EPSON
EXCEED YOUR VISION

SEIKO EPSON CORPORATION

ANNUAL REPORT 2011

April 2010 - March 2011

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

Table of Contents

Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2006	2007	2008	2009	2010	**2011**	**2011**
Statements of income data							
Net sales	¥1,549,568	¥1,416,032	¥1,347,841	¥1,122,497	¥985,363	**¥973,663**	**$11,709,717**
Information-related equipment	976,443	916,330	902,970	769,850	712,692	**702,918**	**8,453,626**
Electronic devices	526,967	444,703	395,197	311,626	248,001	**231,235**	**2,780,938**
Precision products	85,778	87,744	83,927	72,697	57,746	**68,276**	**821,118**
Other	32,977	30,310	29,124	31,828	19,714	**1,279**	**15,382**
Eliminations and corporate	(72,597)	(63,055)	(63,378)	(63,506)	(52,791)	**(30,046)**	**(361,347)**
Gross profit	354,787	356,773	368,449	289,443	259,469	**262,963**	**3,162,513**
Selling, general and administrative expenses	329,029	306,430	310,871	291,031	241,241	**230,253**	**2,769,140**
Operating income (loss)	25,758	50,343	57,577	(1,588)	18,227	**32,709**	**393,373**
Income (loss) before income taxes and minority interests	(20,047)	3,476	52,045	(89,559)	(799)	**15,381**	**184,978**
Net income (loss)	(17,917)	(7,094)	19,093	(111,322)	(19,791)	**10,239**	**123,138**
Research and development costs	92,939	84,690	82,870	82,058	68,849	**54,377**	**653,962**
Capital expenditures	112,574	73,104	63,955	55,624	25,937	**31,813**	**382,597**
Depreciation and amortization	109,305	89,603	79,209	78,406	47,395	**41,159**	**494,999**
Net cash provided by (used in) operating activities	117,497	160,229	112,060	44,253	56,542	**32,395**	**389,597**
Net cash provided by (used in) investing activities	(95,266)	(76,419)	(50,770)	(61,002)	(43,203)	**(23,615)**	**(284,004)**
Free cash flow	22,231	83,810	61,289	(16,748)	13,338	**8,780**	**105,592**
Net cash provided by (used in) financing activities	19,123	(30,150)	(70,663)	(9,558)	(41,087)	**(42,691)**	**(513,421)**

	Millions of yen						Thousands of U.S. dollars
	2006	2007	2008	2009	2010	**2011**	**2011**
Balance sheet data							
Current assets	¥795,402	¥813,274	¥737,245	¥617,677	¥596,210	**¥543,530**	**$6,536,741**
Property, plant and equipment (net of accumulated depreciation)	426,118	379,032	343,261	253,712	225,354	**213,623**	**2,569,152**
Total assets	1,325,206	1,284,412	1,139,165	917,342	870,090	**798,229**	**9,599,867**
Current liabilities	507,371	476,125	385,123	283,848	328,652	**315,422**	**3,793,409**
Noncurrent liabilities	311,610	313,952	282,595	314,862	258,574	**211,999**	**2,549,597**
Net assets	474,520	494,335	471,446	318,631	282,864	**270,808**	**3,256,861**

Number of employees						
Information-related equipment	46,417	43,623	47,862	41,748	45,863	**44,711**
Electronic devices	32,849	32,551	29,609	19,818	22,439	**20,659**
Precision products	6,639	6,636	6,576	6,038	5,839	**5,985**
Other	2,208	2,455	2,417	2,151	590	**245**
Corporate	2,588	2,361	2,461	2,571	3,206	**2,951**
Total	90,701	87,626	88,925	72,326	77,936	**74,551**

Per share data (yen and U.S. dollars)							
Net income (loss)	(¥91.24)	(¥36.13)	¥97.24	(¥566.92)	(¥99.34)	**¥51.25**	**$0.61**
Cash dividends	29.00	32.00	32.00	35.00	7.00	**20**	**0.24**
Shareholders’ equity	2,416.54	2,395.14	2,277.45	1,541.16	1,407.92	**1,347.71**	**16.20**

Financial ratios (%)						
Shareholders’ equity ratio	35.8	36.6	39.3	33.0	32.3	**33.7**
ROE (net income (loss)/average shareholders’ equity at beginning and end of year)	(3.8)	(1.5)	4.2	(29.7)	(6.8)	**3.7**
ROA (income (loss) before income taxes and minority interests/ average total assets at beginning and end of year)	(1.5)	0.3	4.3	(8.7)	(0.1)	**1.9**
ROS (income (loss) before income taxes and minority interest/ net sales)	(1.3)	0.2	3.9	(8.0)	(0.1)	**1.6**

Notes

1. Amounts for periods prior to April 1, 2007, are rounded off. However, amounts for periods from or subsequent to April 1, 2007, are rounded down. Please refer to the “Basis of presenting consolidated financial statements” on page 51.
2. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥83.15=U.S.$1 as of March 31, 2011.
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

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

Research and development and product development are mainly conducted by the Company (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 instruments business and others. This segment mainly includes the development, manufacture and sales of printers, 3LCD projectors, and personal computers (PCs).

