from third parties, but it has generally conducted transactions without entering into any long-term purchase agreements. Epson is developing upon its efficient procurement activities by cooperatively engaging with such suppliers in maintaining product quality, improving products and reducing costs. However, if its ability to procure was to be adversely affected by, for example, insufficient supply from a third party, poor quality of products supplied or the like, then Epson's results could consequently be adversely affected. Epson strives to, in principle, procure parts and the like from multiple suppliers, but there are some cases in which it can only procure parts from one company due to the difficulty of procuring an alternative component from another company. One such example is actuators, which are the primary component of the print heads in medium- and low-price inkjet printers. On the manufacturing side of its business, Epson outsources the manufacturing of certain products, such as page printers and inkjet printers in the low price range, image scanners and computers. If demand for such products rises suddenly, it will become difficult to secure alternative or additional manufacturers to outsource to, and Epson might become vulnerable to such risks as an increase in costs or a delay in production.

12. Epson faces risks concerning the hiring and retention of personnel

It is vital that Epson hire and retain talented personnel both in Japan and overseas for the development and manufacture of Epson's advanced new technologies and products, but the competition for recruiting personnel is becoming increasingly intense. Epson is putting considerable effort into securing talented personnel by establishing research and development sites and design sites both in Japan and overseas. If Epson is unable to continue to use or employ an adequate number of talented personnel, however, the implementation of its business plans could be adversely affected.

13. Fluctuations in foreign currency exchanges create risks for Epson
A significant portion of Epson's sales are denominated in U.S. dollars or the euro. Epson is continuing to expand its overseas procurement and move its production sites overseas, thereby attracting an increase in expenses in foreign currencies linked to the euro or U.S. dollar, and, although its U.S. dollar-denominated sales countervail its U.S. dollar-denominated expenses, its euro-denominated sales are still greater than its euro-denominated expenses. Also, although Epson has executed currency forwards and currency options to hedge against the risks inherent in foreign currency exchanges, unfavorable movements in the exchange rates of foreign currencies such as the U.S. dollar or euro against the yen could adversely affect Epson's financial situation or business results.

14. There are risks inherent in pension systems
Epson has established a defined-benefit pension plan (fund-type), a defined-benefit pension plan (contract-type), a tax qualified pension plan and a termination allowance plan.
If, with respect to the defined-benefit pension-type retirement pension plan, there is a change in the operating results of the pension assets or in the ratio used as the basis for calculating retirement allowance liabilities, Epson's results could consequently be adversely affected.

15. Epson's intellectual property rights activities expose Epson to certain risks
Patent rights and other intellectual property rights are extremely important to Epson for maintaining its competitiveness. Epson has itself developed many of the technologies it needs, and it utilizes them as intellectual property in the form of products or technologies by acquiring patent rights, trademark rights and other intellectual property rights for them or entering into agreements with other companies for them. Epson carefully selects the personnel who manage its intellectual properties and is constantly working to strengthen its intellectual property portfolio.
If, however, any of the following situations relating to intellectual properties occurs, Epson's results could consequently be affected.
1) An objection might be raised or an application to invalidate might be filed against an intellectual property right of Epson, and as a result, that right might be recognized as invalid.
2) A third party to whom Epson originally had not granted a license might come to possess a license as a result of a merger with or acquisition of another third party, and Epson's competitive advantage that it had due to that license might consequently be lost.
3) New restrictions might be imposed on an Epson business that were originally not imposed on it as a result of a merger with or acquisition of a third party, and it might be forced to spend money to find a solution to those restrictions.
4) Intellectual property rights that Epson holds might not give it a competitive advantage or Epson might not be able to use them effectively.
5) Epson or one of its customers might be subject to a third-party's claim of an infringement of intellectual property rights and have to spend a considerable amount of time and money to resolve the issue, or such a claim might interfere with Epson's management or focusing of managerial resources.
6) If a third-party's claim of infringement of intellectual property right is upheld, Epson might incur damage in the form of having to pay considerable compensation or royalties or stop using the applicable technology.
7) A suit might be brought against Epson for payment of remuneration to employees or the like for their inventions or the like, which would mean Epson might be forced to spend a considerable amount of time and money to resolve the issue and, as a result, might be required to pay a considerable amount of money in remuneration.

16. Problems may arise relating to the quality of Epson's products
The existence of quality guarantees on Epson's products and the details of those guarantees differ from customer to customer, depending on the agreement it has entered into with them. If there is a defect in an Epson product or it does not conform to the required standard and consequently costs must be incurred to repair defects (such as by replacing or repairing the product) or the product causes damage to a person or property, then there is a possibility Epson might be subject to, for example, product liability.
Also, Epson might be held liable to a customer and might incur expenses for repairs or corrections on the grounds that it did not adequately display or explain an Epson product's performance. Furthermore, if such a problem in quality arises with respect to Epson products, Epson might lose the trust of others in its products, lose major customers or experience a drop in demand for those products, any of which might adversely affect Epson's results.

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

18. Epson is vulnerable to proceedings relating to antitrust laws and regulations
As it expands its business globally, Epson is subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and protecting fair trade. Overseas authorities sometimes investigate and gather information on certain industries and as part of this, Epson's market conditions and sales methods may come under investigation. In the case that such investigations and proceedings take place, there is the risk that Epson's sales activities could be obstructed and, if such a situation should occur, Epson's results could be adversely affected.
In December 2006 Epson received instructions and notices to respond to inquiries from the Japanese Fair Trade Commission and competition authorities in the United States, the European Union and elsewhere relating to allegations concerning a TFT-LCD price-fixing cartel. Epson is presently submitting materials and taking other measures to respond to these inquiries. It is difficult to forecast the results of these inquiries, including the possibility of any punitive actions or the timing. Civil lawsuits relating to this matter have been brought before courts in both the United States and Canada.

19. Epson is at risk of material legal actions being brought against it
Epson conducts its businesses both in Japan and overseas; its primary businesses being the development, manufacture and sale of information-related equipment, electronic devices and precision equipment. Given the nature of its businesses, there is a possibility that an action could be brought or legal proceedings could be started against it regarding, for example, intellectual property rights, product liability, antitrust laws or environmental regulations. Should that happen, public confidence in Epson might suffer, and resolving and responding to the issue might entail considerable expense and management resources. The results of the action or legal proceedings might also adversely affect Epson's results or the development of Epson's business in the future. As of the date it submitted its Annual Securities Report, Epson was contending the following material actions.
In Germany, the organization for collecting copyright fees on behalf of copyright holders, Verwertungsgesellschaft Wort ("VG Wort"), has brought a series of legal actions seeking payment of copyright fees against importers and venders of PCs, printers and other digital equipment that is capable of reproducing copyrighted works.
In January 2004 VG Wort brought a civil action against Epson Deutschland GmbH ("EDG"), a consolidated subsidiary of the Company, to seek payment of copyright fees on single-function printers. The initial judgment determined that the aforementioned printer is subject to a copyright fee and decreed that EDG pay the fee at a rate of between 10 to 256.70 euros per printer depending on the printer's printable pages per minute, however, the claim was dismissed by both appeals court, and then supreme court judgments. The plaintiff has expressed dissatisfaction with this ruling, and has appealed to the Federal Constitutional Court of Germany.
For multi-function printers, the BITKOM industry association, of which EDG is a member, and the VG Wort agreed to settlement terms regarding the payment of certain fees for copyrighted works. EDG endorsed the terms of the settlement agreement, meaning it has agreed to pay a certain amount in copyright fees.
Companies in general, including Epson, and industry organizations, are taking a stance opposing the expansion of the scope of such copyright fees. Although at this point it is difficult to predict the result of the appeal or even when a decision in the current proceedings will be handed down, if the results of the legal actions or procedures are unfavorable to Epson, Epson's results or future business expansion might consequently be affected.

(20) Epson is vulnerable to certain risks in internal control over financial reporting
Epson has established and operates internal control with the aim of ensuring the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with applicable laws and regulations relevant to business activities and safeguarding of assets. In accordance with the Japanese Financial Instruments and Exchange Act, Epson also submits an Internal Control Report that assesses the effectiveness of internal control over financial reporting.
To respond to this, Epson has positioned the establishment and operation of internal control as an important management issue. However, in the fiscal year ended March 2009, the Company discovered that improper accounting practices had been employed in Latin American subsidiaries affecting the fiscal year in question and also previous years. The resulting investigation into the causes of the improper accounting practices and the process of making appropriate adjustments to the final accounts settlement were time consuming and meant that Epson was unable to submit its third quarterly report for fiscal 2008 (ended March 2009) and certification by the deadline prescribed by the Financial Instruments and Exchange Act. As a result of its internal investigation, Epson concluded that part of the cause of the improper accounting practices and the delay in discovering these practices were deficiencies in internal control over financial reporting. In the Internal Control Report submitted at the same time as its Annual Report, Epson stated that its internal control over financial reporting was ineffective.
As it seeks to prevent a recurrence, Epson is presently working on a Group level to review and improve its management of subsidiary companies. To maintain the effectiveness of its measures to prevent a recurrence, Epson has established a monitoring committee and will carefully review the progress of the improvements.
However, in the case that Epson’s improvements are not effective, or if there are further deficiencies or material weaknesses in the internal control, there is the risk that it could adversely affect the reliability of Epson’s financial reporting.

21. Epson is vulnerable to risks inherent in its tie-ups with other companies
One of Epson’s business strategy options is to enter business tie-ups with other companies. If there is any review of the arrangements of the tie-up between the parties, however, there is a possibility the tie-ups will be dissolved or be subject to changes. There is also no assurance that the business strategy through the tie-ups will succeed or contribute to Epson’s results exactly as expected.

22. Epson might be severely affected in the event of a natural disaster
Epson is undertaking a global expansion of its sites for research and development, procurement, manufacturing, logistics, sales and services. It is possible that the regions concerned could be affected by any number of unpredictable events, such as a natural disaster, computer virus, outbreak of an influenza pandemic, act of terrorism or war, and that Epson’s results might consequently be affected.
In particular, the central area of Nagano Prefecture, where Epson has sites for its primary businesses, is a region at particularly high risk of earthquakes. There are numerous cities and towns in that region designated as “Areas Requiring Enhanced Measures to Respond to Disasters in Earthquakes” due to high degree of risk of a large-scale disaster in the event of an earthquake in the Tokai region; and an active fault line also traces the Itoigawa Shizuoka geotectonic line through the middle of the Nagano Prefecture region.
The areas classifiable as Areas Requiring Enhanced Measures to Respond to Disasters in Earthquakes were revised in April 2002, so Epson had to revise its earthquake-response policy, look into strengthening numerous buildings that were not built to resist earthquakes, take measures to avoid losses of materials for important parts, and create plans to prevent damage from earthquakes. Epson is also conducting other countermeasures such as partially dispersing its manufacturing sites throughout other regions.
However, if a major earthquake occurs in the central Nagano Prefecture region, it is possible that, despite these countermeasures, the effect on Epson could be extreme.
Although Epson is insured against physical damage in the event of an earthquake, there is still a limit on the amount up to which Epson is covered for such damage.

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

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

24. Laws and regulations pose risks for Epson

Epson has businesses in which products require permission or licenses under laws and regulations, such as its plastic corrective lenses, which are subject to regulations of relevant authorities as they are considered medical equipment in Japan. Such products do not represent a high percentage of Epson's overall sales or profit, but Epson is subject to the permission and other regulations of relevant authorities in its manufacturing and manufacturing/sales of those products in Japan.

Also, because the plastic corrective lenses, which are manufactured by Epson, are sold in the United States, Europe and Asia by a distributor subsidiary of Seiko Holdings, Epson is also subject to certain regulations in these regions. For example, relevant authorities in the United States generally make it compulsory to carry out tests of new products and to keep designated records relating to those products. Regulations governing medical devices in Japan, the United States and other regions have changed in the past, so there is a possibility that they will change again in the future. If they do, there is a possibility the changes might impede the manufacture and sale of Epson's products and thereby adversely affect Epson's results.

Business Conditions

1. Overview of business results

(1) Operating results

The effects of the financial crisis that began in the United States spilled over into the real world economy throughout the second half of the fiscal year under review, setting off a global recession that rapidly intensified. The Japanese economic picture also worsened during the second half, with capital expenditures and exports declining in step with the global economic slowdown, triggering declines in production and corporate earnings, along with a rapid deterioration in the employment situation.

The situation in the main markets of Epson was as follows.
In inkjet printers it became evident that the market was trending toward a year over year decline as the recession deepened. The serial-impact dot-matrix ("SIDM") printer market remained soft. Despite a steady performance in China and some other countries, SIDM sales were impacted by shrinking markets in Europe, the United States and Japan and the effects of the recession. Likewise, the market for point-of sales ("POS") systems saw muted demand for receipt printers as retailers sought to curb their spending due to the economic downturn.
In the projector market, business projector sales in the first half were on pace to exceed the fiscal 2007 numbers until the second half, when the sudden economic downturn caused the growth rate to decline.
Many of the main applications for small- and medium-sized LCDs have also been affected by the recession. In the mobile phone handset market, new demand for low-end phones in the emerging economies of Africa, the Middle East and Asia, most notably China and India, either peaked out or weakened after a period of steadiness that extended across the first half of the fiscal year. At the same time, upgrade demand for 3G phones in Europe, the United.States and Japan plummeted. The rate of growth in PDA phones, digital cameras and portable media players ("PMPs") also fell sharply.
Meanwhile, however, the markets for Epson's information-related equipment and electronic device products suffered from continued price erosion due to fierce competition in every segment and a relentless shift of demand toward the low-price zone.
In our precision products segment, demand for watches and semiconductor manufacturing equipment softened as a result of the recession, while eyeglass lens revenues suffered from continued price erosion.

To succeed in this very challenging business environment, Epson engaged in a number of key projects in fiscal 2008.
First, in the inkjet printer business Epson aimed to sustain unit sales growth by launching highly competitive products and by adopting a marketing strategy designed to expand print volume. We also continued to groom our business and industrial inkjet technology into a core business and source of future earnings. Toward this end, we continued to fortify our efforts to penetrate segments where we can leverage the advantages of our Micro Piezo technology.
Epson also made strides in transforming its small- and medium-sized display business by further concentrating management resources on amorphous-silicon TFT LCDs ("a-TFTs") and low-temperature polysilicon TFT LCDs ("LTPS") and by seeking to reduce dependence on mobile phone handset demand with an ongoing effort since last year to capture business opportunities in other markets.
However, the transformation of the small- and medium-sized displays and semiconductor businesses stalled due to the sudden downturn, and Epson, concluding that improving the profitability of these businesses within the current framework would be difficult, took bold new action based on its SE15 Long-Range Corporate Vision. As a result of these actions, Epson recorded business structure improvement expenses and an impairment loss totaling ¥76,244 million. At the same time, tax payments amounted to ¥26,188 million as Epson wrote-down deferred tax assets due to the deterioration in profitability.

The average exchange rates of the yen against the US dollar and of the yen against the euro during the year under review were ¥100.53 and ¥143.48, respectively. This represented a 12% appreciation in the value of the yen against the dollar and an 11% appreciation in the value of the yen against the euro compared to the prior year.

