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SEIKO EPSON CORPORATION

ANNUAL REPORT 2013

April 2012 - March 2013

Cautionary Statement

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

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

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Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2008	2009	2010	2011	2012	**2013**	**2013**
Statements of income data							
Net sales	¥1,347,841	¥1,122,497	¥985,363	¥973,663	¥877,997	**¥851,297**	**$9,051,536**
Information-related equipment	902,970	769,850	712,692	702,918	—	—	—
Electronic devices	395,197	311,626	248,001	231,235	—	—	—
Precision products	83,927	72,697	57,746	68,276	—	—	—
Other	29,124	31,828	19,714	1,279	—	—	—
Eliminations and corporate	(63,378)	(63,506)	(52,791)	(30,046)	—	—	—
Information-related equipment business segment	—	—	—	713,936	691,801	**688,029**	**7,315,566**
Devices and precision products business segment	—	—	—	212,670	174,811	**156,872**	**1,667,963**
Other	—	—	—	61,446	17,316	**1,273**	**13,535**
Eliminations and corporate	—	—	—	(14,390)	(5,932)	**5,122**	**54,472**
Gross profit	368,449	289,443	259,469	262,963	248,846	**234,439**	**2,492,706**
Selling, general and administrative expenses	310,871	291,031	241,241	230,253	224,219	**213,184**	**2,266,710**
Operating income (loss)	57,577	(1,588)	18,227	32,709	24,626	**21,255**	**225,996**
Ordinary income	63,263	5,301	13,875	31,174	27,022	**17,629**	**187,442**
Income (loss) before income taxes and minority interests	52,045	(89,559)	(799)	15,381	15,622	**(3,479)**	**(36,990)**
Net income (loss)	19,093	(111,322)	(19,791)	10,239	5,032	**(10,091)**	**(107,293)**

Research and development costs	82,870	82,058	68,849	54,377	52,106	**49,923**	**530,813**
Capital expenditures	63,955	55,624	25,937	31,813	38,908	**43,155**	**458,851**
Depreciation and amortization	79,209	78,406	47,395	41,159	37,651	**39,320**	**418,075**

Net cash provided by (used in) operating activities	112,060	44,253	56,542	32,395	26,678	**42,992**	**457,118**
Net cash provided by (used in) investing activities	(50,770)	(61,002)	(43,203)	(23,615)	(31,528)	**(39,511)**	**(420,106)**
Free cash flow	61,289	(16,748)	13,338	8,780	(4,849)	**3,480**	**37,001**
Net cash provided by (used in) financing activities	(70,663)	(9,558)	(41,087)	(42,691)	(57,406)	**21,298**	**226,454**

	Millions of yen						Thousands of U.S. dollars
	2008	2009	2010	2011	2012	**2013**	**2013**
Balance sheet data							
Current assets	¥737,245	¥617,677	¥596,210	¥543,530	¥487,190	**¥519,457**	**$5,523,211**
Property, plant and equipment (net of accumulated depreciation)	343,261	253,712	225,354	213,623	213,086	**217,388**	**2,311,419**
Total assets	1,139,165	917,342	870,090	798,229	740,769	**778,547**	**8,278,011**
Current liabilities	385,123	283,848	328,652	315,422	313,314	**326,688**	**3,473,568**
Noncurrent liabilities	282,595	314,862	258,574	211,999	179,314	**193,052**	**2,052,652**
Net assets	471,446	318,631	282,864	270,808	248,140	**258,806**	**2,751,791**

Number of employees						
Information-related equipment	47,862	41,748	45,863	44,711	—	—
Electronic devices	29,609	19,818	22,439	20,659	—	—
Precision products	6,576	6,038	5,839	5,985	—	—
Information-related equipment business segment	—	—	—	—	55,841	**50,823**
Devices and precision products business segment	—	—	—	—	16,101	**13,859**
Other	2,417	2,151	590	245	249	**241**
Corporate	2,461	2,571	3,206	2,951	3,112	**3,838**
Total	88,925	72,326	77,936	74,551	75,303	**68,761**

Per share data (yen and U.S. dollars)							
Net income (loss)	¥97.24	(¥566.92)	(¥99.34)	¥51.25	¥26.22	**(¥56.41)**	**($0.59)**
Cash dividends	32.00	35.00	7.00	20.00	26.00	**20.00**	**0.21**
Shareholders' equity	2,277.45	1,541.16	1,407.92	1,347.71	1,377.60	**1,435.20**	**15.25**

Financial ratios (%)						
Shareholders' equity ratio	39.3	33.0	32.3	33.7	33.3	**33.0**
ROE (net income (loss)/average shareholders' equity at beginning and end of year)	4.2	(29.7)	(6.8)	3.7	2.0	**(4.0)**
ROA (ordinary income/ average total assets at beginning and end of year)	5.2	0.5	1.6	3.7	3.5	**2.3**
ROS (operating income (loss) / net sales)	4.3	(0.1)	1.8	3.4	2.8	**2.5**

Notes

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥94.05 =U.S.$1 as of March 31, 2013.
2. Ordinary income is a common item on financial statements in Japan, which is calculated by adding to or subtracting from operating income items such as interest income, rent income, interest expenses and foreign exchange gains or losses.
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.

Information on the Company

1. Overview of the business group

Epson is mainly comprised of businesses responsible for the development, manufacture and sale of information-related equipment, electronic devices, and precision products, as well as the provision of related services.

Research and development and product development are mainly conducted by the Company (corporate R&D and operations division R&D). Manufacturing 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 products business and others. This segment mainly includes the development, manufacture and sales of printers, 3LCD projectors, high-temperature polysilicon TFT panels ("HTPS-TFT panels") for 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 consumables, color image scanners, mini-printers, printers for use in point-of-sale ("POS") systems and others.

Visual products business
The visual products business is responsible for the development, manufacture and sales of 3LCD projectors, HTPS-TFT panels for 3LCD projectors, label printers and others.

Others
In Other business, PCs are sold in the Japanese market through a domestic subsidiary.

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

<table>
<tr><th rowspan="2">Business area</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</td><td>Inkjet printers, page printers,
SIDM printers, large-format inkjet printers and related consumables, color image scanners, mini-printers, printers for use in POS systems and others</td><td>Tohoku Epson Corporation
Akita Epson Corporation
Epson Portland Inc.
Epson El Paso, Inc.
Epson Engineering (Shenzhen) 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 (China) Co., Ltd.
Epson Korea Co., Ltd.
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.
Epson Australia Pty. Ltd.</td></tr>
<tr><td>Visual products</td><td>3LCD projectors, HTPS-TFT panels for 3LCD projectors, label printers and others</td><td>Epson Engineering (Shenzhen) Ltd.
Epson Precision (Philippines), Inc.</td></tr>
<tr><td>Others</td><td>PCs and others</td><td>–</td><td>Epson Direct Corporation</td></tr>
</table>

(2) Devices and precision products business segment

This segment comprises the device business and precision products business. This segment mainly includes the development, manufacture and sales of crystal units, CMOS LSIs, watches, watch movements, and precision industrial robots.

Details of the main businesses are as follows.

Device business

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 handheld devices and information communications equipment. Products are also developed and manufactured to respond to the needs of other businesses within the Group.

Quartz device business

The quartz device business is responsible for the development, manufacture and sales of crystal units, crystal oscillators and quartz sensors for industrial and consumer products in a wide range of markets. The Company succeeded the sales function of the quartz device business of Epson Toyocom Corporation through an absorption-type corporate split as of April 1, 2012.

Semiconductor business

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

Precision products business

Based on their ultra-fine and ultra-precision processing technologies that originated in mechanical watches, and high-density mounting technologies, the precision products business segment is the birthplace of Epson's micromechatronics technologies. Epson transferred its optical products business to Hoya Corporation and Hoya Group companies on February 1, 2013.

Watch business

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

Factory automation systems business

The factory automation products business is responsible for the development, manufacture and sales of precision industrial 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 area	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Devices	[Quartz device business] crystal units, crystal oscillators, quartz sensors and others	Epson Toyocom Corporation Akita Epson Corporation Epson Toyocom Malaysia Sdn. Bhd.	Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd.
	[Semiconductor business] CMOS LSIs and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd.	

Precision products	[Watch business] Watches, watch movements and others	Epson Precision (Shenzhen) Ltd. Singapore Epson Industrial Pte. Ltd.	Time Module (Hong Kong) Ltd.
	[Factory automation systems business] Precisoin industrial robots, IC handlers, industrial inkjet equipment and others	Epson Engineering (Shenzhen) Ltd.	Epson America, Inc. Epson Deutschland GmbH Epson (China) Co.,Ltd.

Notes:On April 1, 2013, Epson Toyocom Corporation changed its name to Miyazaki Epson Corporation, and Epson Toyocom Malaysia Sdn. Bhd. changed its name to Epson Precision Malaysia Sdn. Bhd..

(4) Other business segment

This segment comprises the businesses of subsidiaries that offer services for and within the Epson Group.

2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

(1) Seiko Epson Corporation

Correct as of March 31, 2013

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	2,390	88	1,301 (43,888) [3,171]	78	3,858	867
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	41	–	– (–)	5	46	41
Hirooka Office (Shiojiri-shi, Nagano)	Information-related equipment Other	Printer development and component manufacturing facilities Research and development facilities	17,690	5,600	5,560 (189,347) [22,989]	1,126	29,977	4,422
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Information-related equipment	Other facilities	1,047	731	3,637 (179,759) [1,758]	198	5,615	724
Toyoshina Plant (Azumino-shi, Nagano)	Information-related equipment Devices and precision products Other	3LCD projector development and design facilities Factory automation manufacturing facilities Other facilities	1,597	839	– (–) [108,004]	634	3,071	1,550
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Information-related equipment Other	Liquid crystal panel manufacturing facilities Other facilities	6,012	8,900	1,443 (113,082) [28,909]	520	16,877	1,136
Chitose Plant (Chitose-shi, Hokkaido)	Information-related equipment	Liquid crystal panel manufacturing facilities	2,603	1,320	1,375 (160,528)	94	5,394	188
Ina Plant (Minowa-machi, Kamiina-gun, Nagano)	Devices and precision products	Crystal device manufacturing facilities	2,213	1,343	125 (39,943) [1,502]	99	3,782	608
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Devices and precision products Other	Semiconductor development and design facilities Research and development facilities	9,689	1,475	1,996 (247,143)	363	13,524	968
Sakata Plant (Sakata-shi, Yamagata)	Devices and precision products	Semiconductor manufacturing facilities	7,228	1,718	2,104 (538,828)	270	11,321	73
Hino Office (Hino-shi, Tokyo)	Devices and precision products	Sales facilities	3,240	1	8,303 (40,725)	27	11,573	248
Shiojiri Plant (Shiojiri-shi, Nagano)	Devices and precision products	Watch manufacturing facilities	1,490	925	1,019 (41,836) [5,764]	188	3,624	626

(2) Domestic subsidiaries

Correct as of March 31, 2013

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 Devices and precision products	Printer component and semiconductor manufacturing facilities	4	3	— (—)	248	255	1,789
Akita Epson Corporation (Yuzawa-shi, Akita)	Information-related equipment Devices and precision products	Printer component and crystal device manufacturing facilities	1,400	157	677 (68,992)	114	2,349	807

(3) Overseas subsidiaries

Correct as of March 31, 2013

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	
Epson Precision (Hong Kong) Ltd. (Hong Kong, China)	Information-related equipment Devices and precision products	Printer, 3LCD projector, liquid crystal panel, watches and factory automation manufacturing facilities	1,889	4,278	— (—) [64,104]	2,673	8,842	11,393
Singapore Epson Industrial Pte. Ltd. (Singapore)	Information-related equipment Devices and precision products	Printer consumables semiconductor and watches manufacturing facilities	3,212	5,030	62 (41,065) [43,534]	919	9,225	4,571
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Information-related equipment	Printer manufacturing facilities	2,831	3,027	— (—) [201,753]	1,800	7,658	8,052
Epson Precision (Philippines), Inc. (Cabuyao, Philippines)	Information-related equipment	Printer and 3LCD projector manufacturing facilities	6,603	2,588	595 (117,489) [130,000]	2,022	11,809	10,725
Epson Toyocom Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Devices and precision products	Crystal device manufacturing facilities	566	3,372	356 (32,437)	37	4,333	2,488

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 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, primarily on new products and rationalizing, upgrading and maintaining equipment and facilities to help foster the development of new businesses and prepare 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) amounted to ¥43,155 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 segment
Investment for commercializing new products such as printers and 3LCD projectors etc., and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥33,447 million in the fiscal year under review.

Devices and precision products segment
Investment for commercializing new products such as crystal devices and watches etc., and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥7,939 million in the fiscal year under review.

Other businesses and company-wide
Investment in R&D and other activities amounted to ¥1,768 million in the fiscal year under review.

4. Plans for new additions or disposals

Epson plans to invest ¥44.0 billion in capital expenditures for the consolidated fiscal year ending March 31, 2013. The Company has changed its business segments effective from the fiscal year ending March 31, 2014.

Business segment	Planned amount of capital expenditures (100 millions of yen)	Main types and purposes of equipment and facilities
Information-related equipment	300	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Devices & Precision Products	110	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Sensing & Industrial solutions	10	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Other and overall	20	Investment for research and development, etc.
Total	440	–

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	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 information-related equipment	May 1, 2012 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 1, 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

Risks Related to Epson's Business Operations

At present, Epson has identified the following significant factors as risks that could have a material adverse affect on its future business, financial condition or operating results and that should thus be taken into account by investors. There may be other risk factors of which Epson is unaware at this time.
Epson strives to recognize, prevent, and control potential risks and to address risks that materialize.
Also, all forward-looking statements hereunder were made at Epson's discretion as of the date this Annual Report was submitted.

1. Epson relies to a significant degree on profits from its printer business.
Epson's ¥688,029 million in sales from its information-related equipment business for the year ended March 2013 constituted about 80% of Epson's consolidated sales, which were ¥851,297 million. Inkjet and other printers, including printer consumables, accounted for a large majority of the sales and profits of this business. A decrease in sales of printers and printer consumables could have a material adverse effect on Epson's operating results.

2. Competition and other factors could put downward pressure on prices.
Market prices for Epson's core printers and projectors and for certain electronic devices might continue to decline primarily due to intensified competition and a shift in demand toward lower-priced products.
Epson is striving to improve profitability by reducing production costs by using low-cost designs. At the same time, it is taking measures to fight declining prices by, for example, developing and 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 downward prices, its operating 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) The Micro Piezo*[1] technology that Epson uses in its inkjet printers competes with the thermal*[2] inkjet technologies of other companies;
2) The 3LCD*[3] technology that Epson uses in its projectors competes with other companies' DLP*[4] 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 which could adversely affect its operating results.

*1. Micro Piezo technology is an inkjet technology created by Epson that manipulates piezoelectric elements to fire small droplets of ink from nozzles.
*2. Thermal inkjet technology (also known as bubble-jet technology) is a printer technology in which the ink is heated to create bubbles and the pressure from the bubbles is used to fire the ink.
*3. 3LCD technology uses high-temperature polysilicon TFT liquid-crystal panels 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. DLP technology uses a digital micro-mirror device (DMD) as a display device. A DMD is a semiconductor on which a large number of micro mirrors are arranged, each mirror directing light onto its own individual pixel. An image is formed by the light from the light source being reflected from the mirrors onto the screen. DLP and DMD are registered trademarks of Texas Instruments Incorporated.

4. Epson genuine consumables might lose market share.
Ink cartridges are particularly important inkjet consumables in terms of 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 for less than genuine Epson ink cartridges and have a higher market share in emerging markets than in developed economies.
To counteract the loss in market share of genuine ink cartridges, Epson will pursue a policy of realizing

customer value by emphasizing the quality of its genuine products as well as by boosting user-friendliness with inkjet printers suitably adapted to customer needs in each market, such as models equipped with high-capacity ink tanks. 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 Epson's operating results could be adversely affected if Epson’s ink cartridge revenue declines because, for example, the market share of non-genuine ink cartridges increases further and genuine ink cartridges lose market share or if Epson must reduce the prices of Epson brand products. .

5. Sudden changes in the business environment could affect Epson.
Epson is concentrating management resources on domains in which it can leverage its unique strengths—domains such as the printing systems business, visual communications business, sensing systems business, and industrial solutions business—and on future growth areas that will support the next generation as it seeks to strengthen its business foundations.
However, because technological innovation is so rapid and product life cycles so short in markets where Epson is focusing its managerial resources, the Company may be unable to respond flexibly to such changes and develop and sell competitive products. In addition, demand and capital expenditure trends in Epson’s main markets, which move in tandem with the global economy, have hurt demand for Epson’s products in the past and may do so in the future.
If, for example, Epson cannot suitably respond to technological innovations in its main markets, or if economic downturns or other factors prevent a recovery in demand, or if Epson is unable to adequately meet sudden fluctuations in demand in a major market, Epson’s operating results could adversely be affected.

6. Epson competes with other companies.
Epson presently faces competition from powerful companies with abundant financial resources or strong financial compositions and from companies around the world that have the ability to manufacture competitive products or compete on price in Epson’s markets. This competition could adversely affect Epson’s operating results.
In addition to such competition, there is also the possibility that powerful companies against which Epson does not currently compete 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.