Details of the main businesses are as follows.

Printer business

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

Visual instruments business

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

Others

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

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

<table>
<tr><th rowspan="2">Business category</th><th rowspan="2">Main products</th><th colspan="2">Main subsidiaries and affiliates</th></tr>
<tr><th>Manufacturing companies</th><th>Sales companies</th></tr>
<tr><td>Printer business</td><td>Inkjet printers, page printers, SIDM printers, large-format inkjet printers and related consumables, color image scanners, mini-printers, POS system products 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 instruments business</td><td>3LCD projectors, label writers 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) Electronic devices business segment

This segment comprises the quartz device business, the semiconductor business and the display business. This segment mainly includes the development, manufacture and sales of crystal oscillators, CMOS LSIs and HTPS-TFT panels for 3LCD projectors.

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 handled device and various other applications. Products are also developed and manufactured to respond to the needs of other businesses within the Group.

Details of the main businesses are as follows.

Quartz device business

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

Semiconductor business

The semiconductor business is responsible for the development, manufacture and sales of 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.

Display business

The display business is responsible for the development, manufacture and sales of HTPS-TFT panels for 3LCD projectors, and others.

Epson Imaging Devices Corporation, a consolidated subsidiary of the Company, transferred part of its business assets related to the small- to medium-sized TFT-LCD business to the Sony Group as of April 1, 2010, thereby ceasing the related production as of December 31, 2010.

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

<table>
<tr><th rowspan="2">Business category</th><th rowspan="2">Main products</th><th colspan="2">Main subsidiaries and affiliates</th></tr>
<tr><th>Manufacturing companies</th><th>Sales companies</th></tr>
<tr><td>Quartz device business</td><td>Crystal units, crystal oscillators, quartz sensors, optical devices and others</td><td>Epson Toyocom Corporation
Akita Epson Corporation
Epson Toyocom Malaysia Sdn. Bhd.</td><td rowspan="3">Epson Toyocom Corporation
Epson Imaging Devices Corporation
Epson Electronics America, Inc.
Epson Europe Electronics GmbH
Epson Hong Kong Ltd.
Epson Taiwan Technology & Trading Ltd.
Epson Singapore Pte. Ltd.</td></tr>
<tr><td>Semiconductor business</td><td>Mainly CMOS LSIs</td><td>Singapore Epson Industrial Pte. Ltd.</td></tr>
<tr><td>Display business</td><td>HTPS-TFT panels for 3LCD projectors and small and medium-sized LCDs</td><td>Epson Imaging Devices Corporation
Suzhou Epson Co., Ltd.
Epson Engineering (Shenzhen) Ltd.</td></tr>
</table>

(3) Precision products business segment

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

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

Details of the main businesses are as follows.

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

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

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

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

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

(4) Other business segment
This segment comprises the businesses of subsidiaries that offer services for and within the Epson Group.

Details of the main businesses are as follows.

Intra-Group service business
The intra-Group service business comprises subsidiaries providing a wide range of services for Epson. In particular, this includes Epson Insurance Center, which provides insurance services, and others.

2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

(1) Seiko Epson Corporation

Correct as of March 31, 2011

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	2,893	114	1,301 (43,888) [3,202]	146	4,456	899
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	76	—	— (—)	14	90	64
Hirooka Office (Shiojiri-shi, Nagano)	Information-related equipment Other	Printer development and component manufacturing facilities Research and development facilities	20,504	5,439	5,475 (188,118) [22,983]	2,045	33,465	4,612
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Information-related equipment	Other facilities	892	253	3,637 (179,759) [1,758]	354	5,137	675
Shimauchi Plant (Matsumoto-shi, Nagano)	Information-related equipment	3LCD projector development and design facilities.	656	308	453 (31,340) [918]	463	1,882	721
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Electronic devices Precision products Other	Liquid crystal panel and factory automation manufacturing facilities Other facilities	7,105	3,254	1,443 (113,082) [28,909]	841	12,645	1,333
Chitose Plant (Chitose-shi, Hokkaido)	Electronic devices	Liquid crystal panel manufacturing facilities	2,974	1,292	1,375 (160,528)	190	5,832	197
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Electronic devices Other	Semiconductor manufacturing facilities Research and development facilities	11,362	2,705	1,996 (247,143)	567	16,633	1,218
Sakata Plant (Sakata-shi, Yamagata)	Electronic devices	Semiconductor manufacturing facilities	8,652	1,507	2,104 (538,828)	341	12,606	1,043
Hino Office (Hino-shi, Tokyo)	Electronic devices	Sales facilities	3,473	0	8,303 (40,725)	73	11,850	391
Shiojiri Plant (Shiojiri-shi, Nagano)	Precision products	Watch manufacturing facilities	1,815	959	1,019 (41,836) [5,764]	190	3,985	636
Matsushima Plant (Minowa-machi, Kamiina-gun, Nagano)	Precision products	Plastic corrective lens manufacturing facilities	1,399	1,008	421 (8,931) [31,978]	80	2,910	438