Consolidated net sales were ¥1,122,497 million, down 16.7% year over year. Operating loss was ¥1,588 million versus operating income of ¥57,577 million last year. Ordinary income was ¥5,301 million, down 91.6% from the prior year. And net loss was ¥111,322 million, compared to a net profit of ¥19,093 million in the previous year.

The operating results by business segment are summarized below.

Information-related equipment
The printer business as a whole saw net sales sharply decline. Inkjet printer (including consumables, as in all printer discussions in this section) net sales were constrained primarily by yen appreciation, a decline in unit shipments, and an increase of units in the low-price zone as a percentage of total sales. SIDM printer and terminal module sales were weighed down by the effects of a strong yen and a decline in demand as the recession deepened. With the economy slumping, page printer unit shipments declined in the face of fierce competition and a flagging market.

The visual instruments business also reported lower net sales. Although 3LCD projector unit shipments increased, net sales were tempered by the effects of yen appreciation and price erosion.

Operating income in the information-related equipment segment declined. Income was hit primarily by the appreciation of the yen in combination with erosion in prices for inkjet printers and 3LCD projectors and declines in unit shipments of SIDM printers and POS system products.

As a result of the foregoing factors, net sales in the information-related equipment segment were ¥769,850 million, down 14.7% year over year, while operating income was ¥30,143 million, down 63.8% year over year.

Electronic devices
The display business as a whole posted sharply lower net sales despite increased first-half demand for a-TFTs from a steady mobile phone handset market. Net sales were weighed down by a decline in demand for LTPS used in digital cameras. Sales of HTPS for 3LCD projectors were hurt by a sudden slowing of projector market growth in the second half. Unit shipments of both MD-TFD LCDs ("TFD"), a business Epson is scheduled to terminate, and color STN LCDs ("CSTN"), a business where production operations are to be significantly downsized, declined.

The quartz device business saw net sales plummet due to the recession and steep production adjustments in a host of applications, including mobile phone handsets, digital cameras and digital home electronics.

Semiconductor business net sales fell sharply. Several factors contributed to the decline, including a cutback in unit shipments of LCD drivers to handset manufacturers as part of strategic changes to the product mix, declines in unit shipments of other products as the economy went into recession, and the effects of yen appreciation.

Electronic devices segment losses expanded. Although operating income benefited from the cost reductions that accompanied structural changes in the display business and from increased unit shipments of a-TFTs, profitability rapidly deteriorated due to significant declines in quartz device and semiconductor business revenues.

As a result of these factors, net sales in the electronic device segment were ¥311,626 million, down 21.1% year over year, while operating loss was ¥18,249 million versus operating loss of ¥17,167 million in the year ago period.

Precision products
The precision products segment reported lower operating income as net sales dropped due to a decline in watch and IC handler unit shipments.

As a result of the foregoing factors, net sales in the precision products segment were ¥72,697 million, down 13.4% from the prior year. Operating loss was ¥1,907 million, compared to operating income of ¥2,733 million in the year ago period.

The operating results by geographic segment are summarized below.

Japan
Inkjet printer, TFD, page printer, CSTN, crystal device, terminal module, 3LCD projector and SIDM

printer net sales declined. Net sales were ¥998,471 million down 16.3% year over year, while operating loss was ¥44,478 million versus operating income of ¥20,444 million last year.

The Americas
Amorphous TFT net sales increased, while net sales from inkjet printers, terminal modules, 3LCD projectors and SIDM printers declined. Net sales were ¥242,881 million, down 13.9% year over year, while operating income was ¥4,817 million, down 46.0% from the previous year.

Europe
Europe reported lower net sales from inkjet printers, page printers and SIDM printers. Net sales were ¥244,108 million, down 18.5% from the prior year, while operating income was ¥10,170 million, up 76.9% year over year.

Asia/Oceania
TFD, inkjet printer, CSTN, crystal device, page printer and a-TFT net sales declined. Net sales were ¥609,573 million, down 18.9% from the prior year, while operating income was ¥16,987 million, down 24.4% year over year.

(2) Cash flow performance

Cash flows from operating activities during the year under review were ¥44,253 million. They consisted primarily of a loss before income taxes and minority interests of ¥89,559 million, ¥78,406 million in depreciation and amortization, and ¥50,239 million decrease in notes and accounts receivable-trade. Cash flows from investing activities were ¥61,002 million in outflows, primarily due to ¥60,081 million in capital expenditures in the electronic devices and information-related equipment segments.Cash flows from financing activities were negative ¥9,558 million, chiefly due to repayment of lease obligations totaling ¥7,795 million and cash dividends paid totaling ¥6,872 million.
As a result, cash and cash equivalents at end of period was ¥284,340 million.

* Please refer to the following for historical information about Epson’s financial results:
http://www.epson.co.jp/e/IR/investor_relations_fr_archive.htm

2. Manufacturing, orders received and sales

(1) Actual manufacturing

The following table shows actual manufacturing information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2009 (From April 1, 2008 to March 31, 2009) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	784,623	90.1
Electronic devices	271,474	79.0
Precision products	70,330	88.2
Other	1,372	134.5
Total	1,127,801	87.1

Notes

1. The above figures are based on sales prices. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. The above figures include outsourced manufacturing.

(2) Orders received

Epson’s policy is to manufacture products based on sales forecasts. Accordingly, this section does not apply.

(3) Actual sales

The following table shows actual sales information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2009 (From April 1, 2008 to March 31, 2009) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	767,355	85.2
Electronic devices	279,845	77.7
Precision products	71,359	86.1
Other	3,937	89.0
Total	1,122,497	83.3

Notes

1. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. No customer accounts for more than 10% of the actual total sales.

3. Analysis of financial condition and results of operations

(1) Analysis of operating results

Net sales

Consolidated net sales decreased ¥225,344 million, or 16.7%, to ¥1,122,497 million compared with the previous consolidated fiscal year.

Net sales by business segment are summarized as follows.

In the information-related equipment segment, sales declined ¥133,120 million, or 14.7%, to ¥769,850 million. The following major factors contributed to the decrease.

Sales of inkjet printers were affected by a stronger yen in addition to a higher proportion of low-priced consumer products and lower demand for business products due to the steep economic downturn. POS system products were impacted by yen appreciation and by lower sales volume of POS system products as a result of retailers curbing investment due to the recession. SIDM printers had robust demand in China and other emerging economies, but were also impacted by a shift to low-priced products and a stronger yen. Shipments of page printers were down on intensified competition and a market slump due to poor economic conditions. Meanwhile, 3LCD projectors were affected by yen appreciation and lower prices.

In the electronic devices segment, sales were down ¥83,570 million, or 21.1%, to ¥311,626 million. The following major factors contributed to the decrease.

Sales volume was down for CSTN, production of which is scheduled to be scaled back, and for TFD, a business that is to be terminated. The quartz device business was impacted by rapid production adjustments in mobile phone handsets, digital cameras, digital home electronics and many other applications as a result of the economic downturn. In addition to reduced shipments of color LCD drivers for mobile phones as part of the realignment of the product mix, the semiconductor business suffered from yen appreciation and lower demand for other products due to the weakened economy.

In the precision products segment, sales declined ¥11,229 million, or 13.4%, to ¥72,697 million. The primary factors behind this decrease were lower sales volumes in watches and IC handlers.

In the other segment, sales increased ¥2,704 million, or 9.3%, to ¥31,828 million.

Cost of sales and gross profit

The cost of sales decreased ¥146,338 million, or 14.9%, to ¥833,053 million, while the cost of sales ratio rose 1.5 percentage points, to 74.2%. The decrease in the cost of sales was due to lower revenue and yen appreciation. The rise in the cost of sales ratio mainly reflects the inability of fixed cost reductions in the information-related equipment segment to keep up with the rapid decline in sales.

As a result, gross profit declined ¥79,005 million, or 21.4%, to ¥289,443 million. The gross profit margin ratio dropped 1.5 percentage points, to 25.8%.

Selling, general and administrative expenses and operating income (loss)

Selling, general and administrative (SG&A) expenses declined ¥19,840 million, or 6.4%, to ¥291,031 million. This was due to a combination of yen appreciation and reductions of ¥7,637 million and ¥4,188 million in salaries and wages and advertising.

All of these factors resulted in an operating loss of ¥1,588 million, down ¥59,165 million from the previous fiscal year.

Operating income in each business segment is analyzed below:

In the information-related equipment segment, operating income plummeted ¥53,131 million, or 63.8%, to ¥30,143 million. This was a result of the decline in gross profit accompanying lower sales and a stronger yen.

The electronic devices segment recorded an operating loss of ¥18,249 million, an increase of ¥1,081 million from the previous fiscal year. Despite the effects of cost reductions resulting from structural reforms in the display business, gross profit declined due to significantly lower revenues throughout the segment. In addition, lower salaries and wages due to reassignment of personnel and other reductions could not make up for the decline in gross profit.

The precision products segment was down ¥4,640 million from the previous fiscal year with an operating loss of ¥1,907 million. This was due to the decline in gross profit on lower revenue.

In the other segment, an operating loss of ¥12,073 million was ¥610 million more than that of the prior fiscal year.

Non-operating income and expenses
Non-operating income minus non-operating expenses amounted to a net gain of ¥6,889 million, an increase of ¥1,204 million from the previous fiscal year's ¥5,685 million. This was primarily due to a ¥3,146 million net gain on foreign exchange, up from a ¥2,667 million net loss in the previous fiscal year. This more than offset the drop in dividend income from ¥4,338 million in the previous fiscal year to ¥329 million in the year under review. The main reason for the difference was that in the previous year, there had been a distribution of profits based on a silent partnership agreement associated with a real estate liquidation scheme that leveraged a special purpose entity in a subsidiary.

Ordinary income
As a result of the foregoing, ordinary income decreased ¥57,961 million, or 91.6%, to ¥5,301 million.

Extraordinary income and losses
Extraordinary income minus extraordinary losses amounted to a net loss of ¥94,861 million, an increase of ¥83,644 million from a loss of ¥11,217 million in the previous fiscal year. This was primarily due to extraordinary losses amounting to ¥96,331 million, including ¥76,244 million in business structure improvement expenses and an impairment loss on business assets resulting from worsening profitability in the quartz device business and further steps in setting the direction of the small- and medium-sized display and semiconductor businesses based on the new SE15 Long-Range Corporate Vision. This compares to extraordinary losses of ¥17,279 million in the previous fiscal year due to an impairment loss associated with the idle assets of the Chitose Plant.

Income (loss) before income taxes and minority interests
As a result, Epson recorded a loss before income taxes and minority interests of ¥89,559 million, down ¥141,605 million from the previous fiscal year.

Income taxes
Income taxes decreased ¥4,035 million to ¥26,188 million. Lower income taxes, current, reflected the decline of lower taxable income due to weak results. On the other hand, because the tough business environment is forecast to continue for the foreseeable future, Epson recalculated its future taxable income and reassessed the amount of recoverable deferred tax assets. As a result, the Company conducted write-offs from deferred tax assets, and income taxes-deferred increased. In addition, the effective tax rate after the application of deferred tax accounting came to -29.2%.

Minority interests in income (loss)
A loss of ¥4,425 million was recorded for minority interests, a decline of ¥7,154 million from the previous fiscal year. This was primarily due to an increase in loss on minority interests in subsidiary companies.

Net income (loss)
As a result of the foregoing, Epson posted a net loss of ¥111,322 million, a ¥130,416 million decline from the previous year.

(2) Liquidity and capital resources
Cash flow
Net cash provided by operating activities during the fiscal year under review totaled ¥44,253 million, down ¥67,806 million from the previous fiscal year. This was primarily due to a loss before income taxes and minority interests of ¥89,559 million, in contrast to income before income taxes and minority interests of ¥52,045 million in the previous fiscal year.
Net cash used in investing activities was ¥61,002 million, an increase of ¥10,231 million compared with the previous fiscal year. A drop of ¥11,669 million in proceeds from sales of investment securities was the main contributing factor to the decline.
Net cash used in financing activities was ¥9,558 million, down from ¥70,663 million in the previous fiscal year. The main outflows were ¥103,029 million in repayment of long-term loans payable, ¥7,795 million in repayment of lease obligations and ¥6,872 million in cash dividends paid. The main inflows were ¥90,000 million in long-term loans payable and a net increase of ¥18,851 in short-term loans payable.

Due to these factors, as of March 31, 2009, cash and cash equivalents at the end of period stood at ¥284,340 million, a fall of ¥32,074 million from the previous fiscal year-end. Epson has sufficient liquidity in hand.
The total of short-term loans payable and long-term loans payable increased by ¥3,846 million to ¥246,048 million compared to the previous fiscal year-end. Although there was a decline in long-term loans payable, there were additional loans in short-term loans payable.
The total of long-term loans payable (excluding current portion of long-term loans payable), which comprise the majority of loans, was ¥185,322 yen. The weighted average ratio was 1.36%, and the deadline for repayment is March 2014. These loans were largely procured from banks without collateral.

Financial condition
Total assets as of March 31, 2009 stood at ¥917,342 million, a decrease of ¥221,822 million from the previous fiscal year-end. Current assets were down ¥119,567 million, while noncurrent assets decreased ¥102,255 million. The decrease in current assets was due mainly to a decline in accounts receivable-trade and short-term investment securities. The decrease in noncurrent assets was primarily the result of an impairment loss on business assets in the electronic devices business.
Total liabilities as at March 31, 2009 were ¥598,710 million, a reduction of ¥69,007 million from the previous fiscal year. Current liabilities dropped ¥101,274 million, while noncurrent liabilities were up ¥32,266 million. The decline in current liabilities was mainly the result of decreases in short-term loans payable (including the current portion of long-term loans payable), notes and accounts payable-trade, and other factors. The increase in noncurrent liabilities was a result of increased long-term loans payable and other factors.
Working capital, defined as current assets less current liabilities, was ¥333,829 million, a decrease of ¥18,292 million compared with March 31, 2008.
Total assets decreased and the ratio of interest-bearing debt to total assets increased from 30.1% to 38.3%.

4. Research and development activities

While relentlessly endeavoring to maintain, build on, and expand its core competencies, Epson is pursuing a policy based on its SE15 Long-Range Corporate Vision by which it will carefully analyze macroeconomic trends and essential customer values, and create the technological platforms by which it will be able to provide products and services that will emotionally engage customers worldwide. In addition, Epson will create a robust corporate structure that will enable it to utilize the strengths of each of its growth businesses to maximize the overall capabilities of the Group as a whole. Against this background, the Company's R&D activities are aiming for sustainable growth in a manner harmonious with the global environment.

To generate synergies among departments, improve research speed, and develop value-added products and technologies, Epson's R&D function has been divided into corporate and operations division R&D. Corporate R&D conducts forward-looking R&D from a medium- to long-range perspective in such areas as research and development of basic technologies and the development of applications for core technologies such as inkjet technology, while operations division R&D is focused on product development with a three-year time horizon.