7. Expanding businesses overseas entails risks for Epson.
Epson is continuing to expand its businesses overseas; slightly less than 70% of its consolidated sales for the business year ended March 2013 were overseas. Epson has production sites all over Asia, including China, Indonesia, Singapore, Malaysia and the Philippines, as well as in the United States, the United Kingdom, and other countries. It has also established many sales companies all over the world. As of March 2013, overseas employees account for more than 70% of Epson's total workforce.
Epson believes that its global presence provides many advantages. For example, it enables Epson to undertake marketing activities aligned with the market needs of individual regions and leads to greater cost-competitiveness by reducing manufacturing costs and lead times. There are, however, unavoidable risks associated with overseas manufacturing and sales operations. These include but are not limited to changes in national laws, ordinances, or regulations related to manufacturing and sales; social, political or economic changes; transport delays; damage to infrastructure (e.g., power supply); currency exchange restrictions; 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.

8. 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’s competitive strength is backed by compact, energy-saving and high-precision technologies that are the source of its core technologies and have produced advancements including Micro Piezo inkjet head, micro-display, sensing,

GPS, image processing, energy-saving and precision mechatronics technologies. By evolving and fusing these technologies into platforms, Epson will continue to develop and manufacture products that meet customer needs.
The rapid rate of technological innovation required in most of the fields in which Epson is engaged, however, means that, in order to respond swiftly to customer needs based on changes in technology, Epson sometimes must undertake long-term investments or capital spending based on product and market predictions. Thus, while Epson is making every effort to gauge market and customer needs and will maneuver to respond to the rapid technological innovation on which they depend, if Epson is unable to accurately gauge those market trends or customer needs, or if it cannot appropriately respond to the required technological innovations, its operating results might adversely be affected.

9. Product lifecycles and the transition to new products makes Epson vulnerable to certain risks.
Epson manufactures and sells products that generally have short life cycles, such as consumer products. Epson uses the local subsidiaries and branches in its global distribution network to gather accurate information on product needs in different regions, and it strives to reduce time to market by establishing development and design platforms. If the transitions from existing products to new ones do not go smoothly, however, Epson’s operating results could consequently be adversely affected.
Factors that could interfere with the transition to a new product include delays in the development or production of new products, competitors’ timing in introducing their new products, the difficulty in predicting changes in customers’ needs, a decline in purchases of existing products as consumers anticipate new product introductions, and competition between Epson’s existing and new products.

10. Procuring 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. However, certain inkjet printer and other product parts are procured from a single source due to difficulty in procuring alternative parts from other companies. Epson is developing reliable and efficient procurement processes by cooperatively engaging with suppliers to maintain product quality, improve products and reduce costs. However, if its ability to procure were to be adversely affected by, for example, insufficient supply from a third party or poor quality of products supplied, Epson’s operating results could adversely be affected. In principle, Epson strives to procure parts and the like from multiple suppliers.

11. 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 to develop advanced new technologies and manufacture advanced new products, but the competition for such personnel is becoming increasingly intense. Epson is putting considerable effort into securing talented personnel by providing appropriate levels of compensation and appointing talented local staff in Group companies worldwide. If Epson is unable to continue to use or employ an adequate number of talented personnel, however, the implementation of its business plans could adversely be affected.

12. 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 the U.S. dollar or other foreign currencies linked to it, 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 and business results.

13. There are risks inherent in pension systems.
Epson has established defined-benefit pension plans 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 operating results could adversely be affected.

14. 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.
However, if any of the following situations relating to intellectual properties occurs, Epson's operating results could adversely 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 the competitive advantage that Epson had due to that license might be lost.
3) New restrictions might be imposed on an Epson business that were not originally 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 ability to focus its 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.

15. 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 an Epson product is defective or does not conform to the required standard, it may have to be replaced or repaired or otherwise reworked at Epson's expense. Or, if the product causes personal injury or property damage, Epson could bear product liability or hold other liability.
Also, Epson could be held liable to a customer and could incur expenses for repairs or corrections on the grounds that it did not adequately explain an Epson product's features or 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 operating results.

16. 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 from manufacturing processes. Environmental conservation is one of Epson's most important management policies, and the Company is proactively engaged in environmental conservation on all fronts. For example, Epson has programs to develop and manufacture products that have a smaller environmental burden, reduce energy use, promote the recovery and recycling of end-of-life products, and improve 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 operating results could adversely be affected.

17. Epson is vulnerable to proceedings relating to antitrust laws and regulations.
With business operations that span the globe, Epson is subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and those protecting fair trade. Overseas authorities sometimes investigate or gather information on certain industries and as part of this, Epson's market conditions and sales methods may come under investigation. Such investigations and proceedings, or violations of applicable statutes could interfere with Epson's sales activities. They could also potentially damage Epson's social credibility or result in a large civil fine. Any of these could adversely affect Epson's operating results.
The Company and certain of its consolidated subsidiaries are currently under investigation by the European Commission and other competition authorities regarding allegations of involvement in a liquid crystal display price-fixing cartel. It is difficult at this time to predict the outcome of these investigations and when they may be settled.

18. Epson is at risk of material legal actions being brought against it.
Epson conducts business internationally. Its primary businesses are the development, manufacture and sale of information-related equipment, devices and precision products, and sensing and industrial solutions, as well as the provision of related services. 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.
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 the appeals court and the supreme court. The plaintiff, however, unsatisfied with this ruling, appealed to the Federal Constitutional Court of Germany. On December 21, 2010, the Federal Constitutional Court ruled that the August 2008 ruling of the supreme court violates rights set forth in Article 14 of the constitutional law of Germany. It thus dismissed the ruling of the supreme court and referred the case back to the supreme court for review. Then, in July 2011, the supreme court referred the case to the Court of Justice of the European Union, and an inquiry was begun in October 2012. Companies in general, including Epson, and industry organizations are showing a willingness to take a stance against the expansion of the scope of such copyright fees.
In June 2010, Epson Europe B.V. ("EEB"), a consolidated subsidiary of Seiko Epson, brought a civil suit against La SCRL Reprobel ("Reprobel"), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. These two lawsuits were adjoined. EEB's claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

Apart from this, civil actions have been brought against the Company and certain of its consolidated subsidiaries by multiple customers in multiple countries, including the United States, regarding allegations of involvement in a liquid crystal display price-fixing cartel.
It is difficult at this time to predict the outcome of these civil actions and when they may be settled, but Epson's operating results and future business could be affected, depending on the outcomes of suits and legal proceedings.

19. Epson is vulnerable to certain risks in internal control over financial reporting.
Epson has established and operates internal controls to ensure the reliability of financial reporting.
With the establishment and operation of internal controls over financial reporting high on its list of important management issues, Epson has been pursuing a Group-wide effort to audit and improve corporate oversight of its subsidiaries and affiliates. However, since there is no assurance that Epson will be able to

establish and operate an effective internal control system on a continuous basis, and since there are inherent limitations to internal control systems, if the internal controls that Epson implements fail to function effectively, or if there are deficiencies in internal controls over financial reporting or material weaknesses in the internal controls, it might adversely affect the reliability of Epson’s financial reporting.

20. 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. However, the parties may review the arrangements of tie-ups, and there is a possibility that tie-ups could 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 operating results exactly as expected.

21. Epson might be severely affected in the event of a natural or other disaster.
Epson has research and development, procurement, manufacturing, logistics, sales and services sites around the globe. 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, leak of customer data, supply chain disruption resulting from damage to parts suppliers, act of terrorism or war, and that these could adversely affect Epson's operating results.
The central region of Nagano Prefecture, where Epson has sites for its primary businesses, has numerous cities and towns designated as "Areas Requiring Enhanced Measures to Respond to Disasters" due to the high risk of a large-scale disaster in the event of an earthquake in the Tokai region. Moreover, an active fault line 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 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 losses arising from earthquakes, the scope of indemnification is limited.

22. Laws, regulations, or licenses and the like pose risks for Epson.
Epson is a multinational corporation with operations around the globe. In addition to strengthening its sales and marketing activities targeting new customers, including public institutions, the Company is entering new areas, such as the health and medical markets, where there may be stricter requirements for compliance with laws and regulations. Epson has strengthened its compliance framework and strives to ensure compliance with all statutory requirements through internal training and awareness-building programs. However, a statutory violation or the risk of one, the introduction of stricter statues, or the imposition of tougher laws by relevant authorities could potentially damage Epson's social credibility or result in a large civil fine. Not only that but Epson could see constraints placed on its business activities or see the cost of complying with these statutes increase. Any of these could have a adverse impact on Epson's financial performance and future business development.

Business Conditions

1. Overview of business result
(1) Operating results
In the year under review, the global economy as a whole grew slowly, largely due to the effects of uncertainty over the financial futures of some E.U. member states and concerns over sharp fiscal tightening in the U.S. Regionally, the U.S. economy showed signs of a pickup at the end of the period, with factors such as a drop in the unemployment rate and an uptick in personal spending providing a boost. In Europe, the economy showed continued weak movement due to factors such as high unemployment and uncertainty about the financial futures of several European states. In Asia, the pace of economic expansion in China slowed primarily because of sluggish Chinese exports. India also saw the rate of economic growth weaken, with a high real interest rate a major factor. On the other hand, signs of a pickup in economic activity driven primarily by internal demand were seen in other Asian countries. The Japanese economy stayed in a holding pattern as exports and production declined in sympathy with the global economic slowdown, but there were signs of a bottoming out owing to improvement in the export environment toward the end of the period and the effects of economic and financial policies.

The situation in the main markets of the Epson Group ("Epson") was as follows.
Inkjet printer demand contracted in North America and Europe. Japan saw a sustained recovery in demand across the first half before dropping off in the second half. Large-format inkjet printer shipments were moderated by spending restraints in the printing and photo industries due to the murky economic outlook, while demand was seen decelerating in the once firm Asian markets, especially in China. Serial impact dotmatrix (SIDM) printer demand shrank in America, Europe and Japan and plummeted in China, where SIDM printers are used in tax collection systems. POS system product shipments to Southeast Asia and to small and medium-sized retailers in the Americas were solid during the period owing to an upswing in capital expenditure. However, a continued reluctance to invest on the part of large European retailers moderated sales. In 3LCD projectors demand growth was seen slowing in North America, Europe, and China.
Demand for the main applications for electronic devices remained steady across the period, but there were clear areas of strength and of weakness, depending on the product category. Smartphone demand continued to expand, while conventional mobile phone demand continued to decline. In the PC market demand for tablets was robust, while notebook and desktop PC sales slumped. In digital cameras, the market for SLR (single-lens reflex) and MILC (mirrorless interchangeable-lens camera) models expanded, but smartphones significantly eroded demand for compact cameras, especially in the latter half of the period.
In the precision products market, watch demand rebounded in Japan and other parts of Asia but showed signs of softening in Europe and America. Robot demand increased in the first half primarily on higher demand from electronics and IT manufacturers in China and Taiwan. However, signs of a general softening of the market emerged in the second half, and IC handler demand weakened as chip makers curtailed investments.

Epson began fiscal 2012 under the SE15 Second-Half Mid-Range Business Plan (FY2012-14), a three-year income growth plan that upheld the basic direction of the strategies outlined in Epson's SE15 Long-Range Corporate Vision but was predicated on revenue growth. Despite executing the plan, however, Epson found itself forced to revise its financial forecasts downward twice in the first half of fiscal 2012, largely because of a persistently difficult business environment.
Given this situation, Epson re-examined and adjusted the strategies and financial targets set forth in the SE15 Second-Half Mid-Range Business Plan and, in March 2013, established a new three-year plan, the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-15). We remain firmly committed to the course charted in SE15 but the tactics and emphasis will change. Under the updated basic policy we will pursue a basic strategy of managing our businesses so that they create steady profit while avoiding the single-minded pursuit of revenue growth. Our top priority will be steady income and cash flow. To achieve this in existing segments, we will readjust our product mixes and adopt new business models. Meanwhile, we will aggressively develop markets in new segments. Epson will work steadily during the three years of the updated plan to lay the foundation for a metamorphosis during which Epson will change from being

primarily a company that provides consumer imaging products into a company that once again posts strong growth by creating and providing new information solutions and equipment for businesses and professionals, as well as consumers.

The main extraordinary losses for the year under review included a ¥16,268 million ($172,971 thousand) litigation loss resulting primarily from the payment of a settlement in a lawsuit involving allegations of involvement in an LCD price-fixing cartel.
The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year under review were ¥83.11 and ¥107.14, respectively. This represents a 5% depreciation in the value of the yen against the dollar and a 2% appreciation in the value of the yen against the euro, year-over-year.

As a result of the foregoing factors, net sales for the full fiscal year were ¥851,297 million ($9,051,536 thousand), down 3.0% from the prior year. Operating income was ¥21,255 million ($225,996 thousand), down 13.7% from the prior year. Ordinary income was ¥17,629 million ($187,442 thousand), down 34.8% from the prior year. And net loss was ¥10,091 million ($107,293 thousand), compared to net income of ¥5,032 million in the previous year.

A breakdown of the financial results in each reporting segment is provided below.

Information-Related Equipment Segment
The printer business as a whole reported a decline in net sales (including both printer units and consumables).
In the inkjet printer business the average selling prices of inkjet models that use ink cartridges rose but hardware unit shipments decreased, causing net sales in that category to decline. On the whole, however, net sales in inkjet printer hardware grew thanks to unit shipment growth in high-capacity ink tank models. Net sales of consumables for inkjet printers declined. Large-format printer (LFP) unit shipments declined in the face of an ongoing slump in hardware demand in the printing industry, but new high-end products bumped up average selling prices and, as a result, net sales. Even though shipments of LFP consumables shrank in response to declining print volume in the printing industry, consumables net sales increased thanks largely to the new LFPs in the high price zone, which helped increase average selling prices. Page printer sales decreased primarily due to the effects of corporate cost cutting. Serial-impact dot-matrix (SIDM) printer net sales decreased. In addition to erosion of average selling prices and lower unit volume in China, where demand for SIDM printers used in tax collection systems was particularly robust in the same period last year, net sales were also hurt by a decline in unit shipments in other parts of Asia and Europe. POS systems product net sales grew. Although net sales were hurt by the effects of falling average selling prices in the Americas and a decline in unit shipments in Europe, where customers were reluctant to spend due to the slow economy, unit shipments increased on strong, steady demand from small- and medium-sized retailers in the Americas and Southeast Asia. The printer business as a whole was affected by the weaker yen.
Net sales in the visual products business increased.
The visual products business as a whole reported net sales growth thanks to an increase in 3LCD projector unit shipments and foreign exchange effects.
Unit shipments of business 3LCD projectors increased in every region. Particularly large growth was seen in entry-level and short-throw lens models. Home-theater 3LCD projector unit shipments also increased. Demand in Europe was driven higher by major sporting events, while net sales benefited from an increase in average selling prices due to strong sales of high-priced models such as full-HD (1080p) projectors.

Segment income in the information-related equipment segment declined. In addition to a decline in income due to foreign exchange effects, segment income fell due to decreased income mainly from SIDM printers, and POS systems products.

As a result of the foregoing factors, net sales in the information-related equipment segment were ¥688,029 million ($7,315,566 thousand), down 0.5% year over year, while segment income was ¥52,670 million ($560,032 thousand), down 18.8% year over year.

Devices and Precision Products Segment
Net sales in the devices business declined.
Crystal device net sales declined. Tuning-fork crystal net sales fell due to falls in unit shipments and average selling prices. AT-cut crystal unit sales also declined despite unit shipment growth, as unit prices plummeted.
Semiconductor net sales decreased. While silicon foundry order volume increased, net sales were heavily impacted by a decline in unit shipments of LCD controllers and LCD drivers for automotive applications.
Net sales in the precision products business declined.
The watch business reported an increase in net sales. This revenue growth was primarily the result of increases in unit shipments of solar GPS watches, solar radio-controlled watches, and high-end models, as well as a jump in average selling prices. In factory automation systems, sales of robots increased on a jump in orders from China and other regions in Asia. On the other hand, sales of IC handlers decreased due to sluggish demand from semiconductor manufacturers serving the PC and mobile phone markets.

Segment income in the devices and precision products segment increased thanks to a rebound in crystal device profit and increased watch profits.

As a result of the foregoing factors, net sales in the devices and precision products segment were ¥156,872 million ($1,667,963 thousand), down 10.3% year over year, while segment income was ¥7,658 million ($81,424 thousand), up 65.4% year over year.

Other
Net sales from other operations in the year under review were ¥1,273 million ($13,535 thousand), down 92.6% year over year. Segment loss was ¥1,191 million ($12,663 thousand), compared to a ¥1,545 million segment loss recorded in the same period last year. The decrease in net sales is a result of the termination of the small- and medium-sized display business.

Adjustments
Adjustments to the total income of reporting segments amounted to -¥37,883 million (-$402,797 thousand), compared to -¥43,345 million recorded in the same period last year. Adjustments were mainly due to the recording of income related to patents and to selling, general and administrative expenses for areas that do not correspond to the reporting segments, such as research and development expenses for new businesses and basic technology, and general corporate expenses.

(2) Cash Flow Performance
Net cash provided by operating activities during the year was ¥42,992 million ($457,118 thousand), compared to ¥26,678 million in the previous fiscal year. Although certain factors such as a ¥3,479 million loss before income taxes and minority interests and a payment of ¥10,692 million in income taxes had a negative effect, cash flows from operating activities increased on the whole because of factors such as the recording of ¥39,320 million in depreciation and amortization expenses and a ¥18,588 million decrease in inventory.
Net cash used in investing activities was ¥39,511 million ($420,106 thousand), up from ¥31,528 million in the previous fiscal year. Although the company recorded ¥3,147 million in income associated with a business transfer, it also recorded ¥43,846 million for the purchase of property, plant and equipment and the purchase of intangible assets.
Net cash from financing activities was ¥21,298 million ($226,454 thousand), compared to a negative cash flow of ¥57,406 million in the previous fiscal year. While there was a ¥10,000 million net decrease in bonds and a ¥4,651 million payment of dividends, net cash from financing activities increased mainly due to a ¥36,462 million net increase in short-term and long-term loans payable.
As a result, cash and cash equivalents at the end of the fiscal year totaled ¥184,639 million ($1,963,200 thousand) compared to ¥150,029 million at the end of the previous fiscal year.