Total R&D spending in the year under review was ¥82,058 million. This included ¥31,596 million in the information-related equipment segment, ¥12,758 million in the electronic devices segment, ¥3,221 million in the precision products segment, and ¥34,481 million in the other segment and company-wide R&D projects.
Research in each business segment produced the following results:

(1) Information-related equipment
In the printer business, Epson developed new LCCS[*1] Technology that provides even more accurate color balance in consumer printers. This new technology calculates the optimal combination of colors from a vast number of possibilities that are compatible with the newly developed color proofing. The new technology was also deployed in large-format inkjet printers where the addition of orange and green ink to large-format inkjet printers provides larger green and yellow reproduction regions with bright and vivid colors and reduces graininess in skin tones. In its office inkjet printers, Epson increased the size of the large dots in MSDT[*2] from seven pl[*3] to 11 pl (1.57 times the ink volume), enabling a pixel to be formed with just two dots instead of three. Furthermore, Epson achieved high-speed printing of 20 pages per minute using the JEITA J1[*4] test pattern (37 ppm using Epson's original chart) by increasing the driving frequency of its print heads from 45 kHz to 60 kHz (1.33 times) and doubling the number of nozzles from 180 to 360.

In the visual instruments business, Epson's new full HD high-speed (120 Hz) D7/C2FINE panel uses a frame interpolation technique to generate intermediate images that help minimize ghosting and enable clear and smooth images. Epson paired this new panel with a new lamp to develop the ideal optical engine for its DEEP BLACK technology, achieving a best-in-class[*5] contrast ratio of 75000:1.[*6]
*1 LCCS (Logical Color Conversion System) was jointly developed by Epson and the Munsell Color Science Laboratory at the Rochester Institute of Technology.
*2 MSDT (Multi-Size Dot Technology) uses three different dot sizes—large, medium and small—depending on the data being printed.
*3 Picoliter (one-trillionth of a liter). It is equivalent to a cube with sides of 1/100 mm.
*4 JEITA J1 is one of the standard test patterns for printers in the JEITA Standards published by the Japan Electronics and Information Technology Industries Association.
*5 Among transmissive LCD projectors as of September 2008 (Source: Epson Research).
*6 When using Dynamic mode with auto iris or high-speed mode.

(2) Electronic devices
In the display business, Epson developed a 4-inch high-resolution low-temperature polysilicon TFT LCD ("LTPS") that uses Photo Fine Premia to achieve 94% of the Adobe® RGB[*7] color gamut and a 160-degree viewing angle in both the horizontal and vertical directions to produce beautiful images from all directions.

In the quartz device business, Epson developed a compact, high-performance crystal absolute-pressure sensor.[*11] By putting a QMEMS[*8]-based tuning-fork crystal unit on a pressure-sensing element, Epson was able to obtain a highly-stable oscillating frequency that provides an accuracy of ±10 Pa*9 and a resolution*10 of 0.1 Pa in a compact package that is only 12.5 cc and weighs only 15 g.

In the semiconductor business, Epson developed a 1/3-inch VGA HDR (High Dynamic Range) camera that can record high-quality images without any pixel defects, even under lighting conditions with a 120 dB difference between light and dark areas. The image is taken with short, medium and long exposure plus one for noise reduction and is then run through an image processing engine that uses Epson's original tone mapping technology to give the image a greater sense of depth and to reduce the effects of camera shake. A non-destructive readout enables the recording of objects in low-light situations and nearly real-time output of HDR images at 30 fps (up to 120 fps with ordinary images).

*7 Adobe® RGB is a practical color space introduced by Adobe Systems Incorporated in 1998.

*8 QMEMS is a combination of "quartz," a crystalline material that has excellent stability and precision, and "MEMS," micro electro-mechanical systems engineered using microfabrication technology. QMEMS refers to compact, high-performance devices made from quartz material and is a registered trademark of Epson Toyocom Corporation.

*9 Pa (Pascal) is the international unit for pressure.

*10 Resolution is the measurement or detection capability of a sensor or device.

*11 Absolute pressure is the pressure zero referenced against a perfect vacuum.

(3) Other businesses and company-wide

In the GPS (Global Positioning System) business, Epson worked with German chipmaker Infineon Technologies to develop the XPOSYS™ product with next-generation A-GPS (Assisted-GPS) technology. This product is optimized for mobile devices in the consumer marketplace, centering on mobile phones with built-in navigation functionality. XPOSYS, designed on a 5 nm process, offers improved performance and greatly increased sensitivity from -160 dBm to -165 dBm, enabling accurate positioning indoors and around tall buildings. In addition, it extends the battery life of products by consuming 50% less power.

5. Issues for Fiscal 2009

Impacted by the global economic crisis and the sudden and severe appreciation of the yen, Epson is experiencing an extremely severe operating environment. With society transformed by changes that have overturned traditional assumptions, we believe that customer values are set to undergo dramatic change.

Accepting this situation as an opportunity, Epson is implementing structural changes as it seeks to go forward on a new growth path. To do this it will rediscover its traditional strengths, and concentrate management resources on businesses with growth potential and which are strategically important.

More specifically, under this policy Epson established its SE15 Long-Range Corporate Vision in March 2009, setting out its vision for the period up to 2015. We also established the SE15 (First Half) Mid-Range Business Plan, a three-year mid-range business plan beginning in fiscal 2009.

According to the SE15 Long-Range Corporate Vision, Epson will focus on “compact, energy-saving, high-precision technologies” as its core strengths since its foundation, and will leverage these strengths as it looks to achieve sustainable growth. Through the formation of Group-wide platforms, Epson seeks to become “a community of robust businesses” creating products and services that emotionally engage customers worldwide.

Based on the assumption of severe business conditions, the SE15 (First Half) Mid-Range Business Plan describes how Epson will combine its strengths to respond to this situation. Epson will implement a range of measures to ensure its return to a profit-generating structure on the path to realizing the SE15 Long-Range Corporate Vision.

Going forward, Epson will shift management resources to areas where it can leverage its strengths and to businesses with growth potential and which are strategically important, and will look to foster new businesses to drive future growth. On the other hand, Epson is not content to merely continue existing measures for businesses facing a difficult profit scenario due to the worsening of the business environment. Here we will implement far-reaching structural reforms and rebuild the foundations of our business including measures such as merging and retiring business sites and making strategic alliances with other companies.

By launching speedy and efficient initiatives, Epson is looking to achieve by 2015 both ROS and ROE of 10% or above on a continuous basis in addition to boosting net sales.

(1) Plans for businesses with growth potential

Printers

In printers, Epson will leverage its core and proprietary Micro Piezo inkjet technology to further strengthen the foundations of its business. In applications that range from consumer through to business markets, Epson will take the customers’ viewpoint as it develops products that provide ease-of-use and which emotionally engage with users.

Epson will also expand operations by increasing the number of models for emerging markets, and launching environmentally considerate models. We will also seek to expand into the commercial and industrial sectors through the application of Micro Piezo technology.

Projectors

As the world’s leading manufacturer, Epson aims to maintain top share, increase its presence in the high-end projector market by leveraging the advantages of its core HTPS TFT LCD technology, and enter and develop new business domains.

Quartz devices and sensors

The Company will make Epson Toyocom a wholly owned subsidiary to improve management responsiveness and efficiency, and to reinforce Epson Toyocom’s position as the leading company in the crystal device market.

Quartz devices will be positioned as the core of Epson’s electronic device businesses. By creating synergies with its semiconductor and other technologies, Epson will fortify its lineup of sensing devices and applied products.

(2) Plans for unprofitable businesses

Small- and medium-sized displays

Epson is making efforts to increase efficiency in this business by consolidating domestic operations and accelerating personnel reassignment to growth areas within the Group. We are also seeking to overhaul the structure of the display business through a variety of measures including a strategic alliance.

Semiconductors

Rebuilding its business around products incorporating its traditional core of low-power mixed-signal analog technology, Epson is downsizing its semiconductor business by consolidating domestic manufacturing sites. Management resources, such as semiconductor technology, will be shifted to bolster growth in other business areas, such as printers and quartz devices.

6. Dividend policy

The Company believes in distributing profits by maintaining stable dividend payments, and seeks to increase cash flow through greater management efficiency and improved profitability. On that basis, with the goal of achieving a consistent consolidated dividend payout ratio of 30% over the medium- to long-term, The Company distributes profits to shareholders while taking into account its need for capital to fuel its business strategy and to maintain its business performance and financial standing.

The Company's dividend policy is to pay cash dividends twice a year. The year-end dividend is determined by resolution of the general shareholders' meeting and the interim dividend is determined at a meeting of the board of directors.

As the Company incurred a substantial net loss due to business structure improvement expenses and an impairment loss stemming from restructuring, and because it anticipates that challenging business conditions will continue, it adjusted the total full-year dividend downward ¥6 per share relative to the previous fiscal year, which made the full-year dividend ¥26 per share (¥19 of which was the interim dividend).

The Company's Articles of Incorporation allow the Company to issue an interim dividend with a base date of September 30 every year by resolution of the board of directors.

The Company's distribution of retained earnings for the fiscal year under review is as follows:

Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 29, 2008, by resolution of the board of directors' meeting	3,730	19
June 24, 2009, by resolution of the general shareholders' meeting	1,374	7

* Please refer to the following for historical information about Epson's share dividends:
http://www.epson.co.jp/e/IR/stock_dividends.htm

Corporate Governance

1. Approach to corporate governance

(1) Basic approach to corporate governance

Corporate governance at Epson is based upon a commitment to sustaining trust-based management by providing a highly transparent form of management that benefits stakeholders, including customers, shareholders and employees, with the aim of increasing corporate value, strengthening management oversight, and complying with ethical standards of corporate conduct.

(2) Management system

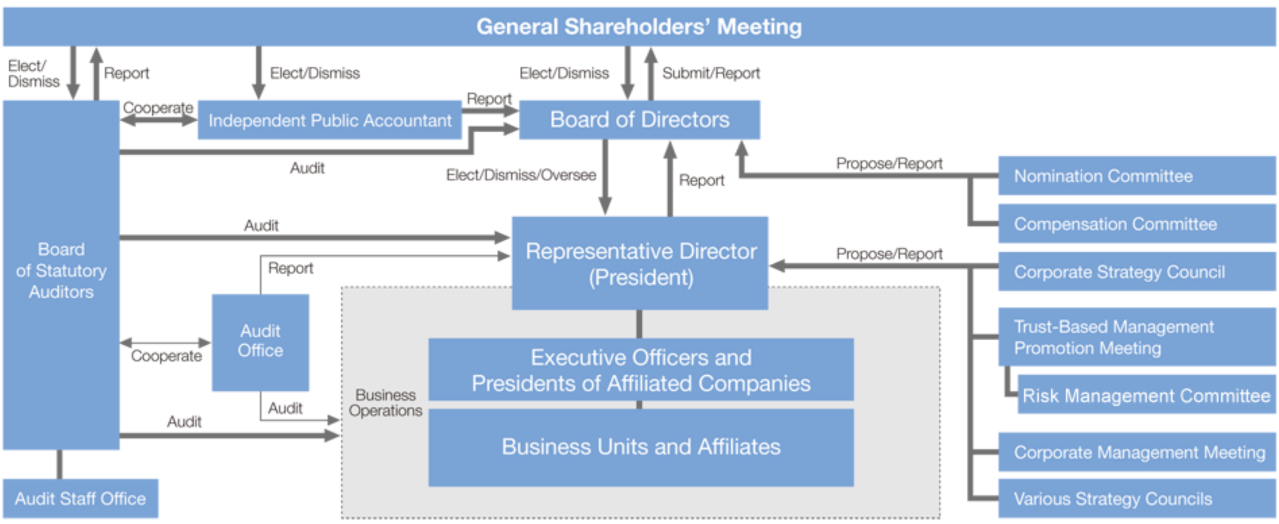
Epson currently maintains a board of directors and a board of statutory auditors. As of the end of the fiscal year ended March 31, 2009, the board of directors was composed of nine members and convenes once every month or as needed. Epson has established the Nomination Committee for establishing selection criteria for directors and screening candidates and the Compensation Committee for defining appropriate remuneration systems and the amounts of director remuneration. Upon deliberation of these matters, the committees then present their conclusions to the board of directors.

While Epson has not yet adopted a system involving outside directors, it is continually investigating such systems as it searches for ways to further improve corporate governance. To ensure the greater independence and transparency of audits, Epson has assigned three outside statutory auditors to its five-member board of statutory auditors. Epson is implementing the following measures to increase the effectiveness of audits. Statutory auditors must:

• Attend and express opinions at board meetings.
• Attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings.
• Conduct periodic reviews of important documents related to management decisions.
• Hold regularly scheduled meetings with the internal Audit Office and the independent public accountant.
• Hold regularly scheduled meetings with representative directors to ensure awareness of business operations.

In addition, Epson established the Audit Staff Office to assist statutory auditors in the execution of their duties, thereby making audits more effective, and leaving no doubt as to the independence of the audits. Epson has further established an internal compliance system to guard against potential legal and internal regulatory violations in the operations of any of its departments, as well as an internal Audit Office (comprising 16 auditors) that reports directly to the president the results of routine internal audits, including those conducted at Epson subsidiaries. The Audit Office evaluates the effectiveness of the governance process and requests improvements where needed.

Epson's System of Corporate Governance



(3) Internal control system improvements

Epson has established the following basic policies for improving its system (hereinafter, “internal control”) for ensuring the appropriate conduct of operations. Under these basic policies, responsible departments promote improvements. These improvements, which are based on the Management Philosophy and Principles of Corporate Conduct that embody the philosophy, are reported to the Trust-Based Management Promotion Meeting, which is attended by all directors and standing statutory auditors. By doing this, Epson is taking action to steadily improve the level of internal control for the entire Group.

a. Business execution system

Epson is instituting a system that will ensure the efficient execution of business. To that end, Epson has established regulations governing each job function, the division of operational duties, and the management of affiliated companies while distributing power and authority across the entire Group. Affiliated companies in particular must report or receive prior approval from the parent company of changes in management regulations. Regulations at affiliates that meet certain criteria are put on the agenda for discussion at the parent company’s board meetings, thereby creating a system of business oversight for the Group. Personnel responsible for business operations must report to the board of directors on the following items at least once every three months.

• Current business performance and performance outlook
• Risk management responses
• Status of key business operations

b. Safeguarding and management of work-related information

The safeguarding and management of information related to business operations is carried out under regulations governing document management, management approvals and contracts, and other related regulations, with directors and statutory auditors reviewing these and other relevant documents on an ongoing basis.

c. Compliance-based management

Epson has established regulations on management compliance that set forth the basis for its legal compliance and has set up a compliance system. As a cornerstone in the practice of trust-based management, Epson has established principles of corporate conduct and an employee code of conduct that is based upon these principles.

In addition, the president holds overall responsibility for management’s legal compliance, with heads of each business and individual department responsible for compliance with laws related to their respective consolidated businesses.

Epson has installed a legal compliance hotline and other counseling services to facilitate internal compliance-related inquiries and reporting and is implementing in-house compliance training, including web-based training, for employees.

A forum has been instituted in which issues related to management’s legal compliance are discussed under the president’s leadership. Standing statutory auditors also attend this forum, which allows them to corroborate the actual content of legal compliance programs. The president periodically reports to the board of directors on compliance-related issues and formulates appropriate measures as needed.

d. Risk management

Epson has established regulations that form the basis of its risk management system and has defined the organization, procedures, and other key elements of this system.

Overall responsibility for risk management resides with the president, with heads of each business and department responsible for the management of risk in their respective consolidated businesses.

Under the president’s leadership, a forum has been established wherein risk management–related issues are discussed. This forum routinely deliberates to identify and assess important Group risks and implements activities appropriate for their control. When major risks become apparent, the president leads the entire company in mounting a swift initial response in line with Epson’s prescribed crisis management program. The president periodically reports to the board of directors on risk management issues and formulates appropriate measures to respond to these risks.

e. Audit system

Based on corporate regulations governing auditors and audit procedures, statutory auditors have the authority to conduct hearings with directors and other key personnel whenever they deem such hearings necessary.

Statutory auditors are also authorized to attend sessions of the Corporate Strategy Council, the corporate management meeting and other important business meetings. Attendance at these meetings enables the auditors to conduct audits based on the same information as directors. Statutory auditors also routinely review important documents related to management decision making.
Epson has established an Audit Staff Office with specialized personnel to assist the statutory auditors in their duties. The views of the board of statutory auditors are given a great deal of weight in the evaluation and transfer of personnel assigned to this office.
To improve the effectiveness of their audits, statutory auditors consult on a regular basis with the internal Audit Office and independent public accountants.
In addition, the holding of regularly scheduled meetings with representative directors allows statutory auditors to directly assess business operations.

(4) Outline of personnel, capital, or business connections between the Company and its outside statutory auditors
At present, there are no special connections between the Company and any of its three outside statutory auditors.

(5) Director remuneration
The following table shows the totals of remuneration and retirement benefits for directors and statutory auditors of the Company in the fiscal year under review.

Category	Number of Individuals	Remuneration Received (millions of yen)
Directors	12	461
Statutory Auditors (Outside statutory auditors among all statutory auditors)	7 (4)	121 (59)
Total	19	582

Notes
1. The numbers above include the three directors and two statutory auditors (including one outside statutory auditor) who retired at the closing of the general shareholders' meeting on June 25, 2008.
2. Remuneration paid to directors does not include remuneration paid for additional responsibilities (for personnel who hold the position of director as well as additional posts).
3. A resolution of the general shareholders' meeting held on June 26, 2001, established the maximum amount of remuneration at ¥70 million per month for directors and at ¥12 million per month for statutory auditors.
4. The remuneration paid does not include director bonuses since bonuses were not paid in the fiscal year under review.
5. In addition to the above, the directors who retired at the closing of the general shareholders' meeting held on June 25, 2008, were paid the following retirement benefits based on the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of discontinued benefits for retiring directors.
Three retiring directors: ¥503 million
Two retiring statutory auditors: ¥18 million (including one outside statutory auditor: ¥7 million)
The director who retired at the closing of the general shareholders' meeting held on June 24, 2009, was paid a retirement benefit of ¥44 million based on the same resolution.

(6) Accounting audits and remuneration
a. Names and other details of corporate public accountants performing audits.

Name of CPA		Audit company	No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Michio Shibuya	Ernst & Young ShinNihon LLC	2
Designated and Engagement Partner, Certified Public	Kiyoshi Ichimura	Ernst & Young ShinNihon LLC	3

Name of CPA		Audit company	No. of successive years performing audits
Accountant			
Designated and Engagement, Partner Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	3

Note
On June 26, 2007, the Fuji Accounting Office and Misuzu Audit Corporation completed their terms as independent auditors. The Company accordingly appointed Ernst & Young ShinNihon as its new independent auditor. The above-mentioned successive years performing audits include audits performed with Misuzu Audit Corporation.

b. Composition of auditing team
The auditing team comprises 44 staff including nine certified public accountants, 15 junior accountants, and 20 other accounting staff.

(7) Outline of contract limiting liability
The Company's contract with the outside statutory auditor is based on Article 427, Paragraph 1, of the Japanese Companies Act, and the contract determining the liability for damages on Article 423, Paragraph 1, of the same law.
The scope of liability concerning the outside statutory auditor is limited to errors and omissions that occur in good faith and which are not serious.

(8) Number of directors
The Company's Articles of Incorporation determine the maximum number of directors to be 10.

(9) Election and retirement of directors
According to its Articles of Incorporation, directors of the Company can be elected by a majority vote by at least one third of shareholders with voting rights, and not through cumulative voting.
Provisions regarding the retirement of directors do not vary from the provisions of the Japanese Companies Act.

(10) Items for the General Shareholders' Meeting that can Be determined by the board of directors
• Treasury stock acquisition
The Company's Articles of Incorporation allow the Company to acquire treasury stock through market trade and other means by resolution of the board of directors. This enables a more flexible capital policy in response to a changing business environment.
• Director and auditor exemption from liability
When liability falls under the requirements stipulated in Article 426, Paragraph 1, of the Japanese Companies Act, The Company's Articles of Incorporation allow the Company to exempt the directors and auditors from liability for damages in Article 423, Paragraph 1, of the Japanese Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the board of directors. This allows the directors to fully apply themselves to their expected role of building an organization capable of aggressive business expansion, and allows the statutory auditors to fulfill their functions accordingly.
• Interim dividend
The Company's Articles of Incorporation allow the Company to issue an interim dividend with a base date of September 30 every year by resolution of the board of directors. This provides flexibility in returning free cash flow to shareholders.

(11) Special resolution requirements of the General Shareholders' Meeting
The Company's Articles of Incorporation set forth the requirements for a special resolution of the general shareholders' meeting stipulated in Article 309, Paragraph 2, of the Japanese Companies Act as a two-thirds majority vote by at least one third of shareholders with voting rights. This policy is intended to ensure smooth operation of the general shareholders' meeting by relaxing the quorum requirements for special resolutions in the general shareholders' meeting.

2. Details of audit remuneration

(1) Remuneration for audits by certified public accountants

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	-	-	188	4
Consolidated subsidiaries	-	-	127	-
Total	-	-	316	4

(2) Other important remuneration

Total payments for audits carried out on behalf of 11 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2009, amounted to ¥31 million.

(3) Non-audit work performed by auditing certified public accountant at filing company

Remuneration paid for non-audit work performed by the auditing certified public accountant was for consultancy services relating to internal control systems, in particular financial reporting.

(4) Governing policy for auditor remuneration

This does not apply because remuneration for auditing services is determined according to the nature of the audit work.

3. Basic policy regarding company control

At its meeting on April 30, 2008, Epson's board of directors agreed to a basic policy governing persons who control our financial and business policy decisions (hereinafter the “basic policy”).

(1) Policy on persons who control financial and business policy decision-making

We believe that our shareholders should be determined through free trade on the market. Therefore, the decision as to whether to accept a takeover offer that would allow another party to acquire a controlling share of Epson and thus gain power over the company's financial and business decisions should ultimately be put before our shareholders.

To ensure and enhance the corporate value and common interests of shareholders, we think it is essential for Epson's directors, managers, and employees to work as a team to create value, to pursue the Epson tradition of creativity and challenge, and to earn and keep the trust of our customers.

Not all large-scale acquisitions of shares enhance the value of the company whose shares are being acquired, however, nor do they serve the common interests of shareholders. Epson recognizes the need to use all necessary and appropriate means to protect the company's corporate value and the common interests of its shareholders against persons seeking to improperly acquire large numbers of shares in an attempt to gain control over decisions concerning the company's financial and business policies.

(2) Efforts in preventing parties who are deemed inappropriate based on its basic policy from gaining control over Epson’s financial and business policy decision-making

Aiming to ensure and enhance corporate value and the common interests of its shareholders, Epson introduced a series of measures (the “Plan”) to prevent large-scale acquisition of Epson shares after shareholders approved the Plan at their annual general meeting held on June 25, 2008.

The purpose of the Plan is to allow the Epson board of directors to secure the time and information necessary for shareholders to decide whether to accept the bid or to present shareholders with alternative proposals, and to discuss and negotiate with the acquirer for the benefit of shareholders, in order to prevent large-scale acquisitions of Epson shares that do not enhance corporate value or that are not in the common interests of shareholders. Specifically, if a party intends to acquire 20% or more of shares outstanding or to stage a takeover bid, they shall be required to submit documentation justifying the acquisition in advance to the Epson board of directors and to comply with the procedures defined in the Plan. Furthermore, the Plan allows for the activation of provisions to halt the acquisition in question if, for example, it is not conducted in line with the Plan or it is deemed contrary to Epson’s value as a company or the common interests of its shareholders.

To prevent arbitrary decisions being made by the Epson board of directors in their administration of the Plan, including the activation of preventive provisions, it is subject to the approval of a special committee made up of highly independent external parties. Actions of the special committee shall include examination of stock acquisition details, requesting information from the Epson board of directors regarding alternative proposals, disclosing information to shareholders, and negotiating with parties intending to make acquisitions. The special committee shall advise the Epson board of directors on the necessity to activate the Plan, and the Epson board of directors shall give maximum regard to that advice before implementing their resolutions promptly as an organ of Japanese Companies Act.
* Please refer to the following release for a more detailed explanation.
http://www.epson.co.jp/e/newsroom/2008/news_20080430_5.htm

Management

Directors, statutory auditors and executive officers of the Company correct as of June 24, 2009 and their functions are listed below.

Name	Position	Current function
Seiji Hanaoka	Chairman	
Yasuo Hattori	Vice-Chairman	
Minoru Usui	President	
Masayuki Morozumi	Senior Managing Director	General Administrative Manager, Production Strategy Division
Torao Yajima	Managing Director	General Administrative Manager, Electronic Devices Business Center
Kenji Kubota	Managing Director	General Administrative Manager, Corporate Strategy Division
Seiichi Hirano	Managing Director	General Administrative Manager, Global Sales & Marketing Planning Division
Toru Oguchi	Managing Director	General Administrative Manager, Corporate Research & Development Division
Akihiko Sakai	Director	Deputy Chief Operating Officer, Imaging Products Operations Segment, and General Administrative Manager, Imaging Products Business Planning & Management Office
Tadaaki Hagata	Director	Chief Operating Officer, Imaging Products Operations Segment and Chief Operating Officer, Imaging & Information Operations Division
Masayoshi Shindo	Standing Statutory Auditor	
Kenji Uchida	Standing Statutory Auditor	
Yoshiro Yamamoto	Outside Statutory Auditor	
Tatsuhiro Ishikawa	Outside Statutory Auditor	
Kenji Miyahara	Outside Statutory Auditor	
Hiroshi Komatsu	Managing Executive Officer	Deputy General Administrative Manager, Global Sales & Marketing Planning Division
John Lang	Managing Executive	President and Chief Executive Officer,

	Officer	Epson America, Inc
Masataka Kamiyanagi	Managing Executive Officer	General Administrative Manager, Intellectual Property Division
Noriyuki Hama	Executive Officer	Chairman, Epson Europe B.V.
Shuji Aruga	Executive Officer	President, Epson Imaging Devices Corporation
Noboru Ushijima	Executive Officer	Deputy General Administrative Manager, Global Sales & Marketing Planning Division
Kazuki Ito	Executive Officer	Vice-Chairman, Epson (China) Co., Ltd.
Kaname Miyazawa	Executive Officer	President, Epson Toyocom Corporation
Akio Mori	Executive Officer	Chief Operating Officer, Watch Operations Division
Kiyofumi Koike	Executive Officer	Chairman and President, Epson (China) Co., Ltd.
Ryuhei Miyagawa	Executive Officer	Chief Operating Officer, Semiconductor Operations Division & President, Tohoku Epson Corporation
Koichi Endo	Executive Officer	Deputy Chief Operating Officer, Imaging & Information Operations Division & Senior General Manager, Imaging & Information Planning & Design General Control Department
Yoneharu Fukushima	Executive Officer	Deputy General Administrative Manager, Corporate Research & Development Division

Index to Consolidated Financial Statements
Seiko Epson Corporation and Subsidiaries

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Assets			
Current assets			
Cash and deposits	¥171,970	¥172,921	$1,760,368
Notes and accounts receivable-trade	187,775	134,133	1,365,499
Short-term investment securities	137,079	102,014	1,038,521
Merchandise and finished goods	86,344	91,471	931,192
Work in process	49,618	36,947	376,127
Raw materials and supplies	25,394	19,132	194,767
Deferred tax assets	29,239	12,673	129,013
Other	52,854	51,773	527,092
Allowance for doubtful accounts	(3,032)	(3,389)	(34,500)
Total current assets	737,245	617,677	6,288,079
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	435,868	404,869	4,121,643
Machinery, equipment and vehicles	536,915	518,819	5,281,675
Tools, furniture and fixtures	196,487	184,508	1,878,326
Land	61,434	54,994	559,849
Construction in progress	5,541	2,958	30,125
Other	208	137	1,394
Accumulated depreciation	(893,193)	(912,574)	(9,290,176)
Total property, plant and equipment	343,261	253,712	2,582,836
Intangible assets	20,660	16,789	170,936
Investments and other assets			
Investment securities	20,419	15,281	155,563
Long-term loans receivable	63	44	447
Deferred tax assets	5,132	2,751	28,005
Other	12,560	11,368	115,740
Allowance for doubtful accounts	(178)	(284)	(2,891)
Total investments and other assets	37,997	29,161	296,864
Total noncurrent assets	401,919	299,664	3,050,636
Total assets	¥1,139,165	¥917,342	$9,338,715

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥100,453	¥70,177	$714,415
Short-term loans payable	25,283	42,182	429,420
Current portion of long-term loans payable	73,047	18,543	188,771
Accounts payable-other	82,436	61,748	628,606
Income taxes payable	10,086	6,208	63,198
Deferred tax liabilities	289	274	2,789
Provision for bonuses	20,285	11,572	117,805
Provision for directors' bonuses	154	—	—
Provision for product warranties	11,240	9,813	99,898
Provision for loss on litigation	300	8,214	83,620
Other	61,545	55,113	561,104
Total current liabilities	385,123	283,848	2,889,626
Noncurrent liabilities			
Bonds payable	100,000	100,000	1,018,018
Long-term loans payable	143,871	185,322	1,886,613
Deferred tax liabilities	7,488	5,818	59,228
Provision for retirement benefits	14,532	12,966	131,996
Provision for recycle costs	948	926	9,426
Provision for product warranties	830	677	6,891
Provision for loss on litigation	2,955	45	458
Negative goodwill	2,877	1,729	17,601
Other	9,091	7,375	75,135
Total noncurrent liabilities	282,595	314,862	3,205,366
Total liabilities	667,718	598,710	6,094,992
Net assets			
Shareholders' equity			
Capital stock			
Authorized - 607,458,368 shares			
Issued - 196,364,592 shares	53,204	53,204	541,626
Capital surplus	79,500	79,500	809,325
Retained earnings	326,719	208,524	2,122,814
Treasury stock			
March 31, 2009 - 3,018 shares			
March 31, 2008 - 2,251 shares	(7)	(8)	(81)
Total shareholders' equity	459,417	341,220	3,473,684
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	3,859	2,835	28,861
Deferred gains or losses on hedges	156	(2,175)	(22,152)
Foreign currency translation adjustment	(16,227)	(39,255)	(399,623)
Total valuation and translation adjustments	(12,211)	(38,596)	(392,914)
Minority interests	24,240	16,007	162,953
Total net assets	471,446	318,631	3,243,723
Total liabilities and net assets	¥1,139,165	¥917,342	$9,338,715