* Please refer to the following for historical information about Epson's financial results:
http://global.epson.com/IR/

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, 2013 (From April 1, 2012, to March 31, 2013) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	645,634	95.1
Devices and precision products	149,169	91.2
Total for the reporting segments	794,804	94.4
Other	684	33.8
Total	795,488	94.2

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, 2013 (From April 1, 2012, to March 31, 2013) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	687,570	99.5
Devices and precision products	150,840	90.4
Total for the reporting segments	838,411	97.7
Other	856	5.2
Total	839,267	96.0

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 by ¥26,700 million, or 3.0%, to ¥851,297 million compared with the previous consolidated fiscal year.

Sales in each reporting segment are discussed below.

The information-related equipment segment recorded net sales of ¥688,029 million, a year-over-year decline of ¥3,772 million (0.5%). Although yen depreciation had a positive effect on net sales, the factors described below were major contributors to the decline.
The inkjet printer business reported net sales growth overall even though printers that use ordinary ink cartridges generated less revenue, despite higher average selling prices, due to a dip in unit shipments. Net sales growth came from increased shipments of inkjet models that use high-capacity ink tanks.
Large-format printer unit shipments declined in the face of an ongoing slump in hardware demand in the printing industry, but new high-end products bumped up average selling prices and, as a result, net sales. Even though sales of LFP consumables shrank in response to declining print volume in the printing industry, consumables net sales increased thanks largely to the new LFPs in the high price zone, which helped increase average selling prices. Page printer sales declined primarily due to the effects of corporate cost cutting. Serial-impact dot-matrix (SIDM) printer net sales decreased. In addition to erosion of average selling prices and lower unit volume in China, where demand for SIDM printers used in tax collection systems was particularly robust in the previous period, net sales were also hurt by a decline in unit shipments in other parts of Asia and in Europe. POS systems product net sales grew. Although net sales were hurt by the effects of falling average selling prices in the Americas and a decline in unit shipments in Europe, where customers were reluctant to spend due to the slow economy, unit shipments increased on strong, steady demand from small- and medium-sized retailers in the Americas and Southeast Asia. 3LCD projector net sales increased. Unit shipments of business models increased in every region. Particularly large growth was seen in entry-level and short-throw lens models. Home-theater unit shipments also increased, as major sporting events in Europe caused a spike in demand. Net sales benefited additionally from an increase in average selling prices due to strong sales of high-priced models such as full-HD (1080p) projectors.

The devices and precision products segment recorded net sales of ¥156,872 million, a year-over-year decline of ¥17,938 million (10.3%). Although yen depreciation had a positive effect on net sales, the factors described below were major contributors to the decline.
Quartz device net sales declined. Tuning-fork crystal net sales fell due to falls in unit shipments and average selling prices. AT-cut crystal unit sales declined despite unit shipment growth, as unit prices plummeted. Semiconductor net sales decreased. While silicon foundry order volume increased, net sales were heavily impacted by a decline in unit shipments of LCD drivers for automotive applications and LCD controllers. The watch business reported an increase in net sales. This revenue growth was primarily the result of increases in unit shipments of solar GPS watches, solar radio-controlled watches, and high-end models, as well as a jump in average selling prices. In factory automation systems, sales of robots increased on a jump in orders from China and other regions in Asia. On the other hand, sales of IC handlers decreased due to sluggish demand from semiconductor manufacturers serving the PC and mobile phone markets.

In the "Other" segment, net sales were ¥1,273 million, a year-over-year decline of ¥16,043 million (92.6%). This is primarily due to a decline in sales associated with the termination of the small- and medium-sized liquid crystal displays business.

Cost of sales and gross profit

The cost of sales was ¥616,857 million, a year-over-year decrease of ¥12,293 million (2.0%). The decrease in cost of sales is largely the result of lower material and processing costs associated with a decline in net sales.

As a result, gross profit declined by ¥14,406 million, or 5.8%, to ¥234,439 million.

Selling, general and administrative expenses and operating income

Selling, general and administrative (SG&A) expenses declined by ¥11,035 million, or 4.9%, to ¥213,184 million. The decrease is mainly due to lower shipping costs, continued rigorous screening of spending proposals because of the difficult economic environment, and reduced R&D spending.
As a result, operating income declined by ¥3,371 million, or 13.7%, ending at ¥21,255 million.

Segment income in each reporting segment was as follows.

Segment income in the information-related equipment segment was ¥52,670 million, down by ¥12,218 million (18.8%) compared to the previous period. The decline is primarily due to the effects of a drop in sales of serial-impact dot matrix (SIDM) printers.

Segment income in the devices and precision products segment was ¥7,658 million, up ¥3,029 million (65.4%) compared to the previous period. This increase is mainly due to higher income brought about by cost reductions in quartz devices.

Other segment loss was ¥1,191 million, a ¥354 million improvement compared to the ¥1,545 million loss incurred in the previous period.

As for adjustments, segment loss was ¥37,883 million, a ¥5,462 million improvement over the ¥43,345 million loss incurred in the previous period. Adjustments consisted primarily of patent royalties, R&D expenses for basic research and new businesses that do not belong to a reporting segment, and SG&A expenses, comprised of Head Office expenses.

Non-operating income and expenses

The net of non-operating income minus non-operating expenses was negative ¥3,625 million, a ¥6,021 million change from the ¥2,395 million in income posted in the previous period. The primary contributors to the worsening of income were a decline in insurance payouts and a loss on foreign exchange totaling ¥2,944 million in the year under review, compared to a gain of ¥1,396 million in the previous period.

Ordinary income

Ordinary income was ¥17,629 million, a ¥9,393 million decline (34.8%) compared to the previous period.

Extraordinary income and losses

The net of extraordinary income minus extraordinary losses was negative ¥21,108 million, a ¥9,708 million increase in loss from the ¥11,399 million loss recorded in the previous period. The expanded loss was mainly due to an extraordinary loss of ¥25,792 million. Whereas the Company recorded a ¥14,043 million extraordinary loss in the previous period due primarily to a litigation-related loss associated with the payment of a settlement relating to allegations of involvement in an LCD price-fixing cartel, this fiscal year the Company recorded a ¥16,268 million litigation-related loss, the majority of which was related to the LCD price-fixing cartel settlement. Also this year the Company recorded a ¥4,605 million impairment associated primarily with idle assets.

Income (loss) before income taxes and minority interests

Epson recorded a loss before income taxes and minority interests of ¥3,479 million, down ¥19,101 million from the previous period.

Income taxes

Income taxes were ¥6,443 million, a ¥3,961 million (38.1%) decrease compared to the previous period. The decrease is attributable to a decrease in overseas tax expenses compared to the previous period.

Minority interests in income
Minority interests in income for the period under review were ¥168 million, a decrease of ¥16 million (8.9%) compared to the previous period.

Net income (loss)
Epson posted a net loss of ¥10,091 million, a ¥15,123 million decline compared to the previous period.

(2) Liquidity and capital resources
Cash flow
Net cash provided by operating activities was ¥42,992 million, an increase of ¥16,313 million compared to the previous period. While certain factors negatively affected cash flow from operating activities, such as a ¥19,101 million decrease in income before income taxes and minority interests, which includes litigation-related losses, and a ¥21,991 million effect from a decrease in trade accounts payable, cash from operating activities increased on the whole due to additive factors such as a ¥38,948 million effect from a decrease in inventory and a ¥12,635 million effect from an increase on provision for bonuses.

Net cash used in investing activities totaled ¥39,511 million, an increase of ¥7,983 million compared to the previous period. This increase was mainly due to a ¥7,138 million increase in outlays associated with the acquisition of property, plant and equipment and intangible assets.

Net cash provided by financing activities totaled ¥21,298 million. Cash used in financing activities decreased by ¥78,705 million compared to the previous period. This is due to a ¥58,440 million net increase in interest-bearing liabilities and a ¥20,414 million decrease in cash used in the acquisition of treasury shares.

As a result of the foregoing factors, cash and cash equivalents at the end of the fiscal year stood at ¥184,639 million, an increase of ¥34,609 million compared to the end of the previous fiscal year, giving Epson sufficient liquidity.

The total of short-term loans payable, long-term loans payable, and bonds payable was ¥271,126 million, an increase of ¥32,314 million compared to the end of the previous fiscal year, due to increased borrowing to ensure liquidity.

Long-term loans payable [excluding the current portion] amount to ¥52,500 million as of March 31, 2013, at a weighted average interest rate of 0.79% and with a repayment deadline of November 2017. These borrowings were obtained as unsecured loans primarily from banks.

Financial condition
Total assets were ¥778,547 million, an increase of ¥37,778 million compared to the end of the previous fiscal year. The majority of this increase is accounted for by a ¥34,586 million increase in cash and deposits and short-term investment securities.

Total liabilities were ¥519,740 million, an increase of ¥27,111 million compared to the end of the previous fiscal year. While notes and accounts payable-trade declined by ¥20,177 million, total liabilities increased mainly because of a ¥4,702 million increase in a provision for bonuses, a ¥5,896 million increase in the provision for retirement benefits, and a ¥32,314 million total net increase in short-term loans payable, long-term loans payable, and bonds payable.

Total net assets were ¥258,806 million, an increase of ¥10,666 million compared to the end of the previous fiscal year. Although the company recorded a net loss and there was a ¥14,742 million decrease in retained earnings due to the payment of dividends, total net assets increased chiefly due to weakening of the yen, which led to a ¥25,160 million increase in foreign currency translation adjustments.

Working capital, defined as current assets less current liabilities, was ¥192,769 million, an increase of

¥18,894 million compared to the end of the previous fiscal year.

The ratio of interest-bearing liabilities to total assets increased to 34.9%. It was 32.4% at the end of the previous fiscal year.

4. Research and development activities

Epson is pursuing innovation in compact, energy-saving, high-precision technologies with the aim of becoming a "community of robust businesses," as set forth in the company's SE15 Long-Range Corporate Vision. The company's research and development programs are designed to achieve this and are thus principally focused on boosting competitiveness by concentrating management resources on areas of strength, reinforcing business foundations, and using the technologies and other assets in the company's portfolio to create new businesses.
Operations division R&D develops core technologies and shared technology platforms in order to strengthen the company's market position, both short and long term. Corporate R&D's mission is to develop both new and existing core technologies and shared technology platforms, with the aim of creating new and revolutionizing existing businesses.
Total R&D spending in the year under review was ¥49,923 million. This included ¥26,419 million in the information-related equipment segment, ¥5,606 million in the devices and precision products segment, and ¥17,896 million in the other segment and corporate segment.
The main R&D accomplishments in each segment are described below.

Information-related equipment
In the printer business, Epson released compact new Colorio inkjet printers that support smartphone and cloud printing and are approximately 40% smaller[*1] than comparable Epson models from the previous year. In the visual products business, Epson launched the world's thinnest[*2] (44 mm) 3LCD mobile projectors. The new projectors, which inherited a compact, lightweight (approx. 1.7 kg) body, provide improved convenience with a split-screen feature. This feature allows a projector to simultaneously project video content from two inputs side by side on a single screen so that users can, for example, compare data or show meeting minutes alongside a presentation. Epson also launched new interactive projector models equipped with electronic blackboard functions that allow users to write directly on images projected on a wall or board with an electronic pen.
[*1] Cubic size comparison
[*2] As of the June 2012, according to Epson research.

Devices and precision products
In quartz devices, the Company used its core strength in QMEMS[*3] fabrication technology to develop an exceptionally accurate and stable quartz accelerance sensor. This accelerance sensor was combined with semiconductor and software technologies to create compact commercial inclinometers and accelerometers (three-axis sensor units) that provide stable measurements over extended periods of time with resolutions[*4] of 0.001 degree (inclinometer) and 10 μG (accelerometer).
In the factory automation products business, Epson developed an IC test handler that can transport, test, and sort up to 20,000 logic ICs*[5] per hour, giving it world-class throughput[*6].

[*3] 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 Corporation.
[*4] Resolution is the measurement or detection capability of a sensor or device.
[*5] A logic IC is a small integrated circuit that puts one of the individual functions required by various logic circuits into a single package.
[*6] In the pick-and-place logic IC handler category. Calculated from the number of logic ICs that can be transferred, inspected and sorted per hour. As of the June 2012, according to Epson research.

Other and corporate
The company commercialized "WristableGPS" running monitors. These wristwatch-like GPS monitors collect and store accurate running data that runners can view and use to improve their times and maximum the benefits of training. These monitors are equipped with an Epson-original, low-power GPS module and can provide continuous measurement for up to 14 hours on a single charge. Thin, lightweight, breathable, and easy to use, Epson's running monitors are comfortable and unobtrusive, allowing users to concentrate

on running.

5. Issues for Fiscal 2013

Epson began fiscal 2012 under the SE15 Second-Half Mid-Range Business Plan (FY2012-14), a three-year income growth plan that upheld the basic direction of the strategies outlined in Epson's SE15 Long-Range Corporate Vision but was predicated on revenue growth. Despite executing the plan, however, Epson found itself forced to twice revise its financial forecasts downward in the first half of fiscal 2012, largely because of a persistently difficult business environment.

Given this situation, Epson reviewed and revised the strategies and financial targets set forth in the SE15 Second-Half Mid-Range Business Plan and, in March 2013, established a new three-year plan, the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-15). We remain firmly committed to the course charted in SE15 but the tactics and emphasis will change. Under the updated basic policy we will pursue a basic strategy of managing our businesses so that they create steady profit while avoiding the singleminded pursuit of revenue growth. Our top priority will be steady income and cash flow. To achieve this in existing segments, we will readjust our product mixes and adopt new business models. Meanwhile, we will aggressively develop markets in new segments. Epson will work steadily during the three years of the updated plan to lay the foundation for a metamorphosis during which Epson will change from being primarily a company that provides consumer imaging products into a company that once again posts strong growth by creating and providing new information solutions and equipment for businesses and professionals, as well as consumers.

The global economic situation remains as unpredictable as ever. While the economies of the U.S. and Japan are showing signs of picking up, the pace of economic growth in China and other emerging nations is slowing. Meanwhile, significant uncertainty remains about the future of the European economy in the face of financial crises and other problems. Society is changing, shifting increasingly toward sustainable industry and sustainable economic activity. This trend will likely alter the kind of customer value that Epson will need to provide.

Under this type of business environment, we will remake Epson into a company that once again posts strong growth. We will achieve this by focusing our management resources on strategic segments where we can continue to leverage our unique strengths, by expanding our business segments, and by building stronger new businesses that will carry the future. Ultimately, we aim to achieve 10% ROS and 10% or better ROE on a sustained basis as early as possible during the mid-range business plan that starts in fiscal 2016, by which time Epson will have established a stable profit structure.

Management Policies and Basic Strategies in Each Business

The names of the business segments were changed as of April 2013, in conjunction with the establishment of the updated mid-range business plan.

Printing Systems Business

In the printing systems business we will look to create an innovative printing environment by leveraging inkjet technology. In inkjet printers we will, over the medium term, improve the model mix, realign the product mix and business model, and boost competitiveness by launching inkjet units that sport a new print head. At the same time, we will further enhance service and support, including IT solutions. In the business systems business, we will achieve steady income growth by uncovering new demand while maintaining a grip on the top share in existing segments.

Visual Communications Business

In the visual communications business we will create new forms of visual communication using microdisplay technology. In projectors, we will strengthen Epson's position in existing product domains and in new product domains, such as high-brightness projectors, by enhancing our ability to provide new solutions and boosting our sales network. This will lead to the growth of new business domains and profitability improvements. Head-mounted displays (HMD) have the potential to change the way we live and work. Going forward, we will open up new applications and generate new value by unlocking the potential of these products as hands-free information tools.

Microdevices and Precision Products Businesses
In these businesses we will use well-honed technology to continue creating unique products that rivals cannot replicate. The microdevices business has shored up its profit structure by revamping its product portfolio and cost structure. Going forward, we will secure steady income in this business by being a leader in miniaturization and performance and by creating products that provide customer value. The precision products business, undergirded by unique technology, will strive to improve profitability going forward by strengthening its lineup of high-added-value products such as solar GPS watches and by growing its small yet highly profitable metal powder and surface finishing businesses.

Industrial Solutions Business
In the industrial solutions business we will employ advanced mechatronics to create robots and production systems that dramatically increase productivity. Epson's track record and a reputation for reliability have made us the market share leader in SCARA robots (precision industrial robots) and 6-axis robots. Meanwhile, Epson textile printing systems and label presses are steadily gaining traction in the market. We will develop industrial solutions into a future core growth business by employing advanced mechatronics, including unique inkjet and intelligent robot technologies, to create industrial robots, production equipment, and inkjet systems that dramatically increase productivity.

Sensing Systems Business
The sensing systems business will use high-precision sensors to create new value to improve people's lives. Over the past few years, we had been delving into Epson's storehouse of component and sensing systems technologies to build new businesses around new sensing products, such as wristwatch-like GPS running monitors and pulse monitors. Going forward, we will take larger strides in developing products for applications in sports, healthcare, medicine, and industrial monitoring of facilities and infrastructure. These products will be integrated with new cloud-based systems. Epson's innovative solutions will drive new growth by converting raw data about the state of human and infrastructure health, for example, into a practical and visual format.

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 the 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.