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

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Net sales	¥1,347,841	¥1,122,497	$11,427,232
Cost of sales	979,391	833,053	8,480,648
Gross profit	368,449	289,443	2,946,584
Selling, general and administrative expenses	310,871	291,031	2,962,750
Operating income(loss)	57,577	(1,588)	(16,166)
Non-operating income			
Interest income	6,498	4,288	43,652
Foreign exchange gains	—	3,146	32,026
Other	10,470	7,512	76,495
Total non-operating income	16,968	14,948	152,173
Non-operating expenses			
Interest expenses	6,406	6,110	62,200
Foreign exchange losses	2,667	—	—
Other	2,208	1,947	19,842
Total non-operating expenses	11,282	8,058	82,042
Ordinary income	63,263	5,301	53,965
Extraordinary income			
Gain on sales of noncurrent assets	570	349	3,552
Reversal of provision for loss on litigation	2,392	272	2,769
Reversal of provision for product warranties	—	264	2,687
Other	3,098	583	5,957
Total extraordinary income	6,061	1,469	14,965
Extraordinary loss			
Impairment loss	10,783	20,348	207,146
Business structure improvement expenses	—	55,896	569,031
Other	6,495	20,086	204,480
Total extraordinary losses	17,279	96,331	980,657
Income(loss) before income taxes and minority interests	52,045	(89,559)	(911,727)
Income taxes-current	14,341	7,744	78,835
Income taxes-deferred	15,881	18,443	187,764
Total income taxes	30,223	26,188	266,599
Minority interests in income (loss)	2,728	(4,425)	(45,047)
Net income(loss)	¥19,093	(¥111,322)	($1,133,279)

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

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U S dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Shareholders' equity			
Capital stock			
Balance at the end of previous period	¥53,204	¥53,204	$541,626
Changes of items during the period			
Total changes of items during the period	–	–	–
Balance at the end of current period	53,204	53,204	541,626
Capital surplus			
Balance at the end of previous period	79,500	79,500	809,325
Changes of items during the period			
Total changes of items during the period	–	–	–
Balance at the end of current period	79,500	79,500	809,325
Retained earnings			
Balance at the end of previous period	313,945	326,719	3,326,061
Changes of items during the period			
Dividends from surplus	(6,283)	(6,872)	(69,968)
Net income (loss)	19,093	(111,322)	(1,133,279)
Effect of changes in accounting policies applied to foreign subsidiaries	(36)	–	–
Total changes of items during the period	12,773	(118,195)	(1,203,247)
Balance at the end of current period	326,719	208,524	2,122,814
Treasury stock			
Balance at the end of previous period	(5)	(7)	(71)
Changes of items during the period			
Purchase of treasury stock	(1)	(1)	(10)
Total changes of items during the period	(1)	(1)	(10)
Balance at the end of current period	(7)	(8)	(81)
Total shareholders' equity			
Balance at the end of previous period	446,645	459,417	4,676,941
Changes of items during the period			
Dividends from surplus	(6,283)	(6,872)	(69,968)
Net income (loss)	19,093	(111,322)	(1,133,279)
Effect of changes in accounting policies applied to foreign subsidiaries	(36)	–	–
Purchase of treasury stock	(1)	(1)	(10)
Total changes of items during the period	12,771	(118,196)	(1,203,257)
Balance at the end of current period	459,417	341,220	3,473,684
Valuation and translation adjustments			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	9,820	3,859	39,285
Changes of items during the period			
Net changes of items other than shareholders' equity	(5,961)	(1,024)	(10,424)
Total changes of items during the period	(5,961)	(1,024)	(10,424)
Balance at the end of current period	3,859	2,835	28,861
Deferred gains or losses on hedges			
Balance at the end of previous period	(35)	156	1,588
Changes of items during the period			
Net changes of items other than shareholders' equity	192	(2,332)	(23,740)
Total changes of items during the period	192	(2,332)	(23,740)
Balance at the end of current period	156	(2,175)	(22,152)
Foreign currency translation adjustment			
Balance at the end of previous period	13,886	(16,227)	(165,193)
Changes of items during the period			
Net changes of items other than shareholders' equity	(30,114)	(23,027)	(234,430)
Total changes of items during the period	(30,114)	(23,027)	(234,430)
Balance at the end of current period	(16,227)	(39,255)	(399,623)

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

	Millions of yen		Thousands of U S dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Total valuation and translation adjustments			
Balance at the end of previous period	23,672	(12,211)	(124,320)
Changes of items during the period			
Net changes of items other than shareholders' equity	(35,883)	(26,384)	(268,594)
Total changes of items during the period	(35,883)	(26,384)	(268,594)
Balance at the end of current period	(12,211)	(38,596)	(392,914)
Minority interests			
Balance at the end of previous period	24,018	24,240	246,767
Changes of items during the period			
Net changes of items other than shareholders' equity	222	(8,233)	(83,814)
Total changes of items during the period	222	(8,233)	(83,814)
Balance at the end of current period	24,240	16,007	162,953
Total net assets			
Balance at the end of previous period	494,335	471,446	4,799,388
Changes of items during the period			
Dividends from surplus	(6,283)	(6,872)	(69,968)
Net income (loss)	19,093	(111,322)	(1,133,279)
Effect of changes in accounting policies applied to foreign subsidiaries	(36)	—	—
Purchase of treasury stock	(1)	(1)	(10)
Net changes of items other than shareholders' equity	(35,661)	(34,618)	(352,408)
Total changes of items during the period	(22,889)	(152,815)	(1,555,665)
Balance at the end of current period	¥471,446	¥318,631	$3,243,723

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

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U S dollars
	March 31, 2008	March 31, 2009	March 31, 2009
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	¥52,045	(¥89,559)	($911,727)
Depreciation and amortization	79,209	78,406	798,187
Impairment loss	10,783	20,348	207,146
Equity in (earnings) losses of affiliates	(104)	(58)	(590)
Amortization of goodwill	(1,254)	(1,211)	(12,328)
Business structure improvement expenses	—	55,896	569,031
Increase (decrease) in allowance for doubtful accounts	(462)	761	7,747
Increase (decrease) in provision for bonuses	3,526	(8,441)	(85,930)
Increase (decrease) in provision for product warranties	(1,604)	(900)	(9,162)
Increase (decrease) in provision for retirement benefits	(10,872)	(2,247)	(22,874)
Interest and dividends income	(10,836)	(4,618)	(47,012)
Interest expenses	6,406	6,110	62,200
Foreign exchange losses (gains)	559	(57)	(580)
Loss (gain) on sales of noncurrent assets	(474)	(318)	(3,237)
Loss on retirement of noncurrent assets	2,593	2,373	24,157
Loss (gain) on sales of investment securities	(2,010)	(57)	(580)
Decrease (increase) in notes and accounts receivable-trade	33,520	50,239	511,442
Decrease (increase) in inventories	6,357	(3,686)	(37,524)
Increase (decrease) in accrued consumption taxes	(1,504)	440	4,479
Increase (decrease) in notes and accounts payable-trade	(30,734)	(30,931)	(314,883)
Other, net	(15,849)	(13,979)	(142,350)
Subtotal	119,294	58,507	595,612
Interest and dividends income received	11,956	3,792	38,603
Interest expenses paid	(6,179)	(6,259)	(63,717)
Income taxes paid	(13,011)	(11,786)	(119,995)
Net cash provided by (used in) operating activities	112,060	44,253	450,503
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits	716	712	7,248
Purchase of short-term investment securities	(16)	—	—
Purchase of investment securities	(892)	(601)	(6,118)
Proceeds from sales of investment securities	12,069	399	4,061
Proceeds from redemption of investment securities	8,000	—	—
Purchase of property, plant and equipment	(66,462)	(52,163)	(531,029)
Proceeds from sales of property, plant and equipment	1,153	564	5,741
Purchase of intangible assets	(6,143)	(7,918)	(80,606)
Proceeds from sales of intangible assets	3	19	193
Purchase of long-term prepaid expenses	(175)	(462)	(4,703)
Purchase of investments in subsidiaries	(336)	(2,371)	(24,137)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(8)	(81)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	146	—	—
Other, net	1,167	827	8,420
Net cash provided by (used in) investing activities	(50,770)	(61,002)	(621,011)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(12,955)	18,851	191,906
Proceeds from long-term loans payable	32,781	90,000	916,217
Repayment of long-term loans payable	(102,251)	(103,029)	(1,048,876)
Proceeds from issuance of bonds	20,000	—	—
Repayments of lease obligations	—	(7,795)	(79,354)
Purchase of treasury stock	(1)	(1)	(10)
Cash dividends paid	(6,283)	(6,872)	(69,958)
Cash dividends paid to minority shareholders	(1,426)	(710)	(7,227)
Other, net	(524)	—	—
Net cash provided by (used in) financing activities	(70,663)	(9,558)	(97,302)
Effect of exchange rate change on cash and cash equivalents	(9,085)	(5,767)	(58,709)
Net increase (decrease) in cash and cash equivalents	(18,458)	(32,074)	(326,519)
Cash and cash equivalents at beginning of period	334,873	316,414	3,221,154
Cash and cash equivalents at end of period	¥316,414	¥284,340	$2,894,635

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. Meanwhile its foreign subsidiaries maintain their records and prepare their financial statements in conformity with International Financial Reporting Standards or the generally accepted accounting principles in the United States. In addition, some items required by Japanese standards should be adjusted in the consolidation process so that net income is accurately accounted for, unless they are not material.

The amounts in the accompanying consolidated financial statements and the notes thereto for periods from or subsequent to April 1, 2007 are rounded down.

2. Number of group companies

As of March 31, 2009, the Company had 97 consolidated subsidiaries. It has applied the equity method in respect to three unconsolidated subsidiaries and five affiliates.

3. 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, along with 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 assets of investments in subsidiaries is recognized as "goodwill" and is included in the intangible assets account (if the cost is in excess) or in the noncurrent liabilities account (if the underlying net asset is in excess). 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 included in income for the current period.

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 translation adjustments 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

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 net assets, net of taxes. Other securities for which market quotations are unavailable are stated at cost, primarily based on the moving-average cost method. Other-than-temporary declines in the value of other securities are reflected in current income.

Derivative 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.

Interest rate swaps meeting certain hedging criteria are not recognized at their fair values under exceptional processes recognized in Japanese accounting standards. The amounts received or paid for such interest rate swap arrangements are charged or credited to income as incurred.

Allowance for doubtful accounts

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

(5) Inventories

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

Effective April 1, 2008, Epson adopted the Accounting Standards Board of Japan (ASBJ) Statement No.9, “Accounting Standard for Measurement of Inventories”, released on July 5, 2006. In conjunction with the adoption of this accounting standard, Epson modified the measurement method for valuing inventories.

As a result, operating income and ordinary income for the year ended March 31, 2009, decreased by ¥697 million ($7,095 thousand), and income before income taxes and minority interests for the year ended March 31, 2009, decreased by ¥5,266 million ($53,608 thousand) from the corresponding amounts that would have been reported if the previous method had been applied.

The effect of the adoption of this standard on segment information is noted in the relevant sections.

(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 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 8 to 50 years for buildings and structures, and from 2 to 12 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 recoverable amount.

(9) Provision for bonuses
Provision for bonuses to employees is calculated on the basis of the estimated amounts that Epson is obligated to pay its employees after the fiscal year-end for services provided up to the balance sheet dates.

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

(10) Provision for product warranties
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) Provision for loss on litigation
Provision for loss on litigation 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 applies 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 Japanese tax regulations.

(13) Provision for retirement benefits
The Company and some of its Japanese subsidiaries recognize provision for retirement benefits to employees based on the actuarial valuation of projected benefit obligation and the fair value of plan assets. Other Japanese subsidiaries recognize provision for retirement benefits 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. Unrecognized 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.

(14) Provision for recycle costs
At the time of sale, provision for recycle costs is calculated based on 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 charged as incurred.

(17) Leases
Epson leases certain office space, machinery and equipment and computer equipment from third parties using capital leases. Most of the capital leases are other than those under which ownership of the assets will be transferred to the lessee at the end of the lease term, and are depreciated/amortized in accordance with the straight-line method over the periods of the leases, assuming no residual value.

Effective April 1, 2008, the Company and its domestic subsidiaries adopted ASBJ Statement No.13, "Accounting Standard for Lease Transactions" and its Guidance No.16, "Guidance on Accounting Standard for Lease Transactions", as revised on March 30, 2007.

Prior to April 1, 2008, capital leases, other than those under which ownership of the assets would be transferred to the lessee at the end of the lease term, were recognized as operating leases. Under these new accounting standards, these leases are accounted for as capital leases and depreciated/amortized in accordance with the straight-line method over the periods of the leases, assuming no residual value.

As a result, operating income and ordinary income for the year ended March 31, 2009, increased by ¥678 million ($6,902 thousand) and ¥376 million ($3,827 thousand), respectively, and income before income taxes and minority interests for the year ended March 31, 2009, decreased by ¥269 million ($2,738 thousand) from the corresponding amounts that would have been reported if the previous method had been applied.

The effect of the adoption of this standard on segment information is noted in the relevant sections.

(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 shareholders. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the registered shareholders as of September 30 of each year.

(20) Completed-contract method, percentage-of-completion method
Effective April 1, 2008, the Company and its domestic subsidiaries adopted ASBJ Statement No.15, "Accounting Standard for Construction Contracts" and its Guidance No.18, "Guidance on Accounting Standard for Construction Contracts", issued on December 27, 2007.

Prior to April 1, 2008, the Company and its domestic subsidiaries applied the completed-contract method for recognizing revenues and costs from long-term construction contracts. Under ASBJ Statement No.15 and its Guidance No.18, the percentage-of-completion method is applied if the outcome of the construction activity can be accurately estimated during the course of the activity during the quarterly period, otherwise the completed-contract method shall be applied. The percentage of completion at the end of each quarterly period is estimated based on the percentage of the cost incurred to the estimated total cost.

The adoption of these standards did not have a material effect on Epson's financial results for the year ended March 31, 2009. The contract revenue and related costs that were computed based on the percentage of completion of construction activities as of April 1, 2008, were recorded in extraordinary income as a result of offsetting contract revenue of ¥157 million ($1,598 thousand) against related costs of ¥113 million ($1,150 thousand).

4. 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 ¥98.23 = U.S.$1, the exchange rate prevailing on March 31, 2009, has been used.

5. Inventories

Losses recognized and charged to cost of sales as a result of valuation at March 31, 2008 and 2009, were ¥11,258 million and ¥30,979 million ($315,372 thousand), respectively.