Based on the company's financial performance for the 2012 fiscal year as well as on a comprehensive analysis of the company's financial situation, including mid-term financial performance trends and factors such as cash flows, the Company paid an annual dividend of 20 yen per share (including a 13-yen 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 31, 2012, by resolution of the board of directors	2,325	13
June 24, 2013, by resolution of the general shareholders' meeting	1,252	7

Corporate Governance

1. Approach to corporate governance
(1) Corporate governance system
Outline
Epson's basic approach to corporate governance is geared toward
- continuously increasing enterprise value; and
- reinforcing business checks and balances, practicing sound corporate ethics, and ensuring business transparency and health.

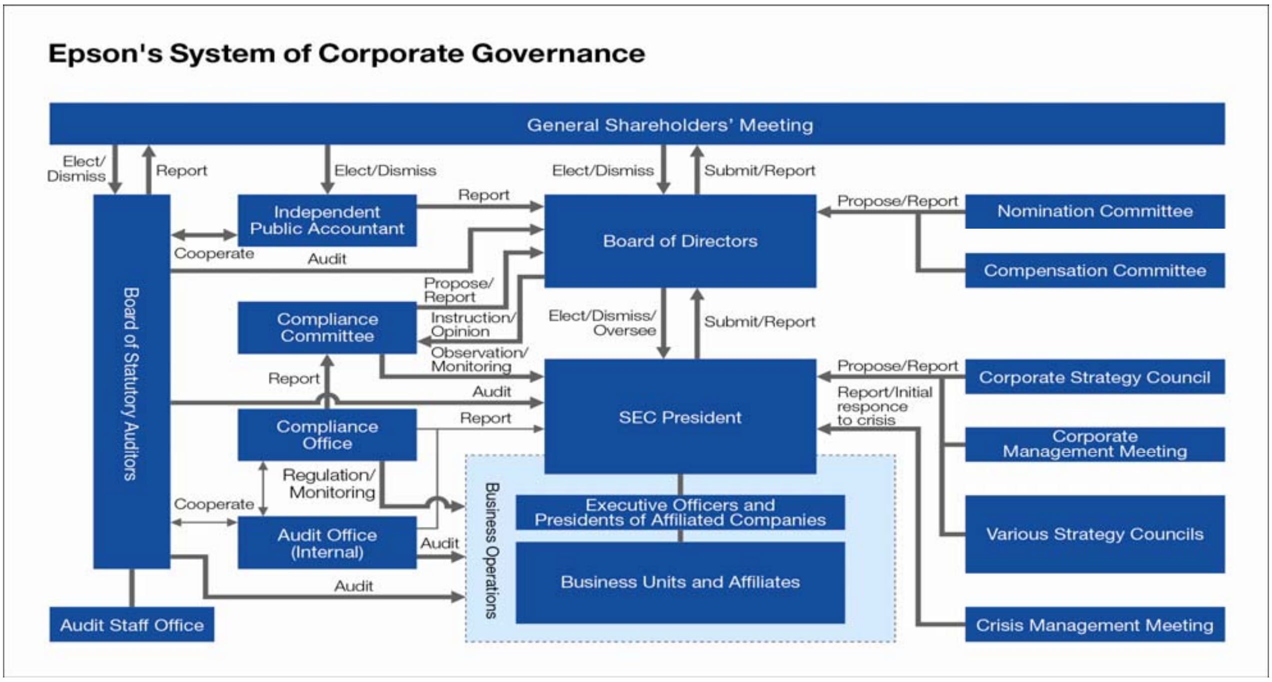
The Company has a board of directors and a board of statutory auditors. The board of directors had nine members, including one outside director, as of the date the Annual Securities Report was submitted. It meets once a month and convenes extraordinary meetings as needed. The board of directors makes decisions on basic management policies, key business operations, period-end closing, disclosure timeframes, and other important issues. Various management bodies have been created to advise the board of directors or president, deliberate issues to facilitate decision-making, and oversee and enhance the execution of business. Epson's board of statutory auditors consists of five statutory auditors, including three outside statutory auditors. It strives to ensure greater independence and transparency of audits.
The names of the outside director and outside auditors have been reported to the Tokyo Stock Exchange (TSE) as they are considered to be independent directors/auditors as defined by the TSE.
The main corporate management bodies and their aims are as follows:

Corporate Strategy Council/ Corporate Management Meeting
The Corporate Strategy Council and corporate management meetings are convened to thoroughly deliberate matters before they are referred to the board of directors.

Compliance Committee
The Compliance Committee meets to hear and discuss important matters concerning Epson's compliance programs. It reports its findings and offers opinions to the board of directors.

Nomination Committee/ Compensation Committee
As advisory bodies to the board of directors, the Nomination Committee screens board of director candidates, and the Compensation Committee deliberates director remuneration issues.

Epson’s system of corporate governance is schematically represented below:



Reasons for adopting the current system of corporate governance

Epson is looking to initiate fresh growth by developing and executing strategic measures based on the Updated SE15 Mid-Range Business Plan (FY2013-15), which is aimed at achieving the goals set forth in Epson's "SE15" long-range corporate vision.

As it moves forward on the updated mid-range business plan, the Company believes that it will be important to have a governance system that strikes a good balance between business speed and efficiency on the one hand and effective oversight of management on the other.

For this reason, the Company employs an agile, practical management organization wherein directors who understand the situation inside the Company simultaneously oversee multiple key business operations, while the outside director conducts checks to assure that business decisions make sense.

In addition, Epson employs an independent outside director and independent statutory auditors to ensure a sound management audit function. The names of the outside director and outside auditors have been reported to the Tokyo Stock Exchange (TSE) as they are considered to be independent directors/auditors as defined by the TSE.

Internal control system

The Epson Management Philosophy defines the Company's top-level philosophies, goals, ambitions, and mores. "Principles of Corporate Behavior," a business code of conduct that is shared across the Epson Group, was established to realize these. The Company has installed a system of internal controls to ensure that duties are executed properly and in compliance with laws and the Articles of Incorporation. Moreover, the Company strives to steadily improve the level of internal control across the entire Epson Group, as described below.

The board of directors passed a resolution at March 13, 2013 board meeting to select a Chief Compliance Officer (CCO), establish a Compliance Committee, and create a dedicated compliance department, effective April 1, 2013, in order to strengthen the compliance risk management function and organization. The system is detailed below.

Compliance

(1) Epson established "Principles of Corporate Behavior" as a code for putting the Management Philosophy into practice. The Company also established regulations that spell out things such as basic compliance requirements and the organizational framework.

(2) The company selected a CCO to head an organization that oversees and monitors the execution of all compliance operations.

(3) The Company also created a Compliance Committee to serve as an advisory body to the board of directors. The Compliance Committee is chaired by the CCO and has as members the outside director, outside statutory auditors, and a director appointed by the board of directors. The Compliance Committee meets to hear and discuss important matters concerning Epson's compliance program. It reports its findings and offers opinions to the board of directors.

(4) Compliance promotion and enforcement are supervised by the president of Seiko Epson. The chief operating officers of Epson's operations divisions promote compliance programs within their respective businesses and at subsidiaries consolidated under them. Group-wide compliance projects are carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions. A dedicated compliance department helps ensure the coverage and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.

(5) The Corporate Strategy Council, an advisory body to the president comprised of Company directors, addresses important matters with respect to compliance promotion and enforcement. The Council strives to ensure the effectiveness of compliance by exhaustively discussing and analyzing the state of programs for assuring observance of statutes, internal regulations, business ethics and initiatives in key areas.

(6) The Company strives to run an effective whistleblowing system by providing internal and external routes for reporting compliance concerns. Employees are encouraged and are able to easily and immediately report compliance violations via a variety of access platforms.

(7) The Company strives to enhance legal consciousness by providing Epson Group employees with web-based training and other educational opportunities.

(8) The president of Seiko Epson periodically reports important compliance-related matters to the board of directors and takes measures as needed to respond to issues.
(9) Epson's "Principles of Corporate Behavior" states that the Company will have no association whatsoever with antisocial forces. The Company takes a firm stance in rejecting any and all contact with antisocial forces that threaten social order and security.

Business execution system

(1) Epson is instituting a system that will ensure the appropriate and efficient execution of business. To that end, Epson has established regulations governing organization management, job authorities, the division of labor, and the management of affiliated companies while distributing power and authority across the entire Group.
(2) Executive officers are required to report the matters below at least once every three months to the board of directors.
 • Current business performance and performance outlook
 • Risk management responses
 • Status of key business operations

Risk management

(1) 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.
(2) Overall responsibility for risk management resides with the president of Seiko Epson. The chief operating officers of operations divisions promote risk management within their respective businesses and at subsidiaries consolidated under them. Group-wide risk management projects are carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions. In addition, a department was set up to supervise risk management. This department strives to mitigate risk through monitoring and supervision of the overall risk management program.
(3) The Management Strategy Council strives to ensure effective management of serious risks that could have an egregious affect on society by dynamically and exhaustively discussing and analyzing action to identify and control risks. Also, 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.
(4) The president periodically reports to the board of directors on critical risk management issues and formulates appropriate measures to respond to these issues.

Ensuring the appropriateness of operations in the corporate group

(1) The Epson Group's management structure helps ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company is organized into product-based divisions. Each division is headed by a chief operating officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office own global responsibility. Responsibility for providing the framework for business operations at subsidiaries is owned by the head of each business. Group-wide corporate functions are the responsibility of the heads of Head Office supervisory departments.
(2) The Company has business processes that enable business to be controlled on a Group level. This is accomplished by internal regulations that require subsidiaries to report or acquire pre-approval for certain business operations from the parent company, Seiko Epson, and by requiring issues that meet certain criteria to be submitted to Epson's board of directors for resolution.

Safeguarding and management of work-related information

(1) Information on business operations is safeguarded and managed under regulations governing, among other things, document control, management approval, and contracts, with directors and statutory auditors reviewing these and other relevant documents on an ongoing basis.
(2) The Company strives to prevent the leak and loss of Epson Group internal information by managing confidential information according to the level of sensitivity, in accordance with internal information security regulations.

Audit system

(1) Statutory auditors have the authority to conduct interviews with directors and other personnel whenever they deem such interviews necessary based on corporate regulations governing auditors and audit procedures.
(2) Statutory auditors are also authorized to attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings, which enables the auditors to conduct audits based on the same information as that available to directors. Statutory auditors also routinely review important documents related to management decision making.
(3) Epson has established a Corporate Auditors Office with a full-time staff to assist the statutory auditors in their duties. The views of statutory auditors are given a great deal of weight in the evaluation and transfer of personnel assigned to this office.
(4) Statutory auditors strive to improve audit effectiveness by consulting on a regular basis with the internal audit organization and independent public accountants.
(5) Statutory auditors hold regular meetings with representative directors to directly assess business operations.

(2) Internal audits

Epson's internal compliance system guards against potential legal and internal regulatory violations in departmental operations, and the internal audit organization, with a staff of 19, directly reports to the president the results of routine internal audits, including those conducted at Epson subsidiaries. The audit organization evaluates the effectiveness of the governance process and requests improvements where needed.

(3) Outside directors and outside statutory auditors

View on independence

The Epson board of directors has established criteria concerning the independence of outside directors. In compliance with these criteria, it selects candidates for outside directors and outside statutory auditors who do not have potential conflicts of interest with general shareholders. The outside director and the outside auditors that are currently engaged all meet the independence criteria.
The criteria concerning the independence of outside directors are listed below.

Outside director independence criteria

Epson does not select as candidates for outside director persons to whom any of the following apply:

(1) A person who receives significant business*[1] from Epson or a person who has within the last five years been employed as an executive officer*[2] of a company that receives significant business from Epson
(2) A person who is a major business partner*[3] for Epson or a person who has within the last five years been employed as an executive officer of a company that is a major business partner for Epson
(3) A consultant, an accounting professional such as a certified public accountant, or a legal professional such as an attorney who, in the last three years, has received from Epson a large sum of money*[4] or other property for reasons other than director remuneration (including any person who has belonged to or been employed as an executive officer or the like with a company, union or other group that has received such property in the last three years)
(4) A person who is a major Epson shareholder*[5] or a person who, within the last five years, has been an executive officer or statutory auditor of a company that is a major Epson shareholder
(5) A person who is employed as an executive officer or statutory auditor of a company or other group in which Epson is a major shareholder
(6) A person who has belonged within the last 10 years to an auditing company that has conducted a statutory audit of Epson
(7) A person who has belonged to Epson's managing underwriter within the last 10 years
(8) A person who has received a large donation*[6] from Epson (a person who belongs to a legal entity, union or other group that has received a large donation from Epson and has been employed therein as an executive officer or the equivalent)
(9) A person from a company that employs a former Epson employee as an outside director
(10) The spouse or other immediate family member of a person to whom any of items (1) through (9) apply

Notes

*1: A "person who receives significant business from Epson" is a person or supplier who has received payments amounting to 2% or more of the person or supplier's annual consolidated sales for any fiscal year in the last three years.

*2: An "executive officer" is an employee in a senior executive management position, including executive, managing director, operating officer, or general manager or higher position.

*3: A "person who is a major business partner of Epson" is a person or customer who has furnished Epson with payments amounting to 2% or more of Epson's annual consolidated sales for any fiscal year in the last three years.

*4: A "large sum of money" is, in the case of an individual, an amount which, on average in any of the last three years, is equal to ¥10,000,000 or more, or, in the case of a group, equivalent to 2% or more of the group's total revenue.

*5. "Major shareholder" means a person who owns, either directly or indirectly, 10% or more of the outstanding voting rights.

*6: A "large donation" is a donation in an amount which, on average in any of the last three years, exceeds the greater of ¥10,000,000 or 30% of the group's total annual expenses.

Outside directors

Epson's board has one outside director. No special interests exist between the Company and the outside director.

The outside director, Toshiharu Aoki, was an executive at Nippon Telegraph and Telephone Corporation and at NTT Data Corporation. Epson has not had business transactions with Nippon Telegraph and Telephone Corporation over the last three years. Although Epson had business transactions with NTT Data Corporation, which Epson has engaged primarily to build internal information systems, NTT Data Corporation is not considered a major supplier under Epson's outside director independence criteria.

Outside statutory auditors

Each of Epson's three outside statutory auditors draws on a wealth of experience and keen insight when conducting audits, and offers frank opinions to the board of directors. No special interests exist between the Company and any of the outside statutory auditors.

Outside statutory auditor Yoshiro Yamamoto is a former Fuji Bank, Ltd. (now Mizuho Corporate Bank, Ltd.) executive who has been retired from the bank for more than 10 years. He was invited to become an auditor because he fit the needs of the Company and for no other reason, such as a recommendation by Fuji Bank, Ltd. Net interest-bearing liabilities account for only a small percentage of the Company's total assets, and the Company's dependence on bank loans is low. Furthermore, the Company deals with multiple financial institutions and does not depend on Mizuho Corporate Bank, Ltd. for a high proportion of its borrowing. There is therefore no special relationship between the Company and Mizuho Corporate Bank, Ltd., and Mizuho Corporate Bank, Ltd. does not influence Epson's decision-making.

Outside statutory auditor Kenji Miyahara was an executive at Sumitomo Corporation. Epson has not had business transactions with Sumitomo Corporation over the last three years.

Outside statutory auditor Michihiro Nara is an attorney, but the Company has never engaged him or the law office to which he belongs to perform duties under an advisory agreement or under any other separate agreement, nor does it plan to do so in the future.

There is no particular system of coordination between outside statutory auditors and audit functions in the Group; however, statutory auditors actively consult with the internal Auditing Office and independent public accountants. Each time an issue is identified by an audit, details are passed on to the outside statutory auditors to keep them informed as appropriate. Moreover, statutory auditors participate in the Compliance Committee, which supervises compliance programs, and they actively seek explanations from departments where there has been an important incident involving internal control. Statutory auditors are thus kept abreast of operational issues and the status of measures to address those issues.

(4) Director remuneration

Basic policy

Directors serve to enhance corporate value, both in the immediate and long terms, and Epson has designed its system of director remuneration to provide them with incentives to improve business performance.

The monthly salaries of directors are set according to their title, and in consideration of Epson's business performance. Director bonuses are paid only if the Company has achieved a level of profit that increases corporate value. The desired level of profit is predefined by the board of directors, and the board of directors submits to the general shareholders for approval a proposal for the total amount of director bonuses to be paid in a given period, the amount to be commensurate with the level of performance with respect to profit.
Furthermore, a portion of the monthly salaries of directors is paid as Epson stock so that remuneration is linked to share price, and to serve as an incentive for improving business performance in the long term.

Remuneration paid

Category	Total remuneration (millions of yen)	Remuneration breakdown (millions of yen)		Number of individuals
		Basic salary	Bonuses	
Directors (including total for outside directors)	399 (15)	399 (15)	- (-)	13 (1)
Statutory auditors (including total for outside statutory auditors)	122 (60)	122 (60)	- (-)	6 (3)
Total	521	521	-	19

Notes
1. The numbers above include three directors and one statutory auditor who retired at the closing of the general shareholders' meeting on June 20, 2012.
2. Remuneration paid to directors does not include remuneration paid to personnel who hold the position of director as an additional post.
3. Epson introduced a stock performance (stock-based) component to the remuneration system to link remuneration more closely to share price, so Epson stock accounts for a portion of basic salary.
4. 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.
5. A director and an outside statutory auditor, both of whom retired at the closing of the general shareholders' meeting held on June 24, 2013, will be paid a total of ¥80 million based on the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of discontinued benefits for retiring directors.
6. There is not system of bonuses for statutory auditors.
7. Stock options are not granted.