6. Investments in debt and equity securities

Epson classifies all investments in debt and equity securities in either held-to-maturity debt securities or other securities.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in the investment securities account on March 31, 2008 and 2009, were as follows:

	Millions of yen			
	March 31, 2008			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥10,778	¥6,290	(¥847)	¥16,221
Debt securities	0	-	(-)	0
Other	308	-	(-)	308
Total	¥11,087	¥6,290	(¥847)	¥16,531

	Millions of yen			
	March 31, 2009			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥6,878	¥4,111	(¥156)	¥10,833
Other	250	-	(-)	250
Total	¥7,128	¥4,111	(¥156)	¥11,083

	Thousands of U.S. dollars			
	March 31, 2009			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	$70,020	$41,850	($1,588)	$110,282
Other	2,545	-	(-)	2,545
Total	$72,565	$41,850	($1,588)	$112,827

The carrying amount of other securities, which was carried at cost and included in the short-term investments account and investment securities account at March 31, 2008 and 2009, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Other securities	2008	2009	2009
Certificate of deposit	¥127,072	¥101,000	$1,028,210
Unlisted equity securities	1,073	809	8,235
Corporate bonds	300	300	3,054
Other	27	14	142
Total	¥128,473	¥102,124	$1,039,641

The carrying amount of held-to-maturity debt securities, which was carried at amortized cost and included in the short-term investments and investment securities accounts on March 31, 2008 and 2009, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Held-to-maturity debt securities	2008	2009	2009
Commercial paper	¥9,992	¥999	$10,170
National/Local bonds and other	159	148	1,506
Total	¥10,152	¥1,147	$11,676

The amounts of investments in unconsolidated subsidiaries and affiliates, which were included in the investment securities account at March 31, 2008 and 2009, were ¥2,342 million and ¥2,939 million ($29,919 thousand), respectively.

For the years ended March 31, 2008 and 2009, the total amounts of other-than-temporary impairments charged to current income for securities with an aggregate market value were ¥471 million and ¥3,814 million ($38,827 thousand), respectively. Impairments are principally recorded in cases where the fair value of other securities with determinable market values has declined in excess of 30% of cost. Those securities are written down to the fair value, and the resulting losses are included in current income for the period.

The total sales of other securities and the related gains for the year ended March 31, 2008, were ¥11,722 million and ¥1,721 million, respectively. The total sales of other securities and the related gains for the year ended March 31, 2009, are not disclosed herein since they are insignificant to the consolidated results.

7. 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 exposure. 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 used by Epson is relatively low since all the other parties relating to the derivative instruments are creditworthy financial institutions.

Forward exchange transactions are approved by the forward exchange committee (which comprises the Epson's director and department heads responsible for finance) and executed based on authorization of the general manager of Epson responsible for the finance function. This is done in accordance with internal rules and policies developed regarding derivative transaction management.

Interest rate swap transactions are approved and executed based on the authorization of Epson's director responsible for the finance function based on the above-mentioned internal rules and policies. Transactions are executed and managed by the responsible section in the finance department, and are reported to the general manager.

The table below lists contract amounts and fair values of derivatives as of March 31, 2008 and 2009, by transactions and types of instrument, excluding derivatives appropriate for hedge accounting.

	Millions of yen		
	March 31, 2008		
Instruments	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥5,957	¥5,980	(¥22)
Euro (purchased Japanese yen)	15,896	15,542	354
Australian dollar (purchased Japanese yen)	1,122	1,046	75
U.S. dollar (purchased Euro)	1,218	1,200	17
Euro (purchased Singapore dollar)	106	109	(3)
Australian dollar (purchased Singapore dollar)	8	8	0
Purchased -			
U.S. dollar (sold Japanese yen)	64	64	0
Euro (sold Japanese yen)	59	60	0
Sterling pound (sold Singapore dollar)	16	15	(0)
U.S. dollar (sold Taiwan dollar)	211	200	(10)
Total unrealized gains from forward exchange contracts			¥410

	Millions of yen		
	March 31, 2009		
Instruments	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥462	¥460	¥1
Euro (purchased Japanese yen)	18,368	17,403	964
Australian dollar (purchased Japanese yen)	849	874	(25)
Euro (purchased Singapore dollar)	71	72	(0)
Australian dollar (purchased Singapore dollar)	1	1	(0)
Purchased -			
U.S. dollar (sold Japanese yen)	2,129	2,142	12
Euro (sold Japanese yen)	323	326	2
Sterling pound (sold Singapore dollar)	1	1	0
U.S. dollar (sold Taiwan dollar)	281	293	11
U.S. dollar (sold Korean won)	715	676	(39)
Total unrealized gains from forward exchange contracts			¥928

Instruments	Contract amounts (Thousands of U.S. dollars, March 31, 2009)	Fair values (Thousands of U.S. dollars, March 31, 2009)	Unrealized gains (losses) (Thousands of U.S. dollars, March 31, 2009)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	$4,692	$4,682	$10
Euro (purchased Japanese yen)	187,000	177,165	9,835
Australian dollar (purchased Japanese yen)	8,643	8,897	(254)
Euro (purchased Singapore dollar)	732	732	(0)
Australian dollar (purchased Singapore dollar)	10	10	(0)
Purchased -			
U.S. dollar (sold Japanese yen)	21,683	21,805	122
Euro (sold Japanese yen)	3,298	3,318	20
Sterling pound (sold Singapore dollar)	10	10	0
U.S. dollar (sold Taiwan dollar)	2,871	2,982	111
U.S. dollar (sold Korean won)	7,278	6,881	(397)
Total unrealized gains from forward exchange contracts			$9,447

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

There were no interest rate swap transactions outstanding at March 31, 2008 and 2009, other than derivatives eligible for hedge accounting.

8. Short-term and long-term loans payable

Short-term loans payable and long-term loans payable at March 31, 2008 and 2009, comprised the following:

	Millions of yen				Thousands of U.S. dollars
	March 31				March 31, 2009
	2008	2009			2009
	Amount	Amount	Average interest rate	Last due	Amount
Short-term loans payable	¥25,283	¥42,182	1.04%	-	$429,420
Current portion of long-term loans payable	73,047	18,543	1.04	-	188,771
Current portion of lease obligations	722	2,582	-	-	26,308
Long-term loans payable from financial institutions	143,871	185,322	1.36	2014	1,886,613
Lease obligations	2	2,558	-	2017	26,040
Unsecured bonds issued by the Company	30,000	30,000	1.05	2010	305,406
Unsecured bonds issued by the Company	20,000	20,000	1.44	2012	203,603
Unsecured bonds issued by the Company	30,000	30,000	1.65	2011	305,406
Unsecured bonds issued by the Company	20,000	20,000	1.70	2012	203,603
Total	¥342,926	¥351,189			$3,575,170

Average interest rates are calculated using weighted-average interest rates on bonds payable, short-term loans payable and long-term loans payable as of March 31, 2009.

Average interest rates on lease obligations are not disclosed herein since interest expenses included in lease payments are allocated based on the straight-line method for the corresponding fiscal years.

The maturities of long-term debt outstanding as of March 31, 2009, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥18,543	$188,771
2011	35,635	362,771
2012	42,187	429,471
2013	32,500	330,856
2014	75,000	763,514
Total	¥203,866	$2,075,384

The maturities of lease obligations outstanding as of March 31, 2009, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥2,582	$26,308
2011	1,126	11,462
2012	515	5,242
2013	409	4,163
2014	334	3,400
Total	¥4,968	$50,575

The maturities of bonds outstanding as of March 31, 2009, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥30,000	$305,406
2012	30,000	305,406
2013	40,000	407,206
Total	¥100,000	$1,018,018

As of March 31, 2008, the Company had line-of-credit agreements with twenty-eight financial institutions for an aggregate maximum amount of ¥80,000 million. As of March 31, 2008, there were unused lines of credit of ¥50,000 million outstanding and available.

9. Goodwill

Epson had goodwill and negative goodwill as of March 31, 2008 and 2009. Goodwill and negative goodwill are amortized on a straight-line basis in accordance with Japanese accounting standards. Negative goodwill was recorded in other long-term liabilities account after being offset against goodwill. The amounts of goodwill and negative goodwill before offsetting as of March 31, 2008 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2008	2009	2009
Goodwill	¥423	¥469	$4,774
Negative goodwill	3,300	2,199	22,386

10. Retirement benefits

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

Some of the Company's Japanese subsidiaries maintain tax qualified pension plans that 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, 2008 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2008	2009	2009
Projected benefit obligations	¥218,019	¥219,094	$2,230,418
Plan assets at fair value	194,592	171,621	1,747,134
Unfunded status	23,426	47,473	483,284
Unrecognized items:			
Prior service cost reduction from plan amendment	1,343	(734)	(7,472)
Actuarial gains (losses)	(11,623)	(36,086)	(367,362)
Provision for retirement benefits - net	13,145	10,653	108,449
Prepaid pension cost	1,386	2,313	23,546
Provision for retirement benefits	¥14,532	¥12,966	$131,996

The composition of net pension and severance costs for the years ended March 31, 2008 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2008	2009	2009
Service cost	¥8,173	¥8,050	$81,950
Interest cost	5,613	5,751	58,546
Expected return on plan assets	(6,271)	(6,895)	(70,192)
Amortization and expenses:			
Prior service costs	(2,340)	(2,077)	(21,144)
Actuarial losses	175	2,155	21,948
Net pension and severance costs	5,351	6,985	71,108
Contribution to defined contribution pension plan	3,299	3,542	36,069
	¥8,650	¥10,528	$107,177

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2008 and 2009, were primarily as follows:

	Year ended March 31	
	2008	2009
Discount rate	2.5%	2.5%
Long-term rate of return on plan assets	3.0	3.2

11. Net assets

The Japanese Companies Act stipulates that an amount equal to 10% of dividends shall be distributed 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.

Under the Japanese Companies Act, 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 Companies Act, 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 and interim cash dividends per share that the Company paid to its registered shareholders at the ends of the year and interim periods in the years ended March 31, 2008 and 2009, were as follows:

	Yen		U.S. dollars
	Year ended March 31		Year ended March 31,
Cash dividends per share	2008	2009	2009
Year-end	¥16.00	¥16.00	$0.16
Interim	16.00	19.00	0.19
Total	¥32.00	¥35.00	$0.35

The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2008, were June 27, 2007, and December 5, 2007, respectively. The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2009, were June 26, 2008, and December 5, 2008, respectively.

The cash dividends of retained earnings of the Company for the year ended March 31, 2009, approved at the general shareholders' meeting, which was held on June 24, 2009, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,374	$13,987

	Yen	U.S. dollars
Cash dividends per share	¥7.00	$0.07

The effective date of the distribution is June 25, 2009.

12. Net income (loss) per share

Calculation of net income (loss) per share for the years ended March 31, 2008 and 2009, was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2008	2009	2009
Net income (loss) attributable to common shares	¥19,093	(¥111,322)	($1,133,279)

	Thousands of shares	
Weighted-average number of common shares outstanding	196,362	196,361

	Yen		U.S. dollars
Net income (loss) per share	¥97.24	(¥566.92)	($5.77)

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding during the year ended March 31, 2008. Diluted net loss per share is not calculated herein since a net loss was incurred and Epson had no dilutive potential common shares outstanding during the year ended March 31, 2009.

13. Income taxes

Epson is subject to a number of different income taxes that amounted to a statutory income tax rate in Japan of approximately 40.4 % for each of the years ended March 31, 2008 and 2009.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2008	2009	2009
Deferred tax assets:			
Property, plant and equipment and intangible assets (Impairment loss and excess of depreciation)	¥26,682	¥52,045	$529,827
Net operating tax loss carry-forwards	18,262	32,494	330,795
Inter-company profits on inventories and write downs	8,776	18,719	190,562
Provision for bonuses	7,358	3,925	39,957
Devaluation of investment securities	5,072	2,886	29,380
Provision for retirement benefits	4,455	3,360	34,205
Provision for product warranties	3,510	3,017	30,713
Provision for loss on litigation	1,320	3,340	34,001
One-time depreciation for assets	1,224	1,060	10,791
Others	19,240	16,805	171,133
Gross deferred tax assets	95,903	137,656	1,401,364
Less: valuation allowance	(29,492)	(113,436)	(1,154,800)
Total deferred tax assets	66,410	24,220	246,564
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(32,478)	(9,582)	(97,546)
Net unrealized gains on land held by a subsidiary	(2,613)	(2,613)	(26,600)
Valuation difference on available-for-sale securities	(1,510)	(1,069)	(10,882)
Reserve for special depreciation for tax purpose	(1,435)	(712)	(7,248)
Others	(1,778)	(910)	(9,297)
Gross deferred tax liabilities	(39,816)	(14,888)	(151,573)
Net deferred tax assets	¥26,593	¥9,331	$94,991

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 probable that these deferred tax assets will not be realized within the foreseeable future.

Prior to April 1, 2008, Epson had provided for deferred income taxes on all undistributed earnings of overseas subsidiaries and affiliates. However, Epson reversed the part of deferred income taxes on all undistributed earnings of overseas subsidiaries and affiliates for the year ended March 31, 2009, due to corporate tax reform.

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	
	2008	2009
Statutory income tax rate	40.4%	40.4%
Reconciliation:		
Changes in valuation allowance	15.2	(99.0)
Reversal of deferred income taxes on undistributed earnings of overseas subsidiaries due to corporate tax reform	-	21.8
Entertainment expenses, etc. permanently non-tax deductible	1.9	(1.5)
Changes in income tax rate of foreign subsidiaries	1.2	-
Unrecognized tax benefit for inter-company profit elimination	-	7.8
Other	(0.6)	1.3
Income tax rate per statements of operations	58.1%	(29.2%)

14. Selling, general and administrative expenses

The significant components of selling, general and administrative expenses for the year ended March 31, 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2008	2009	2009
Salaries and wages	¥83,615	¥75,978	$773,470
Advertising	26,263	22,075	224,727
Sales promotion	27,666	22,881	232,932
Research and development costs	43,263	43,948	447,398
Shipping costs	19,987	16,333	166,273
Provision for doubtful accounts	267	276	2,809
Other	109,806	109,540	1,115,141
Total	¥310,871	¥291,031	$2,962,750

15. Research and development costs

Research and development costs, which are included in the cost of sales and selling, general and administrative expenses, totaled ¥82,870 million and ¥82,058 million ($835,365 thousand) for the years ended March 31, 2008 and 2009, respectively.

16. Business structure improvement expenses

The business structure improvement expenses for the year ended March 31, 2009, mainly comprised impairment losses and reorganization cost of production sites as a result of structural reforms accompanying strategic changes in the display and the semiconductor businesses.

17. Impairment loss

Epson's business assets are generally grouped by business segment under the Company's management accounting system, and their cash flows are continuously monitored. Assets that Epson plans to sell and idle assets are separately assessed for impairment on the individual asset level. Impairment tests are performed for both types of assets. The net book value of a business asset is 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 a change in the utilization plan for the assets. The carrying value of assets that Epson plans to sell and 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, 2008, Epson incurred an impairment loss on its liquid crystal panel production equipment, production equipment planned for consolidation and idle assets. The carrying value of these assets was reduced to its recoverable amount. A reduction in value of ¥10,783 million was recognized in the impairment loss account. The reduction mainly comprised ¥5,023 million for buildings and structures, ¥4,144 million for machinery, equipment and vehicles, ¥823 million for tools, furniture and fixtures, and ¥591 million for land.