(5) Stock holdings
Balance sheet total of stocks held for reasons other than pure investment
26 companies ¥9,295 million

Issuing company, number, and balance sheet total of stocks held for reasons other than pure investment
Previous fiscal year

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	4,437	Maintain and strengthen business ties
Mizuho Financial Group, Inc.	15,008,880	2,026	Maintain and strengthen business ties
Seiko Holdings Corporation	1,644,080	327	Maintain and strengthen business ties

The Hachijuni Bank, Ltd.	489,500	238	Maintain and strengthen business ties
Iwasaki Electric Co., Ltd.	1,000,000	174	Maintain and strengthen business ties
Hakuto Co., Ltd.	190,000	156	Maintain and strengthen business ties
King Jim Co., Ltd.	221,980	147	Maintain and strengthen business ties
Marubun Corporation	332,640	139	Maintain and strengthen business ties
Otuska Corporation	10,000	67	Maintain and strengthen business ties
Joshin Denki Co., Ltd.	70,000	57	Maintain and strengthen business ties
Pixelworks, Inc.	100,000	18	Maintain and strengthen business ties

Current Fiscal year

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	3,805	Maintain and strengthen business ties
Mizuho Financial Group, Inc.	15,008,880	2,986	Maintain and strengthen business ties
Seiko Holdings Corporation	1,644,080	692	Maintain and strengthen business ties
The Hachijuni Bank, Ltd.	489,500	278	Maintain and strengthen business ties
Iwasaki Electric Co., Ltd.	1,000,000	193	Maintain and strengthen business ties
Hakuto Co., Ltd.	190,000	171	Maintain and strengthen business ties
King Jim Co., Ltd.	221,980	155	Maintain and strengthen business ties
Marubun Corporation	332,640	143	Maintain and strengthen business ties

Otuska Corporation	10,000	102	Maintain and strengthen business ties
Joshin Denki Co., Ltd.	70,000	62	Maintain and strengthen business ties
Pixelworks, Inc.	100,000	20	Maintain and strengthen business ties

Stocks held for pure investment
None

(6) Accounting audits

(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	Takashi Ide	Ernst & Young ShinNihon LLC	4
Designated and Engagement Partner, Certified Public Accountant	Takahiro Yamazaki	Ernst & Young ShinNihon LLC	2

Notes: Mr. Taisuke Ide, who was the Designated and Engagement Partner, Certificated Public Accountant, conducted the audit from the first to second quarter, FY2012.

(b) Composition of auditing team

The auditing team comprises 30 staff including 12 certified public accountants, three junior accountants, and 15 other accounting staff.

(7) Outline of contract limiting liability

The Company’s contract with the outside director and outside statutory auditors is based on Article 427, Paragraph 1, of the Japanese Companies Act, and the contract stipulations determining the liability for damages on Article 423, Paragraph 1, of the same law. Said contract also stipulates that the limit of liability for damages shall be the legal maximum.

Limited liability is recognized only in cases where the outside director and the outside statutory auditors performed their duties in good faith and were not grossly negligent.

(8) Number of directors

Epson’s Articles of Incorporation determine the maximum number of directors to be ten.

(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 stock 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 declare an interim dividend with a date of record of September 30 every year by resolution of the board of directors. This provides the Company with flexibility in paying dividends 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	145	66	145	66
Consolidated subsidiaries	94	-	69	12
Total	240	66	215	78

(2) Other important remuneration

Previous fiscal year

Total payments for audits carried out on behalf of 66 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2012, amounted to ¥356 million.

Fiscal year under review

Total payments for audits carried out on behalf of 66 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2013, amounted to ¥407 million.

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

Previous fiscal year

Remuneration paid for non-audit work performed by the auditing certified public accountant was for consultancy services in IFRS.

Fiscal year under review

Remuneration paid for non-audit work performed by the auditing certified public accountant was for consultancy services in IFRS.

(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) Overview

Epson believes that its 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 the shareholders.

To ensure and enhance the corporate value and common interests of shareholders, Epson believes 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 its customers.

Not all large-scale acquisitions of shares enhance the value of the company whose shares are being acquired, nor do they always 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) Summary of initiatives to help achieve the basic policy

1) Specific actions supporting actualization of the basic policy

Epson has executed a variety of actions designed to achieve the vision set forth in "SE15," a strategic corporate vision established in March 2009 that describes what the Company wants to be like in the 2015 fiscal year. In the 2012 fiscal year, facing a business environment that was even harsher than predicted, the Company decided to re-examine and adjust some of the strategies and financial targets in the original plan. The result is the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-15), a three-year plan established in March 2013.

Under this plan the Company will readjust its product mixes and adopt new business models in existing segments and aggressively develop markets in new business segments. Epson will move steadily forward to transform itself from being primarily a provider of consumer imaging products into a company that once again posts strong growth by creating and providing new information solutions and equipment for businesses and professionals, as well as consumers.

2) Efforts in preventing parties who are deemed inappropriate based on Epson’s basic policy from gaining control over the Company’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 Original Plan") to prevent large-scale acquisition of Epson shares after shareholders approved the Original Plan at their general meeting held on June 25, 2008. The Original Plan, which was approaching the end of its effective period, was subsequently revised in part, and the updated plan ("the Plan") was approved by shareholders at the June 20, 2011, general shareholders' meeting.

The purpose of the Plan is to prevent large-scale acquisitions of Epson stock certificates that do not enhance corporate value or that are not in the common interests of shareholders by having shareholders decide whether to allow such acquisitions and by giving the Epson board of directors the time and information they need to present shareholders with an alternative proposal and enable the board to discuss and negotiate with the acquirer on behalf of shareholders. Specifically, a party that intends to acquire 20% or more of stock certificates outstanding or to stage a takeover bid shall be required to submit in advance to the Epson board of directors a statement of intent as well as sufficient and necessary information for decision-making on the part of shareholders and for evaluation and consideration by a special committee. The party shall also be required 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 interest of its shareholders.

To prevent the Epson board of directors from making arbitrary decisions on the activation of provisions, the question of whether to invoke preventive provisions is subject to the assessment 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 regarding the necessity of the activation of provisions, and the Epson board of directors shall promptly accept or reject a resolution to invoke preventive provisions, paying the utmost consideration to that advice.

(3) Decisions made by the Epson board of directors regarding specific actions and the justification for those decisions

The actions described in (2) 1) above were specifically formulated to enhance both Epson's corporate value and the common interests of its shareholders in a continuous and sustained manner. These actions support actualization of the basic policy.

As well as having been introduced and updated in order to ensure and enhance corporate value and the common interests of shareholders, the Plan is in accordance with the basic policy outlined in (1) above. Specifically, the Plan guarantees fairness and objectivity, is reasonable, and supports Epson's corporate value and the common interests of its shareholders because, among other things, a) it was introduced (and updated) after being approved by shareholders at the general shareholders' meeting; b) it contains provisions for reasonable and objective implementation; c) a special committee comprising members with a high degree of independence from Epson management was established and activation of the Plan is subject to the assessment of that special committee; d) the special committee may solicit expert opinions from third parties at Epson's expense; and e) the Plan was determined to be valid for approximately three years and may be abolished by the board of directors at any time. The Plan is not in place to keep Epson executive officers in their posts.

Management

Directors, statutory auditors and executive officers of the Company correct as of the date when the annual securities report ("yukashoken-houkokusho") was submitted and their functions are listed below.

Name	Position	Current function
Minoru Usui	President (Representative Director)	
Kenji Kubota	Senior Managing Director (Representative Director)	General Administrative Manager, Management Control Division, and General Administrative Manager, Compliance Office
Seiichi Hirano	Managing Director	President, Epson Sales Japan Corporation
Noriyuki Hama	Managing Director	General Administrative Manager, Human Resources Division
Masataka Kamiyanagi	Managing Director	General Administrative Manager, Intellectual Property Division
Yoneharu Fukushima	Director	General Administrative Manager, Corporate Research & Development Division
Koichi Kubota	Director	Chief Operating Officer, Printer Operations Division
Shigeki Inoue	Director	General Administrative Manager, Business Infrastructure Development Division
Toshiharu Aoki	Outside Director	
Toru Oguchi	Standing Statutory Auditor	
Torao Yajima	Standing Statutory Auditor	
Yoshiro Yamamoto	Outside Statutory Auditor	
Kenji Miyahara	Outside Statutory Auditor	
Michihiro Nara	Outside Statutory Auditor	
Hiroshi Komatsu	Managing Executive Officer	Deputy General Administrative Manager, Business Infrastructure Development Division

John Lang	Managing Executive Officer	President and Chief Executive Officer, Epson America, Inc.
Tadaaki Hagata	Managing Executive Officer	Vice President, Epson America, Inc.
Akihiko Sakai	Executive Officer	President, Tohoku Epson Corporation
Kiyofumi Koike	Executive Officer	Chairman and President, Epson (China) Co., Ltd.
Ryuhei Miyagawa	Executive Officer	Deputy General Administrative Manager, Business Infrastructure Development Division, and General Manager, Safety Promotion Department
Koichi Endo	Executive Officer	Managing Director, Epson Singapore Pte. Ltd
Hiromi Taba	Executive Officer	President, Epson Europe B.V.
Motonori Okumura	Executive Officer	General Administrative Manager, Imaging Products Key Component Research & Engineering Division
Takashi Oguchi	Executive Officer	President, P.T. Indonesia Epson Industry
Yasukazu Kitamatsu	Executive Officer	Chief Operating Officer, Commercial Printer Operations Division
Hideki Shimada	Executive Officer	Deputy Chief Operating Officer, Printer Operations Division
Masayuki Kitamura	Executive Officer	Chief Operating Officer, Microdevices Operations Division
Akihiro Fukaishi	Executive Officer	Chief Operating Officer, Business Systems Operations Division

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Seiko Epson Corporation and Subsidiaries

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Consolidated Balance Sheets

As of March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Assets			
Current assets			
Cash and deposits	¥123,093	¥106,678	$1,134,269
Notes and accounts receivable-trade	139,309	132,289	1,406,581
Short-term investment securities	19,010	70,012	744,412
Merchandise and finished goods	99,472	95,853	1,019,170
Work in process	41,524	45,677	485,667
Raw materials and supplies	21,258	21,998	233,896
Deferred tax assets	12,678	14,765	156,990
Other	32,336	33,582	357,101
Allowance for doubtful accounts	(1,493)	(1,399)	(14,875)
Total current assets	487,190	519,457	5,523,211
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	393,081	395,133	4,201,307
Machinery, equipment and vehicles	417,229	420,835	4,474,587
Tools, furniture and fixtures	150,841	162,368	1,726,400
Land	54,731	51,878	551,600
Construction in progress	5,700	4,451	47,325
Other	102	120	1,300
Accumulated depreciation	(808,600)	(817,398)	(8,691,100)
Total property, plant and equipment	213,086	217,388	2,311,419
Intangible assets			
Goodwill	1,758	887	9,431
Other	13,307	12,481	132,706
Total intangible assets	15,066	13,368	142,137
Investments and other assets			
Investment securities	12,614	13,440	142,902
Long-term loans receivable	36	38	404
Deferred tax assets	3,776	5,307	56,427
Other	9,068	9,594	102,010
Allowance for doubtful accounts	(68)	(47)	(499)
Total investments and other assets	25,426	28,332	301,244
Total noncurrent assets	253,579	259,089	2,754,800
Total assets	¥740,769	¥778,547	$8,278,011

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥77,427	¥57,249	$608,708
Short-term loans payable	30,812	53,626	570,186
Current portion of bonds	40,000	—	—
Current portion of long-term loans payable	30,500	75,000	797,448
Accounts payable-other	56,695	51,782	550,579
Income taxes payable	7,631	7,338	78,022
Deferred tax liabilities	76	1	10
Provision for bonuses	8,333	13,035	138,596
Provision for product warranties	7,626	7,624	81,063
Other	54,210	61,030	648,956
Total current liabilities	313,314	326,688	3,473,568
Noncurrent liabilities			
Bonds payable	60,000	90,000	956,937
Long-term loans payable	77,500	52,500	558,213
Deferred tax liabilities	8,696	10,786	114,683
Provision for retirement benefits	23,407	29,304	311,578
Provision for loss on litigation	1,963	2,159	22,955
Provision for product warranties	659	652	6,932
Provion for recycling costs	560	577	6,135
Other	6,525	7,072	75,219
Total noncurrent liabilities	179,314	193,052	2,052,652
Total liabilities	492,628	519,740	5,526,220
Net assets			
Shareholders' equity			
Capital stock			
Authorized - 607,458,368 shares			
Issued - 199,817,389 shares	53,204	53,204	565,699
Capital surplus	84,321	84,321	896,555
Retained earnings	194,047	179,305	1,906,485
Treasury stock			
March 31, 2013 - 20,925,261 shares			
March 31, 2012 - 20,924,404 shares	(20,453)	(20,453)	(217,480)
Total shareholders' equity	311,119	296,376	3,151,259
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	1,838	2,621	27,868
Deferred gains or losses on hedges	(1,013)	(1,911)	(20,318)
Foreign currency translation adjustment	(65,502)	(40,342)	(428,931)
Total accumulated other comprehensive income	(64,676)	(39,631)	(421,381)
Minority interests	1,697	2,061	21,913
Total net assets	248,140	258,806	2,751,791
Total liabilities and net assets	¥740,769	¥778,547	$8,278,011

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

Consolidated Statements of Operations

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Net sales	¥877,997	¥851,297	$9,051,536
Cost of sales	629,151	616,857	6,558,830
Gross profit	248,846	234,439	2,492,706
Selling, general and administrative expenses	224,219	213,184	2,266,710
Operating income	24,626	21,255	225,996
Non-operating income:			
Interest income	1,110	805	8,559
Rent income	1,549	1,200	12,759
Foreign exchange gains	1,396	—	—
Other	4,661	2,321	24,689
Total non-operating income	8,718	4,327	46,007
Non-operating expenses:			
Interest expenses	3,573	3,041	32,333
Foreign exchange losses	—	2,944	31,302
Other	2,748	1,967	20,926
Total non-operating expenses	6,322	7,953	84,561
Ordinary income	27,022	17,629	187,442
Extraordinary income:			
Insurance income	1,252	4,463	47,453
Gain on revision of retirement benefit plan	364	—	—
Other	1,025	220	2,350
Total extraordinary income	2,643	4,684	49,803
Extraordinary loss:			
Impairment loss	586	4,605	48,963
Loss on litigation	6,052	16,268	172,971
Loss on transfer of subsidiary's equity	2,024	—	—
Other	5,380	4,919	52,301
Total extraordinary losses	14,043	25,792	274,235
Income (loss) before income taxes and minority interests	15,622	(3,479)	(36,990)
Income taxes-current	10,622	7,964	84,679
Income taxes-deferred	(218)	(1,521)	(16,172)
Total income taxes	10,404	6,443	68,507
Income (loss) before minority interests	5,217	(9,922)	(105,497)
Minority interests in income	185	168	1,796
Net income (loss)	¥5,032	(¥10,091)	($107,293)

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

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Income (loss) before minority interests	¥5,217	(¥9,922)	($105,497)
Other comprehensive income			
Valuation difference on available-for-sale securities	(719)	777	8,261
Deferred gains or losses on hedges	(440)	(897)	(9,537)
Foreign currency translation adjustment	(1,649)	25,353	269,569
Share of other comprehensive income of associates accounted for using equity method	1	102	1,084
Total other comprehensive income	(2,807)	25,335	269,377
Comprehensive income	¥2,409	¥15,413	$163,880
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥2,181	¥14,954	$159,011
Comprehensive income attributable to minority interests	¥228	¥458	$4,869

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

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥53,204	¥53,204	$565,699
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of current period	53,204	53,204	565,699
Capital surplus			
Balance at the beginning of current period	84,321	84,321	896,555
Changes of items during the period			
Total changes of items during the period	—	—	—
Balance at the end of current period	84,321	84,321	896,555
Retained earnings			
Balance at the beginning of current period	193,602	194,047	2,063,230
Changes of items during the period			
Dividends from surplus	(4,586)	(4,651)	(49,452)
Net income (loss)	5,032	(10,091)	(107,293)
Total changes of items during the period	445	(14,742)	(156,745)
Balance at the end of current period	194,047	179,305	1,906,485
Treasury stock			
Balance at the beginning of current period	(38)	(20,453)	(217,480)
Changes of items during the period			
Purchase of treasury stock	(20,415)	(0)	(0)
Total changes of items during the period	(20,415)	(0)	(0)
Balance at the end of current period	(20,453)	(20,453)	(217,480)
Total shareholders' equity			
Balance at the beginning of current period	331,088	311,119	3,308,004
Changes of items during the period			
Dividends from surplus	(4,586)	(4,651)	(49,452)
Net income (loss)	5,032	(10,091)	(107,293)
Purchase of treasury stock	(20,415)	(0)	(0)
Total changes of items during the period	(19,969)	(14,742)	(156,745)
Balance at the end of current period	311,119	296,376	3,151,259
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	2,558	1,838	19,543
Changes of items during the period			
Net changes of items other than shareholders' equity	(719)	783	8,325
Total changes of items during the period	(719)	783	8,325
Balance at the end of current period	1,838	2,621	27,868
Deferred gains or losses on hedges			
Balance at the beginning of current period	(572)	(1,013)	(10,781)
Changes of items during the period			
Net changes of items other than shareholders' equity	(440)	(897)	(9,537)
Total changes of items during the period	(440)	(897)	(9,537)
Balance at the end of current period	(1,013)	(1,911)	(20,318)
Foreign currency translation adjustment			
Balance at the beginning of current period	(63,812)	(65,502)	(696,448)
Changes of items during the period			
Net changes of items other than shareholders' equity	(1,690)	25,160	267,517
Total changes of items during the period	(1,690)	25,160	267,517
Balance at the end of current period	(65,502)	(40,342)	(428,931)