For the year ended March 31, 2009, Epson incurred an impairment loss on its liquid crystal display production equipment, semiconductor production equipment, production equipment planned for consolidation and idle assets. The carrying value of these assets was reduced to its recoverable amount. A reduction in value of ¥73,839 million ($751,695 thousand) was recognized in the impairment loss account and the business structure improvement expenses account. The reduction mainly comprised ¥31,744 million ($323,159 thousand) for buildings and structures, ¥24,809 million ($252,560 thousand) for machinery, equipment and vehicles, ¥4,645 million ($47,286 thousand) for tools, furniture and fixtures, ¥6,235 million ($63,473 thousand) for land, ¥3,930 million ($40,008 thousand) for intangible assets. The recoverable amounts are determined using their net selling prices and value in use, which were assessed on the basis of reasonable estimates. The values in use were calculated by applying a 6.1% discount rate to the assets' expected future cash flows.

18. Cash flow information
Cash and cash equivalents at March 31, 2008 and 2009, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2008	2009	2009
Cash and deposits	¥171,970	¥172,921	$1,760,368
Short-term investments	137,079	102,014	1,038,521
Short-term loans receivables	10,000	10,000	101,803
Subtotal	319,050	284,935	2,900,692
Less:			
Short-term borrowings (overdrafts)	(1,215)	(4)	(40)
Time deposits due over three months	(1,406)	(576)	(5,875)
Short-term investments due over three months	(14)	(14)	(142)
Cash and cash equivalents	¥316,414	¥284,340	$2,894,635

The Company obtained marketable securities, the fair value of which was ¥9,606 million and ¥9,921 million ($100,997 thousand) on March 31, 2008 and 2009, respectively, as deposits for the short-term loans receivables above.

19. Leases
As described in Note 3 (17), during the year ended March 31, 2008, Epson, as a lessee, charged periodic capital lease payments to expense when paid. Such payments for the year ended March 31, 2008, amounted to ¥9,344 million.

As of March 31, 2009, capital leases, mainly comprised of plants, production equipment, host computers and computer terminals in the electronic devices segment.

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 as of March 31, 2008, would have been as follows:

	Millions of yen
	March 31, 2008
Acquisition cost:	
Buildings and structures	¥1,806
Machinery and equipment	37,706
Furniture and fixtures	1,709
Intangible assets	111
	41,333
Less:	
Accumulated depreciation/amortization	(26,758)
Accumulated impairment loss	(8,311)
Net book value	¥6,263

Depreciation/amortization expenses for these leased assets for the year ended March 31, 2008, would have been ¥8,437 million 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, 2008, would have been ¥525 million.

Epson has recognized an impairment loss, which was primarily recorded in the business structure improvement expenses, for future lease payments of impaired capital lease assets in accordance with Japanese accounting standards. The amount was ¥55 million for the year ended March 31, 2008.

Future lease payments for capital leases at March 31, 2008, were as follows:

	Millions of yen
Future lease payments	March 31, 2008
Due within one year	¥6,860
Due after one year	4,770
Total	¥11,630

Amounts appearing in the table above include amounts to be paid on capital leases that have accrued impairment losses amounting to ¥5,610 million as of March 31, 2008. Lease payments for impaired capital lease assets in the year ended March 31, 2008, were ¥3,406 million.

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2008 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2008	2009	2009
Due within one year	¥4,949	¥4,216	$42,919
Due after one year	6,651	9,068	92,324
Total	¥11,601	¥13,285	$135,243

20. Contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2008 and 2009, were ¥2,038 million and ¥1,707 million ($17,377 thousand), respectively.

21. Related party transactions

The Company has entered into real estate lease agreements with K.K. Sunritz ("Sunritz"). Mr. Yasuo Hattori, a vice-chairman and director of the Company, and his relatives own 9.5% and 71.3% of the outstanding shares of Sunritz, respectively.

A subsidiary of the Company has also entered into real estate lease agreements with Hamazawa Investment Company ("Hamazawa"), which is a subsidiary of Sunritz.

Mr. Saburo Kusama, who was a chairman and director of the Company for the year ended March 31, 2008, was a chairman of SE GAKUEN Educational Foundation ("SE GAKUEN") and a chairman of Epson International Scholarship Foundation ("International Scholarship Foundation") for the year ended March 2008, and owned 0.0% of the outstanding shares of the Company.

The company and its subsidiary's transactions with these related parties for the years ended March 31, 2008 and 2009, and related balances on March 31, 2008 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2008	2009	2009
Transactions:			
With Sunritz -			
Rental expenses for real estates	¥19	¥18	$183
With Hamazawa -			
Rental expenses for real estates	-	25	254
With SE GAKUEN -	-		
Rental income for buildings	42	-	-
Recharge of personnel	54	-	-
With International Scholarship Foundation -			
Recharge of personnel	4	-	-
Donation for enhanced operational foundation	5	-	-

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2008	2009	2009
Balances:			
With Sunritz -			
Other investments	¥1	¥1	$10
With SE GAKUEN -			
Other current assets	6	-	-
With International Scholarship Foundation -			
Other current assets	0	-	-

On October 17, 2006, the ASBJ issued an Accounting Standard - ASBJ Statement No. 11 “Accounting Standard for Related Party Disclosures” and its Guidance No. 13 “Guidance on Accounting Standard for Related Party Disclosures”. Effective April 1, 2008, Epson has adopted these standards. As a result, Epson has included Hamazawa in the scope of related parties.

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 by the nature of products, markets and marketing methods.

The information-related equipment segment mainly includes color inkjet printers, page printers, serial impact dot matrix printers, large-format inkjet printers and related supplies, color image scanners, mini-printers, printers for use in POS systems, 3LCD projectors, LCD monitors, label writers and personal computers.

The electronic devices segment mainly includes small- and medium-sized LCDs, HTPS-TFT panels for 3LCD projectors, crystal units, crystal oscillators, optical devices and CMOS LSIs.

The precision products segment mainly includes 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 intra-group services and business incubation projects, are categorized within “Other”.

The following table summarizes the business segment information of Epson for the years ended March 31, 2008 and 2009:

	Millions of yen						
	Year ended March 31, 2008						
	Business segment						
	Information-related equipment	Electronic devices	Precision products	Other	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	¥900,443	¥360,072	¥82,901	¥4,423	¥1,347,841	-	¥1,347,841
Inter-segment	2,527	35,124	1,025	24,700	63,378	(63,378)	-
Total	902,970	395,197	83,927	29,124	1,411,219	(63,378)	1,347,841
Operating expenses	819,696	412,364	81,193	40,586	1,353,841	(63,577)	1,290,263
Operating income (loss)	¥83,274	(¥17,167)	¥2,733	(¥11,462)	¥57,378	¥199	¥57,577
Identifiable assets	¥344,619	¥308,313	¥56,634	¥126,074	¥835,641	¥303,523	¥1,139,165
Depreciation and amortization	¥29,488	¥31,558	¥3,820	¥14,336	¥79,204	¥4	¥79,209
Impairment loss	¥788	¥9,634	¥56	¥304	¥10,783	-	¥10,783
Capital expenditures	¥28,002	¥21,987	¥4,460	¥12,560	¥67,010	(¥2,018)	¥64,991

	Millions of yen						
	Year ended March 31, 2009						
	Business segment						
	Information-related equipment	Electronic devices	Precision products	Other	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	¥767,355	¥279,845	¥71,359	¥3,937	¥1,122,497	-	¥1,122,497
Inter-segment	2,494	31,781	1,337	27,891	63,506	(63,506)	-
Total	769,850	311,626	72,697	31,828	1,186,003	(63,506)	1,122,497
Operating expenses	739,707	329,876	74,604	43,901	1,188,090	(64,005)	1,124,085
Operating income (loss)	¥30,143	(¥18,249)	(¥1,907)	(¥12,073)	(¥2,086)	¥498	(¥1,588)
Identifiable assets	¥303,490	¥165,130	¥50,510	¥113,664	¥632,795	¥284,546	¥917,342
Depreciation and amortization	¥30,595	¥32,958	¥3,972	¥10,882	¥78,407	(¥1)	¥78,406
Impairment loss	¥133	¥73,218	¥52	¥434	¥73,839	-	¥73,839

Capital expenditures	¥31,578	¥18,763	¥3,752	¥6,695	¥60,788	(¥1,840)	¥58,947

	Thousands of U.S. dollars						
	Year ended March 31, 2009						
	Business segment						
	Information-related equipment	Electronic devices	Precision products	Other	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	$7,811,830	$2,848,875	$726,448	$40,079	$11,427,232	-	$11,427,232
Inter-segment	25,422	323,536	13,610	283,935	646,503	($646,503)	-
Total	7,837,252	3,172,411	740,058	324,014	12,073,735	(646,503)	11,427,232
Operating expenses	7,530,391	3,358,189	759,471	446,919	12,094,970	(651,572)	11,443,398
Operating income (loss)	$306,861	($185,778)	($19,413)	($122,905)	($21,235)	$5,069	($16,166)
Identifiable assets	$3,089,608	$1,681,054	$514,201	$1,157,121	$6,441,984	$2,896,731	$9,338,715
Depreciation and amortization	$311,465	$335,518	$40,435	$110,780	$798,198	($11)	$798,187
Impairment loss	$1,375	$745,373	$529	$4,418	$751,695	-	$751,695
Capital expenditures	$321,471	$191,010	$38,196	$68,156	$618,833	($18,742)	$600,091

The amounts of corporate assets included in “Eliminations and corporate” were ¥322,689 million and ¥293,829 million ($2,991,234 thousand) at March 31, 2008 and 2009, respectively, and mainly comprised cash and deposits, securities and short-term loans receivable.

Change in the accounting standard for the measurement of inventories

As described in Note 3 (5), effective April 1, 2008, Epson adopted ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories”, issued on July 5, 2006.

As a result, for the year ended March 31, 2009, operating income from the information-related equipment segment decreased by ¥388 million ($3,949 thousand), the electronic devices segment by ¥130 million ($1,323 thousand), the precision products segment by ¥192 million ($1,954 thousand), and operating income from the other segment increased by ¥14 million ($142 thousand) from the corresponding amounts that would have been reported if the previous method had been applied..

Change in the accounting standard for lease transactions

As described in Note 3 (17), effective April 1, 2008, the Company and its domestic subsidiaries adopted ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, and ASBJ Guidance No.16, “Guidance on Accounting Standard for Lease Transactions”, as amended on March 30, 2007.

As a result, for the year ended March 31, 2009, operating income from the information-related equipment segment, increased by ¥16 million ($162 thousand), the electronic devices segment by ¥620 million ($6,311 thousand), the precision products segment by ¥2 million ($20 thousand), and the other segment by ¥38 million ($386 thousand) from the corresponding amounts that would have been reported if the previous method had been applied.

(2) Geographic segment information

Net sales are attributed to geographic segments based on the country or region 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, 2008 and 2009:

	Millions of yen						
	Year ended March 31, 2008						
	Geographic region						
	Japan	The Americas	Europe	Asia/Oceania	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	¥600,489	¥247,481	¥291,920	¥207,949	¥1,347,841	-	¥1,347,841
Inter-segment	592,102	34,458	7,701	543,954	1,178,217	(1,178,217)	-
Total	1,192,591	281,940	299,621	751,904	2,526,058	(1,178,217)	1,347,841
Operating expenses	¥1,172,147	¥273,018	¥293,872	¥729,442	¥2,468,480	(¥1,178,216)	¥1,290,263
Operating income (loss)	¥20,444	¥8,922	¥5,749	¥22,461	¥57,578	(¥0)	¥57,577
Identifiable assets	¥637,716	¥87,598	¥80,074	¥206,456	¥1,011,845	¥127,319	¥1,139,165

	Millions of yen						
	Year ended March 31, 2009						
	Geographic region						
	Japan	The Americas	Europe	Asia/Oceania	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	¥505,477	¥215,950	¥237,754	¥163,314	¥1,122,497	-	¥1,122,497
Inter-segment	492,993	26,931	6,353	446,258	972,537	(972,537)	-
Total	998,471	242,881	244,108	609,573	2,095,035	(972,537)	1,122,497
Operating expenses	¥1,042,949	¥238,064	¥233,937	¥592,585	¥2,107,537	(¥983,452)	¥1,124,085
Operating income (loss)	(¥44,478)	¥4,817	¥10,170	¥16,987	(¥12,502)	¥10,914	(¥1,588)
Identifiable assets	¥450,657	¥79,752	¥70,141	¥154,054	¥754,606	¥162,736	¥917,342

	Thousands of U.S. dollars						
	Year ended March 31, 2009						
	Geographic region						
	Japan	The Americas	Europe	Asia/Oceania	Total	Eliminations and corporate	Consolidated
Net sales:							
Customers	$5,145,874	$2,198,411	$2,420,380	$1,662,567	$11,427,232	-	$11,427,232
Inter-segment	5,018,784	274,162	64,674	4,542,990	9,900,610	($9,900,610)	-
Total	10,164,658	2,472,573	2,485,054	6,205,557	21,327,842	(9,900,610)	11,427,232
Operating expenses	10,617,439	2,423,536	2,381,522	6,032,627	21,455,124	(10,011,726)	11,443,398
Operating income (loss)	($452,781)	$49,037	$103,532	$172,930	($127,282)	$111,116	($16,166)
Identifiable assets	$4,587,796	$811,890	$714,048	$1,568,298	$7,682,032	$1,656,683	$9,338,715

The amounts of corporate assets included in “Eliminations and corporate” were ¥322,689 million and ¥293,829 million ($2,991,234 thousand) at March 31, 2008 and 2009, respectively, and mainly comprised cash and deposits, securities and short-term loans receivable.

Change in the accounting standard for the measurement of inventories
As described in Note 3 (5), effective April 1, 2008, Epson adopted ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories”, issued on July 5, 2006.

As a result, for the year ended March 31, 2009, operating income from Japan decreased by ¥675 million ($6,871 thousand) and operating income from eliminations and corporate decreased by ¥21 million ($213 thousand), from the corresponding amounts that would have been reported if the previous method had been applied.

Change in the accounting standard for lease transactions

As described in Note 3 (17), effective April 1, 2008, the Company and its domestic subsidiaries adopted ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, and ASBJ Guidance No.16, “Guidance on Accounting Standard for Lease Transactions”, as amended on March 30, 2007.

As a result, for the year ended March 31, 2009, operating income from Japan increased by ¥678 million ($6,902 thousand) from the corresponding amount that would have been reported if the previous method had been applied.