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Total accumulated other comprehensive income			
Balance at the beginning of current period	(61,826)	(64,676)	(687,686)
Changes of items during the period			
Net changes of items other than shareholders' equity	(2,850)	25,045	266,305
Total changes of items during the period	(2,850)	25,045	266,305
Balance at the end of current period	(64,676)	(39,631)	(421,381)
Minority interests			
Balance at the beginning of current period	1,545	1,697	18,054
Changes of items during the period			
Net changes of items other than shareholders' equity	152	363	3,859
Total changes of items during the period	152	363	3,859
Balance at the end of current period	1,697	2,061	21,913
Total net assets			
Balance at the beginning of current period	270,808	248,140	2,638,372
Changes of items during the period			
Dividends from surplus	(4,586)	(4,651)	(49,452)
Net income (loss)	5,032	(10,091)	(107,293)
Purchase of treasury stock	(20,415)	(0)	(0)
Net changes of items other than shareholders' equity	(2,698)	25,409	270,164
Total changes of items during the period	(22,667)	10,666	113,419
Balance at the end of current period	¥248,140	¥258,806	$2,751,791

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2013

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	¥15,622	(¥3,479)	($36,990)
Depreciation and amortization	37,651	39,320	418,075
Impairment loss	586	4,605	48,963
Equity in (earnings) losses of affiliates	(85)	(132)	(1,403)
Amortization of goodwill	873	871	9,261
Increase (decrease) in allowance for doubtful accounts	(425)	(265)	(2,817)
Increase (decrease) in provision for bonuses	(8,224)	4,411	46,900
Increase (decrease) in provision for product warranties	(199)	(715)	(7,602)
Increase (decrease) in provision for retirement benefits	3,374	5,136	54,609
Interest and dividends income	(1,373)	(1,018)	(10,824)
Interest expenses	3,573	3,041	32,333
Foreign exchange losses (gains)	(2,250)	(4,570)	(48,591)
Loss (gain) on sales of noncurrent assets	(872)	13	138
Loss on retirement of noncurrent assets	760	936	9,952
Loss (gain) on sales of investment securities	(150)	(5)	(53)
Insurance income	(1,252)	(4,463)	(47,453)
Loss on litigation	6,052	16,268	172,971
Loss on transfer of subsidiary's equity	2,024	—	—
Decrease (increase) in notes and accounts receivable-trade	(995)	6,862	72,961
Decrease (increase) in inventories	(20,360)	18,588	197,639
Increase (decrease) in accrued consumption taxes	2,005	577	6,135
Increase (decrease) in notes and accounts payable-trade	4,822	(17,169)	(182,551)
Other, net	5,884	(4,230)	(44,966)
Subtotal	47,042	64,583	686,687
Interest and dividends income received	2,292	1,833	19,489
Interest expenses paid	(3,709)	(3,099)	(32,950)
Proceeds from insurance income	1,252	4,463	47,453
Payments for loss on litigation	(6,207)	(14,095)	(149,867)
Payments for business restructuring	(6,061)	—	—
Income taxes paid	(7,929)	(10,692)	(113,694)
Net cash provided by (used in) operating activities	26,678	42,992	457,118
Net cash provided by (used in) investing activities			
Purchase of investment securities	(777)	(0)	(0)
Proceeds from sales of investment securities	162	6	63
Purchase of property, plant and equipment	(32,709)	(39,816)	(423,349)
Proceeds from sales of property, plant and equipment	1,723	1,105	11,749
Purchase of intangible assets	(3,998)	(4,030)	(42,849)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,940)	—	—
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	132	—	—
Proceeds from transfer of equity in subsidiaries resulting in change in scope of consolidation	6,358	—	—
Proceeds from transfer of business	—	3,147	33,460
Other, net	(480)	75	820
Net cash provided by (used in) investing activities	(31,528)	(39,511)	(420,106)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(248)	16,962	180,350
Proceeds from long-term loans payable	500	50,000	531,632
Repayment of long-term loans payable	(42,093)	(30,500)	(324,295)
Proceeds from issuance of bonds	40,000	30,000	318,979
Redemption of bonds	(30,000)	(40,000)	(425,305)
Repayments of lease obligations	(553)	(417)	(4,433)
Purchase of treasury stock	(20,415)	(0)	(0)
Cash dividends paid	(4,586)	(4,651)	(49,452)
Cash dividends paid to minority shareholders	(9)	(94)	(1,022)
Net cash provided by (used in) financing activities	(57,406)	21,298	226,454
Effect of exchange rate change on cash and cash equivalents	509	9,830	104,530
Net increase (decrease) in cash and cash equivalents	(61,747)	34,609	367,996
Cash and cash equivalents at beginning of period	211,777	150,029	1,595,204
Cash and cash equivalents at end of period	¥150,029	¥184,639	$1,963,200

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 are rounded down.

2. Number of group companies

As of March 31, 2013, the Company had 88 consolidated subsidiaries. It has applied the equity method in respect to one unconsolidated subsidiary and six 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.

(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, equipment and vehicles.

In line with the fiscal year 2012 Japanese tax reforms, effective April 1, 2012, the Company and its Japanese subsidiaries adopted the 200% declining-balance method for depreciation of property, plant and equipment (excluding buildings) acquired on or after April 1, 2012. The adoption of the new method did not have a material effect on Epson's results of operations and financial position for the year ended March 31, 2013.

(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 is 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 recycling costs

At the time of sale, provision for recycling 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.

(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.

4. Accounting Standards Issued but Not Yet Effective

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Under the revised accounting standard, actuarial gains and losses and unrecognized prior service costs that are yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits). The retirement benefit obligation can be attributed to each period either by the benefit formula basis or by the straight-line method and the calculation method for the discount rate shall be changed.

Epson expects to apply the revised accounting standard from the fiscal year ended March 31, 2014 and apply the revised calculation method for the projected benefit obligation and service cost from beginning of the fiscal year ended March 31, 2015. As of March 31, 2013, the Company is in the process of measuring the effects of applying the revised accounting standard on financial statements.

5. 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 ¥94.05 = U.S.$1, the exchange rate prevailing as of March 31, 2013, has been used.

6. Business transfer

The business transfer

As of November 16, 2012, the Company concluded an agreement with Hoya Corporation ("Hoya") about the transfer of the optical products business of the Company and related subsidiaries to Hoya group. As a result of this agreement, on February 1, 2013, the Company and related subsidiaries transferred their optical products business to Hoya Group.

According to the terms of the deal, the two groups' related businesses will be merged and leveraged worldwide.

Outline of business transfer

Transferred to	Hoya group
Business activities	Development, manufacture and sales of eyeglass lenses
Date of transfer	February 1, 2013
Loss on transfer of business	¥1,790 million ($19,032 thousand)

Transferred carrying amounts of assets and liabilities as of January 31, 2013, were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,224	$13,014
Noncurrent assets	3,317	35,268
Total	¥4,541	$48,282
Current liabilities	-	-
Noncurrent liabilities	-	-
Total	-	-

Accounting treatment

Investments in the transferred optical products business of the Company and related subsidiaries are deemed as liquidated, and the difference between the market value of proceeds received and the amount of shareholders' equity corresponding to the transferred business is recognized as the loss on transfer.

Name of the reporting segment in which the business was included

Devices & precision products segment

Outline of the business

(a) Net sales ¥8,233 million ($87,538 thousand) (year ended March 31, 2013)

(b) Operating income ¥173 million ($1,839 thousand) (year ended March 31, 2013)

7. Inventories

Losses recognized and charged to cost of sales as a result of valuations as of March 31, 2012 and 2013, were ¥31,031 million and ¥31,594 million ($335,927 thousand), respectively.

8. Investments in debt and equity securities

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

The market value (carrying value) of held-to-maturity debt securities, which was recognized at amortized cost and included in the short-term investments and investment securities accounts at March 31, 2012 and 2013, comprised the following:

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2012	2013	2013
National government bonds	¥100	¥104	$1,105
Total	¥100	¥104	$1,105

The aggregate cost and market value (carrying value) of other securities with market value, which were included in the short-term investment securities account and the investment securities account at March 31, 2012 and 2013, were as follows:

Other securities

	Millions of yen			
	March 31, 2012			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥6,188	¥2,920	(¥909)	¥8,199
Certificate of deposit	19,000	-	(-)	19,000
Other	191	-	(-)	191
Total	¥25,379	¥2,920	(¥909)	¥27,391

	Millions of yen			
	March 31, 2013			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥6,189	¥2,883	(¥12)	¥9,059
Certificate of deposit	70,000	-	(-)	70,000
Total	¥76,189	¥2,883	(¥12)	¥79,059

	Thousands of U.S. dollars			
	March 31, 2013			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	$65,806	$30,643	($127)	$96,322
Certificate of deposit	744,284	-	(-)	744,284
Total	$810,090	$30,643	($127)	$840,606

For the years ended March 31, 2012 and 2013, the total amount of other-than-temporary impairments charged to current income for securities with market value is not disclosed herein since it is insignificant to the consolidated results. Impairments are principally recorded in cases where the fair value of other securities with determinable market value 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, 2012, were ¥162 million and ¥41 million, respectively. The total sales of other securities, and the related gains for the year ended March 31, 2013, were ¥7 million ($74 thousand) and ¥5 million ($53 thousand), respectively.
Unlisted securities, which were carried at costs of ¥1,136 million and ¥897 million ($9,537 thousand) at March 31, 2012 and 2013, respectively, are not included in this table because market quotations are unavailable, and it is therefore extremely difficult to estimate their market value.

The amounts of investments in unconsolidated subsidiaries and affiliates, which were included in the investment securities account as of March 31, 2012 and 2013, were ¥2,996 million and ¥3,390 million ($36,044 thousand), respectively.

9. Short-term and long-term loans payable

Short-term loans payable and long-term loans payable at March 31, 2012 and 2013, comprised the following:

	Millions of yen				Thousands of U.S. dollars
	March 31				March 31,
	2012	2013			2013
	Amount	Amount	Average interest rate	Last due	Amount
Short-term loans payable	¥30,812	¥53,626	0.77%	-	$570,186
Current portion of long-term loans payable	30,500	75,000	1.51	-	797,448
Current portion of lease obligations	407	374	-	-	3,976
Long-term loans payable from financial institutions	77,500	52,500	0.79	2017	558,213
Lease obligations	636	301	-	2017	3,213
Unsecured bonds issued by the Company	20,000	-	-	-	-
Unsecured bonds issued by the Company	20,000	-	-	-	-
Unsecured bonds issued by the Company	20,000	20,000	0.58	2015	212,652
Unsecured bonds issued by the Company	20,000	20,000	0.49	2014	212,652
Unsecured bonds issued by the Company	20,000	20,000	0.72	2016	212,652
Unsecured bonds issued by the Company	-	20,000	0.55	2015	212,652
Unsecured bonds issued by the Company	-	10,000	0.67	2017	106,329
Total	¥239,855	¥271,802			$2,889,973

Average interest rates are calculated using weighted-average interest rates on short-term loans payable, long-term loans payable and bonds payable, as of March 31, 2013.

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 loans payable outstanding as of March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
Year ending March 31	2012	2013	2013
2013	¥30,500	-	-
2014	75,000	¥75,000	$797,448
2015	2,000	2,000	21,265
2017	500	500	5,316
2018	-	50,000	531,632
Total	¥108,000	¥127,500	$1,355,661

The maturities of lease obligations outstanding as of March 31, 2012 and 2013, were as follows:

Year ending March 31	Millions of yen Year ended March 31 2012	 2013	Thousands of U.S. dollars Year ended March 31, 2013
2013	¥407	-	-
2014	366	¥374	$3,976
2015	213	223	2,406
2016	37	47	499
2017	16	24	255
2018	2	5	53
Total	¥1,043	¥675	$7,189

The maturities of bonds outstanding as of March 31, 2012 and 2013, were as follows:

Year ending March 31	Millions of yen Year ended March 31 2012	 2013	Thousands of U.S. dollars Year ended March 31, 2013
2013	¥40,000	-	-
2015	20,000	¥20,000	$212,652
2016	20,000	40,000	425,304
2017	20,000	20,000	212,652
2018	-	10,000	106,329
Total	¥100,000	¥90,000	$956,937

10. Goodwill

Epson had goodwill and negative goodwill as of March 31, 2012 and 2013. Goodwill and negative goodwill are amortized on a straight-line basis in accordance with Japanese accounting standards. Goodwill or negative goodwill is recorded on the balance sheets after offsetting. The amounts of goodwill and negative goodwill before offsetting as of March 31, 2012 and 2013, were as follows:

	Millions of yen March 31 2012	 2013	Thousands of U.S. dollars March 31, 2013
Goodwill	¥1,832	¥912	$9,696
Negative goodwill	74	25	265

11. 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. In certain cases, additional severance costs may be provided.

The funded status of these plans as of March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2012	2013	2013
Projected benefit obligations	¥238,316	¥276,540	$2,940,350
Plan assets at fair value	201,870	217,702	2,314,747
Unfunded status	36,446	58,837	625,603
Unrecognized items:			
Actuarial gains (losses)	(14,554)	(31,087)	(330,558)
Prior service cost reduction from plan amendment	286	215	2,286
Provision for retirement benefits - net	22,178	27,964	297,331
Prepaid pension cost	1,229	1,339	14,247
Provision for retirement benefits	¥23,407	¥29,304	$311,578

The composition of net pension and severance costs for the years ended March 31, 2012 and 2013, was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2012	2013	2013
Service cost	¥7,486	¥7,166	$76,193
Interest cost	6,146	6,332	67,325
Expected return on plan assets	(6,473)	(5,293)	(56,278)
Amortization and expenses:			
Actuarial losses	8,085	8,867	94,279
Prior service costs	147	(71)	(754)
Net pension and severance costs	15,391	17,001	180,765
Contribution to defined contribution pension plan	4,153	4,151	44,136
	¥19,544	¥21,152	$224,901

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2012 and 2013, were primarily as follows:

	Year ended March 31	
	2012	2013
Discount rate	2.5%	1.7%
Long-term rate of return on plan assets	3.2	2.5

12. 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 Company paid the following cash dividends of retained earnings to its registered shareholders at the ends of the fiscal year and interim periods during the years ended March 31, 2012 and 2013:

	Cash dividends per share			Cash dividends		
	Yen		U.S. dollars	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,	Year ended March 31		Year ended March 31,
	2012	2013	2013	2012	2013	2013
Year-end	¥10.00	¥13.00	$0.13	¥1,997	¥2,325	$24,720
Interim	¥13.00	¥13.00	$0.13	¥2,588	¥2,325	$24,720
Total	¥23.00	¥26.00	$0.26	¥4,586	¥4,651	$49,452

The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2012, were June 21, 2011, and December 2, 2011, respectively. The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2013, were June 21, 2012, and December 7, 2012, respectively.

The proposed cash dividends of retained earnings of the Company for the year ended March 31, 2013, approved at the general shareholders' meeting, which was held on June 24, 2013, were as follows:

Cash dividends per share		Cash dividends	
Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars
¥7.00	$0.07	¥1,252	$13,312

The effective date of the distribution was June 25, 2013.

The number of treasury stocks of the Company were increased by an amount equal to the number of 20,900,480 for the year ended March 31, 2012. It was comprised as follows.

	Number of shares
Purchase by the resolution of the board of directors	20,250,000
Purchase from dissenting shareholders based on the Japanese Companies Act	650,000
Purchase of the shares less than one unit	480

13. Net income (loss) per share

Calculation of net income (loss) per share for the years ended March 31, 2012 and 2013, is as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2012	2013	2013
Net income (loss) attributable to common shares	¥5,032	(¥10,091)	($107,293)
	Thousands of shares		
Weighted-average number of common shares outstanding	191,885	178,893	
	Yen		U.S. dollars
Net income (loss) per share	¥26.22	(¥56.41)	($0.59)

Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding during the year ended March 31, 2012. Diluted net income 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, 2013.

14. 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 the year ended March 31, 2012 and 37.8 % for the year ended March 31, 2013.

The significant components of deferred tax assets and liabilities as of March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2012	2013	2013
Deferred tax assets:			
Net operating tax loss carry-forwards	¥78,788	¥90,826	$965,720
Inter-company profits on inventories and write downs	16,060	18,925	201,222
Property, plant and equipment and intangible assets (Impairment loss and excess of depreciation)	16,138	14,811	157,480
Provision for retirement benefits	7,434	8,981	95,491
Provision for bonuses	2,515	3,963	42,137
Devaluation of investment securities	2,512	2,512	26,709
One-time depreciation for assets	2,055	2,315	24,614
Provision for product warranties	2,099	2,229	23,700
Others	13,375	14,386	153,017
Gross deferred tax assets	140,981	158,953	1,690,090
Less: valuation allowance	(121,063)	(135,886)	(1,444,827)
Total deferred tax assets	19,918	23,067	245,263
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries and affiliates	(7,728)	(11,203)	(119,117)
Net unrealized gains on land held by a subsidiary	(2,277)	(1,236)	(13,141)
Valuation difference on available-for-sale securities	(213)	(341)	(3,625)
Reserve for special depreciation for tax purpose	(73)	-	-
Others	(1,944)	(1,001)	(10,656)
Gross deferred tax liabilities	(12,236)	(13,782)	(146,539)
Net deferred tax assets	¥7,681	¥9,284	$98,724

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.

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	
	2012	2013
Statutory income tax rate	40.4%	37.8%
Reconciliation:		
Changes in valuation allowance	48.7	(304.2)
Tax rate differences in overseas subsidiaries	(24.9)	60.7
Entertainment expenses, etc. permanently non-tax deductible	16.1	52.2
Other	(13.7)	(31.6)
Income tax rate per statements of income	66.6%	(185.2%)

15. Selling, general and administrative expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2012	2013	2013
Salaries and wages	¥71,691	¥74,046	$787,304
Advertising	16,559	14,956	159,021
Sales promotion	20,714	18,128	192,748
Shipping costs	18,809	12,647	134,471
Research and development costs	21,526	18,992	201,935
Allowance for doubtful accounts	143	(5)	(53)
Other	74,774	74,420	791,284
Total	¥224,219	¥213,184	$2,266,710

16. Research and development costs

Research and development costs, which are included in the cost of sales and selling, general and administrative expenses, totaled ¥52,106 million and ¥49,923 million ($530,813 thousand) for the years ended March 31, 2012 and 2013, respectively.

17. Loss on litigation

Loss on litigation for the year ended March 31, 2012 and 2013, comprised the settlement of the lawsuits concerning the allegations of a LCD price-fixing cartel.

18. Impairment losses

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 planned to be sold and idle assets are separately assessed for impairment on the individual asset level. Impairment tests were performed for both types of assets. The net book value of a business asset was reduced to its recoverable amount when there was substantial deterioration in the asset's future earning potential due to adverse changes in the marketplace resulting in lower product prices or due to change in utilization plan. The carrying value of assets planned to be sold 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, 2013, Epson incurred impairment losses on its idle assets. The carrying value of these assets was reduced to its recoverable amount. A reduction in value of ¥4,605 million ($48,963 thousand) was recognized in impairment losses account. The reduction mainly comprised ¥1,165 million ($12,387 thousand) for buildings and structures, and ¥2,821 million ($29,994 thousand) for land. The recoverable amounts are determined using their net selling prices, which were assessed on the basis of reasonable estimates.

19. Leases

As of March 31, 2013, capital leases, mainly comprised of uninterruptible power supply, host computers and computer terminals.

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2012	2013	2013
Due within one year	¥2,135	¥2,307	$24,529
Due after one year	6,990	7,575	80,553
Total	¥9,126	¥9,883	$105,082

20. Cash flow information

Cash and cash equivalents as of March 31, 2012 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2012	2013	2013
Cash and deposits	¥123,093	¥106,678	$1,134,269
Short-term investment securities	19,010	70,012	744,412
Short-term loans receivables	8,000	8,000	85,060
Less:			
Short-term loans payable (overdrafts)	(9)	—	—
Time deposits due over three months	(54)	(39)	(414)
Short-term investment securities due over three months	(10)	(12)	(127)
Cash and cash equivalents	¥150,029	¥184,639	$1,963,200

The Company obtained marketable securities, the fair value of which was ¥7,999 million and ¥7,997 million ($85,029 thousand) as of March 31, 2012 and 2013, respectively, as deposit for the short-term loans receivables above.

Detail of decreased assets and liabilities due to the transfer of business.
Detail of assets and liabilities as of transferring date and proceeds from the transfer of optical products business were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,224	$13,014
Noncurrent assets	3,317	35,268
Loss on transfer of business	(1,739)	(18,490)
Total	2,802	29,792
Unpaid amount of transfer of business	345	3,668
Proceeds from transfer of business	¥3,147	$33,460

¥51 million ($542 thousand) is the variance of "loss on transfer of business" with the Note of Business transfer, is due to the influence of the exchange rate.

21. Derivative instruments

The table below lists notional amounts and fair value of derivatives as of March 31, 2012 and 2013, by transaction and type of instrument, excluding derivatives qualifying for hedge accounting.

Currency-related transactions

	Millions of yen		
	March 31, 2012		
Instruments	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sell -			
U.S. dollar (buy Japanese yen)	¥7,924	(¥72)	(¥72)
Euro (buy Japanese yen)	23,938	(1,034)	(1,034)
Sterling pound (buy Japanese yen)	187	(20)	(20)
Australian dollar (buy Japanese yen)	1,145	(87)	(87)
Euro (buy Singapore dollar)	44	0	0
Buy -			
U.S. dollar (sell Japanese yen)	54	(0)	(0)
Euro (sell Japanese yen)	48	0	0
Indonesia rupiah (sell U.S. dollar)	2,375	(30)	(30)
Total	¥35,718	(¥1,245)	(¥1,245)

	Millions of yen		
	March 31, 2013		
Instruments	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sell -			
U.S. dollar (buy Japanese yen)	¥13,453	(¥875)	(¥875)
Euro (buy Japanese yen)	15,745	(2,272)	(2,272)
Australian dollar (buy Japanese yen)	1,267	(128)	(128)
Euro (buy Singapore dollar)	48	0	0
Australian dollar (buy Singapore dollar)	4	(0)	(0)
Buy -			
U.S. dollar (sell Japanese yen)	8	(0)	(0)
Euro (sell Japanese yen)	6	(0)	(0)
Indonesia rupiah (sell U.S. dollar)	2,551	(16)	(16)
Total	¥33,086	(¥3,292)	(¥3,292)

Instruments	Thousands of U.S. dollars		
	March 31, 2013		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sell -			
U.S. dollar (buy Japanese yen)	$143,040	($9,303)	($9,303)
Euro (buy Japanese yen)	167,457	(24,191)	(24,191)
Australian dollar (buy Japanese yen)	13,471	(1,360)	(1,360)
Euro (buy Singapore dollar)	510	0	0
Australian dollar (buy Singapore dollar)	42	(0)	(0)
Buy -			
U.S. dollar (sell Japanese yen)	85	(0)	(0)
Euro (sell Japanese yen)	63	(0)	(0)
Indonesia rupiah (sell U.S. dollar)	27,123	(170)	(170)
Total	$351,791	($35,024)	($35,024)

The fair value is calculated based on prices obtained from financial institutions.

The table below lists notional amounts and fair value of derivatives as of March 31, 2012 and 2013, by transaction and type of instrument, qualifying for hedge accounting.

(a) Currency-related transactions

Instruments	Hedged items	Millions of yen	
		March 31, 2012	
		Notional amounts	Fair value
Forward exchange contracts:			
Sell -			
Euro (buy Japanese yen)	Forecasted transactions in foreign currency sales	¥32,410	(¥933)
Australian dollar (buy Japanese yen)		1,477	(57)
Buy -			
U.S. dollar (sell Japanese yen)	Forecasted transactions in foreign currency purchase	963	21
Total		¥34,851	(¥969)

Instruments	Hedged items	Millions of yen March 31, 2013 Notional amounts	Fair value
Forward exchange contracts:			
Sell -			
Euro (buy Japanese yen)	Forecasted transactions in foreign currency sales	¥32,397	(¥1,717)
Australian dollar (buy Japanese yen)		925	(7)
Buy-			
U.S. dollar (sell Japanese yen)	Forecasted transactions in foreign currency purchase	1,109	18
Total		¥34,432	(¥1,706)

Instruments	Hedged items	Thousands of U.S. dollars March 31, 2013 Notional amounts	Fair value
Forward exchange contracts:			
Sell -			
Euro (buy Japanese yen)	Forecasted transactions in foreign currency sales	$344,477	($18,256)
Australian dollar (buy Japanese yen)		9,835	(74)
Buy -			
U.S. dollar (sell Japanese yen)	Forecasted transactions in foreign currency purchase	11,791	191
Total		$366,103	($18,139)

The fair value is calculated based on prices obtained from financial institutions.

(b) Interest-related transactions

Instruments	Hedged items	Millions of yen March 31, 2012 Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	¥50,000	¥30,000

Instruments	Hedged items	Millions of yen March 31, 2013 Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	¥30,000	—

Instruments	Hedged items	Thousands of U.S. dollars March 31, 2013 Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	$318,979	—

The fair value of interest rate swaps meeting certain hedging criteria and recognized under exceptional treatment in Japanese accounting standards are not disclosed herein. They are included in the fair value of the long-term loans payable disclosed in Note 23 "Financial risk management and fair value of financial instruments."

22. Comprehensive income

Each component of other comprehensive income for the year ended March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2012	March 31, 2013	March 31, 2013
Valuation difference on available-for-sale securities			
Gains/(losses) arising during the year	(¥1,234)	¥913	$9,707
Reclassification adjustments to profit or loss	(17)	(14)	(149)
Amount before income tax effect	(1,251)	899	9,558
Income tax effect	533	(122)	(1,297)
Total	(719)	777	8,261
Deferred gains or losses on hedges			
Gains/(losses) arising during the year	1,831	(4,374)	(46,507)
Reclassification adjustments to profit or loss	(2,246)	3,636	38,671
Amount before income tax effect	(415)	(737)	(7,836)
Income tax effect	(25)	(160)	(1,701)
Total	(440)	(897)	(9,537)
Foreign currency translation adjustment			
Gains/(losses) arising during the year	(2,808)	25,353	269,569
Reclassification adjustments to profit or loss	1,159	-	-
Total	(1,649)	25,353	269,569
Share of other comprehensive income of associates accounted for using equity method			
Gains/(losses) arising during the year	1	102	1,084
Total other comprehensive income	(¥2,807)	¥25,335	$269,377

23. Financial risk management and fair value of financial instruments

Financial risk management principles

With the maintenance of funding an essential precondition, Epson places great emphasis on safety and liquidity, and selects operational funding methods that are designed to ensure the maximum possible efficiency. Epson uses methods such as bank loans and bonds to procure funds and others. Epson uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

Risks associated with financial instruments

Operating receivables such as notes and accounts receivable-trade are exposed to counterparties' credit risks. Epson operates internationally, exposing its foreign operating receivables to the risk of fluctuations in foreign currency exchange rates. Epson principally manages its exposure to fluctuations in exchange rates on a net basis and mainly uses forward exchange contracts to reduce the exposures.

Investment securities are mainly comprised of shares of companies with which Epson maintains business relations, and are exposed to risks associated with market fluctuations. The majority of notes and accounts payable-trade, accounts payable-other have payment due dates of one year or less. Some of these are foreign currency based, and are therefore exposed to risks associated with foreign currency fluctuations.

Certain interest expenses are exposed to the risk of interest rate fluctuations because of floating interest rates. Interest rate swaps are utilized to hedge against possible future fluctuations in interest rates on loans.

Derivative instruments are mainly comprised of forward exchange contracts and interest rate swaps.

Financial risk management

(1) Credit and default risk

Based on internal rules and policies and procedures, Epson regularly monitors the situation regarding the operating receivables of counterparties, and in addition to reviewing the payment due dates and account balances for each partner, seeks to understand and reduce at an early stage concerns regarding the collection of operating receivables caused by partners' financial difficulties.

Epson's management believes that credit risk relating to derivative instruments used by Epson is relatively low since all parties relating to the derivative instruments are creditworthy financial institutions.

(2) Market risk

For risks associated with foreign currency fluctuations, for operating receivables and payables based on foreign currency, Epson, as a basic rule, executes forward exchange transactions for the purpose of hedging for each currency on a monthly basis. Epson makes exchange contracts for foreign currency-based operating receivables and payables that it expects to occur as a result of forecasted transactions. Forward exchange transactions are executed in accordance with internal rules and policies based on foreign exchange management rules and policies.

Interest rate swaps are utilized to hedge against possible future fluctuations in interest rates on loans. Interest rate swap transactions are approved and executed based on internal rules and policies concerning financial management.

For investment securities, Epson regularly reviews the market value and financial results, etc., of the issuing company (counterparty) based on rules and policies for managing investment securities. Epson also takes into consideration the state of the relationship with counterparties as it constantly reviews the level of its holdings.

(3) Liquidity risk

Epson manages liquidity risk by maintaining current liquidity at an appropriate level through creating and updating liquidity plans at appropriate times, and by constantly reviewing the external financial environment.

Fair value of financial instruments

The fair value of each category of Epson's financial instruments and their carrying value in Epson's balance sheets as of March 31, 2012 and 2013, were as follows:

	Millions of yen		
	March 31, 2012		
Instruments	Carrying value	Fair value	Unrealized gains (losses)
Cash and deposits	¥123,093	¥123,093	-
Notes and accounts receivable-trade	139,309	139,309	-
Short-term investment securities	19,010	19,010	-
Investment securities	8,480	8,480	-
Total	¥289,894	¥289,894	-
Notes and accounts payable-trade	77,427	77,427	-
Short-term loans payable	30,812	30,812	-
Accounts payable-other	56,695	56,695	-
Bonds payable (including current portion)	100,000	100,534	¥534
Long-term loans payable (including current portion)	108,000	109,429	1,429
Total	¥372,935	¥374,899	¥1,963
Derivative instruments	(¥2,215)	(¥2,215)	-

Derivative instruments in the table above represent a net amount.

Unlisted securities of ¥1,136 million at March 31, 2012 are not included above because there is no market value and it is therefore extremely difficult to estimate their fair value.

Instruments	Millions of yen March 31, 2013 Carrying value	 Fair value	 Unrealized gains (losses)
Cash and deposits	¥106,678	¥106,678	-
Notes and accounts receivable-trade	132,289	132,289	-
Short-term investment securities	70,012	70,012	-
Investment securities	9,152	9,152	-
Total	¥318,132	¥318,132	-
Notes and accounts payable-trade	57,249	57,249	-
Short-term loans payable	53,626	53,626	-
Accounts payable-other	51,782	51,782	-
Bonds payable	90,000	90,311	¥311
Long-term loans payable (including current portion)	127,500	128,202	702
Total	¥380,158	¥381,171	¥1,013
Derivative instruments	(¥5,000)	(¥5,000)	-

Instruments	Thousands of U.S. dollars March 31, 2013 Carrying value	 Fair value	 Unrealized gains (losses)
Cash and deposits	$1,134,269	$1,134,269	-
Notes and accounts receivable-trade	1,406,581	1,406,581	-
Short-term investment securities	744,412	744,412	-
Investment securities	97,309	97,309	-
Total	$3,382,571	$3,382,571	-
Notes and accounts payable-trade	608,708	608,708	-
Short-term loans payable	570,186	570,186	-
Accounts payable-other	550,579	550,579	-
Bonds payable	956,937	960,243	$3,306
Long-term loans payable (including current portion)	1,355,661	1,363,125	7,464
Total	$4,042,071	$4,052,841	$10,770
Derivative instruments	($53,163)	($53,163)	-

Derivative instruments in the table above represent a net amount.

Unlisted securities of ¥897 million ($9,537 thousand) at March 31, 2013 are not included above because there is no market value and it is therefore extremely difficult to estimate their fair value.

The fair value of financial instruments was calculated based on the following methods and premises:

(1) Cash and deposits, notes and accounts receivable-trade and short-term investment securities

Due to the short terms of these financial instruments, it is assumed that their fair value is equal to the carrying amounts.

(2) Investment securities

Fair value was measured using exchange market value.

(3) Notes and accounts payable-trade, short-term loans payable, accounts payable-other

Due to the short terms of these financial instruments, it is assumed that their fair value is equal to the carrying amounts.

(4) Bonds payable

Fair value was measured using market prices.

(5) Long-term loans payable (including current portion)

Because long-term loans payable that are with floating rates are affected in the short term by fluctuations in market interest rates, and because Epson's credit status has not changed greatly since they were implemented, it is assumed that their fair value is equal to the carrying amounts. Among items that are based on floating interest rates, the fair value of long-term loans payable whose interest rates become fixed as a result of interest-rate swaps are calculated using the same method as used for determining the fair value of long-term loans payable based on fixed interest rates. The fair value of loans payable based on fixed interest rates are calculated by discounting the total amounts of loans payable using estimated interest rates that would be in effect if similar loan arrangements were entered into.

Limitations
Fair value estimates are based on relevant market information. These estimates involve uncertainties and therefore changes in assumptions could affect the estimates.

24. Contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks and others were ¥528 million and ¥391 million ($4,157 thousand) as of March 31, 2012 and 2013, respectively.

25. Related party transactions

Mr. Yasuo Hattori, who was a vice-chairman and director of the Company, and his relatives have owned 26.65% and 52.52% of the outstanding shares of Aoyama Kigyo Kabushiki Kaisha ("Aoyama"), respectively as of March 31, 2012.

Epson has conducted the acquisition of 1,200,000 treasury stocks from Mr. Yasuo Hattori determined by a resolution at its board of directors' meeting held on November 16, 2011 through the off-auction own share repurchase trading system (ToSTNeT-3) on the Tokyo Stock Exchange, at the share price on November 16, 2011 (¥964 per share).

Epson has conducted the acquisition of 19,000,000 treasury stocks from Aoyama determined by a resolution at its board of directors' meeting held on November 16, 2011 through the off-auction own share repurchase trading system (ToSTNeT-3) on the Tokyo Stock Exchange, at the share price on November 16, 2011 (¥964 per share). Aoyama had been an Epson's major shareholder, but they haven't been since this transaction.

The company and its subsidiary's transactions with these related parties for the years ended March 31, 2012 and 2013, and related balances on March 31, 2012 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2012	2013	2013
Transactions:			
With Mr. Yasuo Hattori -			
Acquisition of treasury stock	¥1,156	-	-
With Aoyama -			
Acquisition of treasury stock	18,316	-	-

26. Segment information

(a) Summary of reporting segments

Epson and its subsidiaries conduct manufacturing and sales of products worldwide under the management of the Company's operations divisions. In order for the board of directors to determine the allocation of resources and assess business results, the operations divisions make individual financial reports, and correspond to business segments that are subject to regular review.

Epson has consolidated these business segments into two reporting segments based on the type and characteristics of products and services, and on manufacturing and sales methods. These are the information-related equipment segment and the devices & precision products segment.

Epson conducts development, manufacturing and sales within its reporting segments as follows.

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, HTPS-TFT panels for 3LCD projectors, label printers and personal computers.

The devices & precision products segment mainly includes crystal units, crystal oscillators, quartz sensors, CMOS LSIs, watches, watch movements, precision industrial robots, IC handlers and industrial inkjet equipment.