(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, 2008 and 2009:

	Millions of yen			
	Year ended March 31, 2008			
	The Americas	Europe	Asia/Oceania	Total
Overseas sales	¥274,407	¥344,446	¥301,008	¥919,862
Consolidated net sales				¥1,347,841
Percentage of overseas sales to consolidated net sales (%)	20.4%	25.5%	22.3%	68.2%

	Millions of yen			
	Year ended March 31, 2009			
	The Americas	Europe	Asia/Oceania	Total
Overseas sales	¥236,602	¥262,130	¥255,038	¥753,771
Consolidated net sales				¥1,122,497
Percentage of overseas sales to consolidated net sales (%)	21.1%	23.4%	22.7%	67.2%

	Thousands of U.S. dollars			
	Year ended March 31, 2009			
	The Americas	Europe	Asia/Oceania	Total
Overseas sales	$2,408,653	$2,668,533	$2,596,345	$7,673,531
Consolidated net sales				$11,427,232
Percentage of overseas sales to consolidated net sales (%)	21.1%	23.4%	22.7%	67.2%

23. Special purpose entity

Epson Toyocom, a consolidated subsidiary of the Company, approved a resolution at a meeting of its board of directors held on February 23, 2007, for the cancellation of the securitization of certain real estate (the "Real Estate"), which it owned in Kawasaki, Kanagawa Prefecture, Japan. The securitization was implemented on March 27, 2002 before the merger with the quartz device business of the Company.

Epson Toyocom used one special purpose entity (the "SPE"), which is a special limited company under Japanese law, for the securitization. Epson Toyocom procured funds by transferring the trust beneficiary rights of the Real Estate to the SPE, and, in addition to fully funding the anonymous association business established by the SPE concerning the Real Estate, Epson Toyocom leased the Real Estate through a fixed-term building leaseback contract. On July 3, 2007, the SPE sold the trust beneficiary rights to certain third parties and the leaseback contract was canceled on the same day. Furthermore, the anonymous association contract was canceled on February 29, 2008, and Epson Toyocom received a return on its investment in the
anonymous association. As of March 31, 2008, Epson Toyocom determined that there was no likelihood of its incurring a related loss subsequent to March 31, 2008. Epson Toyocom had no voting interests in the SPE, nor had it seconded any directors or employees to the SPE as of March 31, 2008.

Transactions with the SPE for the year ended March 31, 2008, were primarily as follows:

	Millions of yen
Transactions:	
Investment in anonymous association -	
Dividend income	¥3,557
Leaseback transaction -	
Lease expenses	64

The leaseback transaction in the table above concerns the Real Estate up to the cancellation date of the related contract. The transaction was recorded as an operating lease.

There were no related balances to the SPE as of March 31, 2008 and 2009.

24. Subsequent events

The Company and its consolidated subsidiary Epson Toyocom Corporation ("Epson Toyocom") resolved at meetings of their respective boards of directors, held on April 30, 2009, to carry out a share exchange through which Epson Toyocom was to become the wholly-owned subsidiary of Seiko Epson (the "share exchange"), and they entered into the agreement for the share exchange (the "share exchange agreement").

The shares of Epson Toyocom were delisted before the effective date of the share exchange agreement (June 1, 2009; final date for trading was May 25, 2009).

(1) Purpose of share exchange

The share exchange will improve Epson's management speed and, through further streamlining, will enhance Epson's overall strength, its management foundations, and corporate value.

(2) Share exchange method

(a) Share exchange method

Based on the April 30, 2009 share exchange agreement, the Company will allocate its shares to Epson Toyocom's shareholders in exchange for Epson Toyocom's shares.

(b) Allotment relating to share exchange

Company Name	The Company (100% parent company after the share exchange)	Epson Toyocom (wholly-owned subsidiary after the share exchange)
Details of allotment relating to share exchange	1	0.21
Number of new shares to be issued because of share exchange	3,452,797 ordinary shares	

(c) Effective date

The effective date of the share exchange is June 1, 2009.

The share exchange was carried out in accordance with, in the case of the Company, the procedures for a simplified share exchange as provided in Article 796(3) of the Japanese Companies Act and, in the case of Epson Toyocom, the procedures for a summary share exchange as provided in Article 784(1) of the Japanese Companies Act.

25. Other

The Company and related subsidiaries are subject to allegations concerning a TFT-LCD price-fixing cartel, and have received from the Japanese Fair Trade Commission and competition authorities in the United States, the European Union and elsewhere instructions and notices to submit materials. Civil lawsuits relating to this matter have been brought before courts in both the United States and Canada.

Report of Independent Auditors

The Board of Directors
Seiko Epson Corporation

We have audited the accompanying consolidated balance sheets of Seiko Epson Corporation and consolidated subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and consolidated subsidiaries at March 31, 2008 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 25, 2009

Additional Information

1. Principal subsidiaries and affiliates

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Consolidated subsidiaries					
Epson Sales Japan Corporation *1	Shinjuku-ku, Tokyo	4,000 (million JPY)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals, Rental of assets, Interlocking directors
Epson Direct Corporation	Matsumoto-shi, Nagano	150 (million JPY)	Sales of information-related equipment	100.0 (100.0)	Sales of PCs, etc., Rental of assets
Orient Watch Co., Ltd.	Chiyoda-ku, Tokyo	1,937 (million JPY)	Manufacture of information-related equipment and electronic devices	100.0	Manufacture of printer components and crystal devices
Tohoku Epson Corporation	Sakata-shi, Yamagata	480 (million JPY)	Manufacture of information-related equipment and electronic devices	100.0	Manufacture of printer components and semiconductors, Loan of assets, Interlocking directors
Epson Imaging Devices Corporation *1	Azumino-shi, Nagano	55,000 (million JPY)	Manufacture and sales of electronic devices	100.0	Manufacture and sales of LCDs, Rental of assets, Guaranty of liabilities
Epson Toyocom Corporation *1, 2	Hino-shi, Tokyo	12,266 (million JPY)	Manufacture and sales of electronic devices	67.0	Manufacture and sales of crystal devices, etc., Rental of assets
U.S. Epson, Inc. *1	Long Beach, U.S.A.	111,941 (thousand USD)	Regional headquarters	100.0	Regional headquarters in Americas, Interlocking directors
Epson America, Inc. *1	Long Beach, U.S.A.	40,000 (thousand USD)	Sales of information-related equipment and precision products	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Interlocking directors
Epson Electronics America, Inc.	San Jose, U.S.A.	10,000 (thousand USD)	Sales of electronic devices	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc. *1	Portland, U.S.A.	46,200 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson El Paso, Inc.	El Paso, U.S.A.	11,000 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson Europe B.V. *1	Amsterdam, Netherlands	95,000 (thousand EUR)	Regional headquarters	100.0	Regional headquarters in Europe, Guaranty of liabilities, Interlocking directors
Epson (U.K.) Ltd.	Hemel Hempstead, UK	1,600 (thousand GBP)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals Guaranty of liabilities
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Sales of information-related equipment and precision products	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Guaranty of liabilities
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Sales of electronic devices	100.0 (100.0)	Sales of electronic devices, Guaranty of liabilities
Epson France S.A.	Levallois-Perret, France	4,000 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Italia s.p.a.	Milan, Italy	3,000 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson Iberica, S.A.	Cerdanyola, Spain	1,500 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson (China) Co., Ltd. *1	Beijing, China	1,044 (million CNY)	Regional headquarters, sales of electronic devices	100.0	Regional headquarters in China, Sales of LCDs
Epson Korea Co., Ltd.	Seoul, Korea	1,466 (million KRW)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals
Epson (Shanghai) Information Equipment Co., Ltd.	Shanghai, China	16 (million CNY)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals
Epson Hong Kong Ltd.	Hong Kong, China	2,000 (thousand HKD)	Sales of information-related equipment and electronic devices	100.0	Sales of printers and other PC peripherals, and sales of electronic devices
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	25,000 (thousand TWD)	Sales of information-related equipment and electronic devices	100.0	Sales of printers and other PC peripherals, and sales of electronic devices, Guaranty of liabilities
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, sales of information-related equipment and electronic devices	100.0	Regional headquarters in South-east Asia, Sales of printers and other PC peripherals, and sales of electronic devices, Guaranty of liabilities
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (thousand AUD)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals, Guaranty of liabilities, Interlocking directors
Suzhou Epson Co., Ltd. *1	Suzhou, China	1,043 (million CNY)	Manufacture of electronic devices	100.0 (80.6)	Manufacture of LCDs
Tianjin Epson Co., Ltd.	Tianjin, China	172 (million CNY)	Manufacture of information-related equipment	80.0 (18.6)	Manufacture of printer consumables, etc., Interlocking directors
Epson Precision (Hong Kong) Ltd. *1	Hong Kong, China	81,602 (thousand USD)	Manufacture of information-related equipment and precision products	100.0	Manufacture of printers, watches, etc., Interlocking directors
Singapore Epson Industrial Pte. Ltd. *1	Singapore	71,700 (thousand SGD)	Manufacture of information-related equipment, electronic devices and precision products	100.0	Manufacture of scanners, semiconductors, and watches, etc., Guaranty of liabilities, Interlocking directors
P.T. Indonesia Epson Industry *1	Bekasi, Indonesia	23,000 (thousand USD	Manufacture of information-related equipment	100.0	Manufacture of printers, Guaranty of liabilities, Interlocking directors
Epson Precision (Philippines), Inc. *1	Cabuyao, Philippines	57,533 (thousand USD)	Manufacture of information-related equipment and electronic devices	100.0	Manufacture of printers and crystal devices, Interlocking directors
Epson Imaging Devices (Phils.) Inc.	Binan, Philippines	16,449 (thousand USD)	Manufacture of electronic devices	100.0 (100.0)	Manufacture of LCDs
Epson Toyocom Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Manufacture of electronic devices	67.0 (67.0)	Manufacture of crystal devices

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
64 other companies	–	–	–	–	–

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and affiliate
Equity method affiliates					
Time Module (Hong Kong) Ltd.	Hong Kong, China	5,001 (thousand HKD)	Sales of precision products	33.3	Sales of watch movements
Four other companies	–	–	–	–	–

Notes

1. Ownership percentage of voting rights indicated inside parenthesis refers to indirect ownership percentage.
2. *1 indicates a specified subsidiary (“tokutei-kogaisha”).
3. *2 submits annual securities reports (“yukashoken-houkokusho”).
4. The net sales (excluding eliminations of sales among consolidated subsidiaries) of Epson Sales Japan Corporation, Epson America, Inc. and Epson Europe B.V. each amount to more than 10% of the consolidated net sales. Key information about operations of those subsidiaries is as follows.

(Millions of yen)

Company name	Net sales	Ordinary income	Net income	Total net assets	Total assets
Epson Sales Japan Corporation	223,462	5,380	3,445	12,213	70,246
Epson America, Inc.	192,474	340	-3,005	33,249	68,053
Epson Europe B.V.	244,108	9,742	7,673	40,003	96,749

Figures for Epson America, Inc. and Epson Europe B.V. are included in consolidated business results.

5. Epson Imaging Devices Corporation moved its head office to the former Tottori Plant (Tottori, Tottori Prefecture, Japan) on April 1, 2009. The name of the previous head office (Azumino, Nagano Prefecture, Japan) was then changed to Toyoshina Plant.
6. As a result of the share exchange of June 1, 2009, the Company’s assumed 100% of the voting rights in Epson Toyocom Corporation and Epson Toyocom Malaysia Sdn. Bhd.

2. Distribution of ownership among shareholders

Correct as of March 31, 2009

Category	Share ownership (100 shares per unit)								Shares less than one unit (Shares)
	Government and regional public bodies	Japanese financial institutions	Japanese securities companies	Other Japanese corporations	Foreign institutions and others		Japanese individuals and others	Total	
					Institutions	Individuals			
Number of shareholders (Persons)	–	68	32	395	384	39	34,079	34,997	–
Number of shares owned (Units)	–	499,726	18,870	578,633	395,065	269	470,992	1,963,555	9,092
Percentage of shares owned (%)	–	25.45	0.96	29.47	20.12	0.01	23.99	100.00	–

Notes

1. 3,018 shares of treasury stock are included as 30 units in “Japanese individuals and others” and 18 shares in “Shares less than one unit.”
2. Four units in the name of Japan Securities Depository Center, Inc. are included under “Other Japanese corporations.”

3. Major shareholders

Correct as of March 31, 2009

Name	Address	Number of shares held	Shareholding ratio (%)
Aoyama Kigyo Kabushiki Kaisha	3-5-8 Ginza, Chuo-ku, Tokyo	20,718,934	10.55
Sanko Kigyo Kabushiki Kaisha	5-6-1 Ginza, Chuo-ku, Tokyo	14,288,500	7.27
Japan Trustee Services Bank, Ltd. (4G Account)	1-8-11 Harumi, Chuo-ku, Tokyo	8,917,900	4.54
Seiko Holdings Corporation	4-5-11 Ginza, Chuo-ku, Tokyo	7,948,800	4.04
Yasuo Hattori	Minato-ku, Tokyo	7,150,406	3.64
Reijiro Hattori	Minato-ku, Tokyo	7,060,700	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,666,200	3.39
The Dai-ichi Mutual Life Insurance Company	1-13-1 Yuraku-cho, Chiyoda-ku, Tokyo	6,240,000	3.17
Noboru Hattori	Minato-ku, Tokyo	5,599,900	2.85
Seiko Epson Corporation Employees' Shareholding Association	3-3-5 Owa, Suwa-shi, Nagano	5,258,248	2.67
Total	—	89,849,588	45.75

4. Epson stock price

(1) High and low stock prices for the previous five years

Year	63rd year	64th year	65th year	66th year	67th year
Fiscal year	March 2005	March 2006	March 2007	March 2008	March 2009
High (¥)	4,820	3,970	3,610	4,320	3,300
Low (¥)	3,510	2,650	2,660	1,997	1,001

Note
High and low stock prices noted above are based on the Tokyo Stock Exchange (First Section) data.

(2) High and low stock prices for the previous six months

Month	October 2008	November	December	January 2009	February	March
High (¥)	2,570	1,742	1,430	1,623	1,281	1,534
Low (¥)	1,438	1,195	1,192	1,127	1,002	1,001

Note
High and low stock prices noted above are based on the Tokyo Stock Exchange (First Section) data.

5. Corporate data and investor information

(1) Company name	Seiko Epson Corporation
(2) Founded	May 1942
(3) Head office	3-5 Owa 3-chome, Suwa, Nagano 392-8502, Japan Tel: -81-266-52-3131(main)
(4) Tokyo office	Shinjuku NS Building, 4-1 Nishishinjuku 2-chome, Shinjuku-ku Tokyo 163-0811, Japan Tel: +81-3-3348-8531

(5) Investor information

Closing of accounts	March 31
Regular general shareholders' meeting	June
Date for confirmation to shareholders of the cash dividend payment date	March 31
Date for confirmation to shareholders of the interim cash dividend payment date	September 30
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Agent's Business Address:	Head Office of Stock Transfer Agency Department Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo Tel: +81-3-5213-5213 http://www.mizuho-tb.co.jp/english/services/stock_transfer _agent.html
Intermediary Offices:	Branches of Mizuho Trust & Banking Co., Ltd Head Office and Branches of Mizuho Investors Securities Co., Ltd.
Posting of Public Notices	Public notices will be posted electronically. In the event of accidents or other circumstances preventing the electronic posting of information, such information will be made available through the *Nihon Keizai Shimbun*

	newspaper (Japanese)
Web Address	http://www.aspir.co.jp/koukoku/6724/6724.html (Japanese)

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