(b) Measurement of the amount of sales, income (loss), assets and other in each reporting segment

The accounting policies of the reporting segments are the same as "Basis of presenting consolidated financial statements".
Segment income (loss) is based on operating income (loss).
Transfer prices between operating segments are on an arm's length basis.

(c) Information of the amount of sales , income (loss), assets and other in each reporting segment

The following table summarizes the reporting segment information of Epson for the year ended March 31, 2012 and 2013:

	Millions of yen						
	Year ended March 31, 2012						
	Reporting segments			Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information-related equipment	Devices & precision products	Total				
Net sales:							
Customers	¥691,234	¥166,823	¥858,058	¥16,582	¥874,640	¥3,356	¥877,997
Inter-segment	567	7,987	8,554	734	9,288	(9,288)	-
Total	691,801	174,811	866,612	17,316	883,929	(5,932)	877,997
Segment income (loss) (Operating income)	64,888	4,629	69,517	(1,545)	67,971	(43,345)	24,626
Segment assets	355,074	133,358	488,432	4,424	492,857	247,911	740,769
Other							
Depreciation and amortization	22,706	10,175	32,882	223	33,105	4,441	37,547
Increase in property, plant, equipment and intangible assets	29,510	6,853	36,363	312	36,675	4,610	41,285
Amortization of goodwill	¥−	¥883	¥883	¥−	¥883	¥38	¥922

	Millions of yen						
	Year ended March 31, 2013						
	Reporting segments			Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information-related equipment	Devices & precision products	Total				
Net sales:							
Customers	¥687,570	¥150,840	¥838,411	¥856	¥839,267	¥12,029	¥851,297
Inter-segment	458	6,031	6,490	416	6,907	(6,907)	-
Total	688,029	156,872	844,901	1,273	846,175	5,122	851,297
Segment income (loss) (Operating income)	52,670	7,658	60,329	(1,191)	59,138	(37,883)	21,255
Segment assets	367,600	118,980	486,580	3,734	490,314	288,232	778,547
Other							
Depreciation and amortization	26,229	8,739	34,968	96	35,065	4,114	39,179
Increase in property, plant, equipment and intangible assets	33,447	7,939	41,386	9	41,395	2,018	43,413
Amortization of goodwill	¥–	¥883	¥883	¥–	¥883	¥36	¥919

	Thousands of U.S. dollars						
	Year ended March 31, 2013						
	Reporting segments			Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information-related equipment	Devices & precision products	Total				
Net sales:							
Customers	$7,310,697	$1,603,827	$8,914,524	$9,101	$8,923,625	$127,911	$9,051,536
Inter-segment	4,869	64,136	69,005	4,434	73,439	(73,439)	-
Total	7,315,566	1,667,963	8,983,529	13,535	8,997,064	54,472	9,051,536
Segment income (loss) (Operating income)	560,032	81,424	641,456	(12,663)	628,793	(402,797)	225,996
Segment assets	3,908,560	1,265,071	5,173,631	39,702	5,213,333	3,064,678	8,278,011
Other							
Depreciation and amortization	278,884	92,918	371,802	1,031	372,833	43,743	416,576
Increase in property, plant, equipment and intangible assets	355,630	84,412	440,042	96	440,138	21,456	461,594
Amortization of goodwill	$-	$9,388	$9,388	$-	$9,388	$383	$9,771

Notes;

1. Intra-group services and small- and medium-sized LCD business are categorized within “Other.”

2. Adjustments were as follows.

Net sales

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Corporate expenses [Note]	¥3,416	¥12,082	$128,475
Eliminations	(9,348)	(6,960)	(74,003)
Total	(¥5,932)	¥5,122	$54,472

Segment income (loss)
(Operating income)

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Corporate expenses [Note]	(¥43,650)	(¥38,160)	($405,742)
Eliminations	304	277	2,945
Total	(¥43,345)	(¥37,883)	($402,797)

Segment assets

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Corporate expenses [Note]	¥254,198	¥295,982	$3,147,070
Eliminations	(6,286)	(7,749)	(82,392)
Total	¥247,911	¥288,232	$3,064,678

[Note] Corporate expenses comprise expenses that do not correspond to the reporting segments. These include income related to patents and expenses relating to research and development for new businesses and basic technology, and general corporate expenses.

Other

(1) Depreciation and amortization that is categorized under adjustments comprises expenses that do not correspond to the reporting segments. It includes expenses relating to research and development for new businesses and basic technology, and general corporate expenses.

(2) Increase in property, plant, equipment and intangible assets:

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Corporate expenses	¥2,233	¥1,759	$18,703
Intangible assets [Note]	2,377	259	2,753
Total	¥4,610	¥2,018	$21,456

[Note] Intangible assets are non-subject to regular review as capital expenditure.

(3) Amortization of goodwill that is categorized under adjustments does not correspond to the reporting segments.

(d) Information of geographic areas

Sales by country:

The following table summarizes the amount of revenue from external customers for the year ended March 31, 2012 and 2013:

	Millions of yen				
	Year ended March 31, 2012				
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	¥313,940	¥120,199	¥109,115	¥334,741	¥877,997

	Millions of yen				
	Year ended March 31, 2013				
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	¥266,644	¥139,067	¥102,500	¥343,085	¥851,297

	Thousands of U.S. dollars				
	Year ended March 31, 2013				
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	$2,835,130	$1,478,649	$1,089,845	$3,647,912	$9,051,536

[Note] Each country's net sales are based on the location of the customers.

Property, plant and equipment by country:

The following table summarizes property, plant and equipment by countries for the year ended March 31, 2012 and 2013:

	Millions of yen		
	Year ended March 31, 2012		
	Japan	Other	Total
Property, plant and equipment	¥162,597	¥50,488	¥213,086

	Millions of yen		
	Year ended March 31, 2013		
	Japan	Other	Total
Property, plant and equipment	¥155,176	¥62,212	¥217,388

	Thousands of U.S. dollars		
	Year ended March 31, 2013		
	Japan	Other	Total
Property, plant and equipment	$1,649,930	$661,489	$2,311,419

(e) Information of impairment loss

The following table summarizes information of impairment loss in each reporting segments for the year ended March 31, 2012 and 2013:

	Millions of yen				
	Year ended March 31, 2012				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Impairment loss	¥179	¥88	¥0	¥317	¥586

	Millions of yen				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Impairment loss	¥551	¥133	¥-	¥3,920	¥4,605

	Thousands of U.S. dollars				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Impairment loss	$5,858	$1,414	$-	$41,691	$48,963

[Note] Corporate expenses comprise expenses that do not correspond to the reporting segments. These include income related to patents and expenses relating to research and development for new businesses and basic technology, and general corporate expenses.

(f) Information of goodwill

The following table summarizes information of goodwill in each reporting segments for the year ended March 31, 2012 and 2013:

	Millions of yen				
	Year ended March 31, 2012				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Goodwill	¥-	¥1,781	¥-	¥50	¥1,832

	Millions of yen				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Goodwill	¥-	¥898	¥-	¥14	¥912

	Thousands of U.S. dollars				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses [Note]	Total
Goodwill	$–	$9,548	$–	$148	$9,696

[Note] Goodwill that is categorized under corporate expenses does not correspond to the reporting segments.

The following table summarizes information of amortization of negative goodwill and balance of negative goodwill from the subsidiary's acquisitions before April 1, 2010 for the year ended March 31, 2012 and 2013:

	Millions of yen				
	Year ended March 31, 2012				
	Information-related equipment	Devices & precision products	Other	Corporate expenses	Total
Amortization of negative goodwill	¥–	¥48	¥–	¥–	¥48
Negative goodwill	¥–	¥74	¥–	¥–	¥74

	Millions of yen				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses	Total
Amortization of negative goodwill	¥–	¥48	¥–	¥–	¥48
Negative goodwill	¥–	¥25	¥–	¥–	¥25

	Thousands of U.S. dollars				
	Year ended March 31, 2013				
	Information-related equipment	Devices & precision products	Other	Corporate expenses	Total
Amortization of negative goodwill	$–	$510	$–	$–	$510
Negative goodwill	$–	$265	$–	$–	$265

(g) Information of gain on negative goodwill

Gain on negative goodwill did not occur during the year ended March 31, 2012 and 2013:

Report of Independent Auditors

ERNST & YOUNG

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Independent Auditor's Report

The Board of Directors
Seiko Epson Corporation

We have audited the accompanying consolidated financial statements of Seiko Epson Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

Ernst & Young ShinNihon LLC

June 25, 2013
Tokyo, Japan

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 *	Shinjuku-ku, Tokyo	4,000 (million JPY)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals, Interlocking directors, Financial assistance, Rental of assets
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
Epson Toyocom Corporation	Miyazaki-shi, Miyazaki	100 (million JPY)	Manufacture of devices and precision products	100.0	Manufacture of crystal devices, etc.
Tohoku Epson Corporation	Sakata-shi, Yamagata	100 (million JPY)	Manufacture of information-related equipment, devices and precision products	100.0	Manufacture of printer components and semiconductors, Loan of assets
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Manufacture of information-related equipment, devices and precision products	100.0	Manufacture of printer components and crystal devices, Financial assistance, Leasing of assets
U.S. Epson, Inc. *	Long Beach, U.S.A.	111,941 (thousand USD)	Holding company	100.0	Holding company in Americas, Interlocking directors
Epson America, Inc. *	Long Beach, U.S.A.	40,000 (thousand USD)	Regional headquarters, Sales of information-related equipment, devices and precision products	100.0 (100.0)	Regional headquarters in Americas, 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 devices and precision products	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc.	Portland, U.S.A.	31,150 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables
Epson El Paso, Inc. *	El Paso, U.S.A.	51,000 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables
Epson Europe B.V. *	Amsterdam, Netherlands	95,000 (thousand EUR)	Regional headquarters, Sales of information-related equipment	100.0	Regional headquarters in Europe, Sales of printers and other PC peripherals, Interlocking directors, Guaranty of liabilities

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
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, devices 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 devices and precision products	100.0 (100.0)	Sales of electronic devices, Interlocking directors, 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
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	1,900 (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. *	Beijing, China	1,211 (million CNY)	Regional headquarters, Sales of information-related equipment, devices and precision products	100.0	Regional headquarters in China, Sales of printers and other PC peripherals and factory automation products, Interlocking directors, Guaranty of liabilities
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 Hong Kong Ltd.	Hong Kong, China	2,000 (thousand HKD)	Sales of information-related equipment, devices and precision products	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, devices and precision products	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, devices and precision products	100.0	Regional headquarters in Asia-Pacific, Sales of printers and other PC peripherals, and sales of electronic devices, Interlocking directors, 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

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Tianjin Epson Co., Ltd.	Tianjin, China	172 (million CNY)	Manufacture of information-related equipment	80.0 (80.0)	Manufacture of printer consumables, etc., Interlocking directors
Epson Precision (Hong Kong), Ltd. *	Hong Kong, China	81,602 (thousand USD)	Procurement of information-related equipment components	100.0	Procurement of printer and 3LCD projector components, Interlocking directors
Epson Engineering (Shenzhen) Ltd. *	Shenzhen, China	56,641 (thousand USD)	Manufacture of information-related equipment, devices and precision products	100.0 (100.0)	Manufacture of printers, 3LCD projectors, liquid crystal panels and factory automation products, etc., Interlocking directors
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	25,000 (thousand USD)	Manufacture of devices and precision products	100.0 (100.0)	Manufacture of watches, etc., Interlocking directors
Singapore Epson Industrial Pte. Ltd. *	Singapore	71,700 (thousand SGD)	Manufacture of information-related equipment, devices and precision products	100.0	Manufacture of printer consumables, semiconductors, and watches, etc., Interlocking directors, Guaranty of liabilities
P.T. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD	Manufacture of information-related equipment	100.0	Manufacture of printers, Interlocking directors, Guaranty of liabilities
Epson Precision (Philippines), Inc. *	Cabuyao, Philippines	57,533 (thousand USD)	Manufacture of information-related equipment	100.0	Manufacture of printers and 3LCD projectors, Interlocking directors, Guaranty of liabilities
Epson Toyocom Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Manufacture of devices and precision products	100.0	Manufacture of crystal devices, Interlocking directors, Guaranty of liabilities
57 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 devices and precision products	33.3	Sales of watch movements
Five other companies	–	–	–	–	–

Notes

1. Ownership percentage of voting rights indicated inside parenthesis refers to indirect ownership percentage.
2. * indicates a specified subsidiary (“tokutei-kogaisha”).
3. In addition to the above, the company has one unconsolidated equity method subsidiary.

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	191,564	(536)	(284)	10,925	58,229
Epson America, Inc.	188,927	3,796	2,418	18,681	87,036
Epson Europe B.V.	177,147	(1,045)	(987)	20,964	75,204

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

2. Distribution of ownership among shareholders

Correct as of March 31, 2013

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)	–	53	43	350	236	22	41,089	41,793	—
Number of shares owned (Units)	–	593,615	33,899	371,614	221,057	148	776,581	1,996,914	125,989
Percentage of shares owned (%)	–	29.72	1.70	18.61	11.07	0.01	38.89	100.00	—

Notes

1. 20,925,261 shares of treasury stock are included as 209,252 units in "Japanese individuals and others" and 61 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, 2013

Name	Address	Number of shares held	Shareholding ratio (%)
Sanko Kigyo Kabushiki Kaisha	6-1 Ginza 5-chome, Chuo-ku, Tokyo	14,288,500	7.15
Japan Trustee Services Bank, Ltd. (Trustee Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	13,533,300	6.77
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	9,314,100	4.66
Seiko Holdings Corporation	5-11 Ginza 4-chome, Chuo-ku, Tokyo	7,948,800	3.97
Seiko Epson Corporation Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	6,976,227	3.49
Yasuo Hattori	Minato-ku, Tokyo	5,966,306	2.98
Noboru Hattori	Minato-ku, Tokyo	5,599,968	2.80
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trusut & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	4,368,000	2.18
Mizuho Corporate Bank, Ltd. (Standing proxy: Trusut & Custody Services Bank, Ltd.)	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	4,278,100	2.14
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the retrust, Trust & Custody Services Bank, Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo	4,076,900	2.04
Total	—	76,350,201	38.20

Notes:

1. Although the Company holds 20,925,261 shares of treasury stock, the Company is excluded from the above list of major shareholders. (The ratio of the treasury shares held by the Company against the total number of shares issued is 10.47%.)

2. The shares held by Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the retrust, Trust & Custody Services Bank, Ltd., were contributed by Mizuho Bank, Ltd. to the trust assets of the Retirement benefit trust.

3. Mitsubishi UFJ Financial Group, Inc.and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of July 2, 2012, claiming that they hold the Company's shares as follows as of June 25, 2012. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan	1,610,000	0.81
Mitsubishi UFJ Trust and Banking Corporation	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	6,078,200	3.04
Mitsubishi UFJ Asset Management Co., Ltd.	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo	407,600	0.20
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo	222,567	0.11
Total	—	8,318,367	4.16

4. JPMorgan Asset Management (Japan) Limited and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of January 9, 2013, claiming that they hold the Company's shares as follows as of December 31, 2012. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
JP Morgan Asset Management (Japan) Limited	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	6,177,800	3.09
J.P. Morgan Whitefriars, Inc.	500 Stanton Christiana Road, Newark, DE 19713, USA	601,720	0.30
JPMorgan Chase Bank, National Association	1111 Polaris Pkwy., Columbus, OH 43240, USA	355,365	0.18
J.P. Morgan Securities Plc	25 Bank Street, Canary Wharf , London, E14 5JP, UK	329,449	0.16
Total	—	7,464,334	3.74

5. Sumitomo Mitsui Trust Bank, Limited and its joint holders submitted a Major Shareholding Report to the Director of the Kanto Local Finance Bureau as of March 22, 2013, claiming that they held the Company's shares as follows as of March 15, 2013. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
Sumitomo Mitsui Trust Bank, Limited	4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo	10,692,900	5.35
Sumitomo Mitsui Trust Asset Management Co., Ltd.	33-1, Shiba 3-chome, Minato-ku, Tokyo	299,400	0.15
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo	549,000	0.27
Total	—	11,541,300	5.78

6. Mizuho Corporate Bank, Ltd. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of April 5, 2013, claiming that they hold the Company’s shares as follows as of March 29, 2013. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
Mizuho Corporate Bank, Ltd.	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo	4,278,100	2.14
Mizuho Bank, Ltd.	1-5, Uchisaiwai-cho 1-chome, Chiyoda-ku, Tokyo	4,659,900	2.33
Mizuho Securities Co., Ltd.	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	1,717,434	0.86
Mizuho Trust & Banking Co., Ltd.	2-1, Yaesu 1-chome, Chuo-ku, Tokyo	2,531,300	1.27
Total	—	13,186,734	6.60

4. Epson stock price

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

Year	67th year	68th year	69th year	70th year	71st year
Fiscal year	March 2009	March 2010	March 2011	March 2012	March 2013
High (¥)	3,300	1,715	1,700	1,499	1,183
Low (¥)	1,001	1,216	1,032	881	431

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 2012	November	December	January 2013	February	March
High (¥)	506	504	701	981	1,046	1,015
Low (¥)	432	431	474	674	861	871

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	Mitsubishi UFJ Trust and Banking Corporation 4-5, Maruouchi 1-chome, Chiyoda-ku, Tokyo
Agent's Business Address:	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 10-11, Higashisuna 7-chome, Koto-ku, Tokyo Tel: +81-3-6701-5000 http://www.tr.mufg.jp/english/
Intermediary Offices:	Head Office and Branches of Mitsubishi UFJ Trust and Banking Corporation
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.pronexus.co.jp/koukoku/6724/6724.html (Japanese)

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to the environment. That is why we strive to create innovative products
that are reliable, recyclable, and energy efficient.
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