(2) Domestic subsidiaries

Correct as of March 31, 2011

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 Toyocom Corporation (Hino-shi, Tokyo)	Electronic devices	Crystal device manufacturing facilities	6,893	4,785	7,481 (266,923) [6,163]	256	19,416	1,577
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Information-related equipment	Printer component manufacturing facilities	5	1	— (—)	249	256	997
Akita Epson Corporation (Yuzawa-shi, Akita)	Information-related equipment, electronic devices	Printer component and crystal device manufacturing facilities	1,261	195	677 (68,992)	108	2,243	936

(3) Overseas subsidiaries

Correct as of March 31, 2011

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 Electronic devices Precision products	Printer, liquid crystal projector, liquid crystal panel and watch manufacturing facilities	1,978	2,796	— (—) [64,104]	2,070	6,845	13,795
Singapore Epson Industrial Pte. Ltd. (Singapore)	Information-related equipment Electronic devices Precision products	Printer consumables semiconductor and watch manufacturing facilities	2,884	1,649	56 (41,065) [41,567]	302	4,892	4,139
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Information-related equipment	Printer manufacturing facilities	2,795	1,018	— (—) [201,753]	925	4,739	6,143
Epson Precision (Philippines), Inc. (Cabuyao, Philippines)	Information-related equipment	Printer and liquid crystal projector manufacturing facilities	1,172	229	57 (17,489) [173,200]	429	1,888	4,565
Epson Toyocom Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Electronic devices	Crystal device manufacturing facilities	344	2,486	322 (32,437)	32	3,185	2,746

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 production capacity expansion 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 ¥31,813 million.
No equipment with a significant impact on production capacity was sold or removed.
Capital expenditures in each business segment are discussed below.

Information-related equipment
Investment for commercializing new products and for maintaining and renewing equipment and facilities for printers and 3LCD projectors amounted to ¥17,813 million in the fiscal year under review.

Electronic devices
Investment for commercializing new products, and for maintaining and renewing equipment and facilities for quartz devices amounted to ¥9,965 million in the fiscal year under review.

Precision products
Investment for commercializing new products, and for maintaining and renewing equipment and facilities for watches and plastic corrective lenses amounted to ¥1,856 million in the fiscal year under review.

Other businesses and company-wide
Investment in R&D and other activities amounted to ¥2,179 million in the fiscal year under review.

4. Plans for new additions or disposals

Epson plans to invest ¥530 billion in capital expenditures for the consolidated fiscal year ending March 31, 2012. The breakdown by business segment is changed from the fiscal year under review as follows.

Business segment	Planned amount of capital expenditures (100 millions of yen)	Main types and purposes of equipment and facilities
Information-related equipment	300	Reinforcing productivity, commercializing new products and maintaining and renewing equipment and facilities, etc.
Devices & Precision Products	140	Commercializing new products, reinforcing productivity and maintaining and renewing equipment and facilities, etc.
Other and overall	90	Investment for research and development, etc.
Total	530	–

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 inkjet printers	January 1, 2005 until the expiry of the patents
Seiko Epson Corporation	International Business Machines Corporation	U.S.A.	License to use patents relating to information-related equipment	April 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Microsoft Corporation	U.S.A.	License to use patents relating to information-related equipment and software used by such equipment	September 29, 2006 until the expiry of the patents
Seiko Epson Corporation	Eastman Kodak Company	U.S.A.	License to use patents relating to information-related equipment	October 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

(3) Other

On February 2, 2011, Seiko Epson and Sony Corporation agreed upon and concluded an agreement to transfer all the equity held by Seiko Epson in its consolidated subsidiary Suzhou Epson Co., Ltd., to Sony (China) Limited, a company within the Sony Group.

On May 25, 2011, Seiko Epson and its consolidated subsidiary Epson Toyocom Corporation agreed upon and concluded an agreement on an absorption-type corporate split to transfer Epson Toyocom’s quartz device business (excluding a part of the manufacture and sales of quartz devices) to Seiko Epson.

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 sales and profits from its printer business.
Epson's ¥702,918 million in sales from its information-related equipment business for the year ended March 2011 constituted 72.2% of Epson's consolidated sales, which were ¥973,663 million. Inkjet and other printers, including printer consumables, accounted for a large majority of the sales and profits of the information-related equipment business. A decrease in sales of printers and printer consumables could have a material adverse effect on Epson's operating results.

2. Price competition could put downward pressure on prices.
Market prices for printers and certain electronic devices have been trending downward in recent years primarily due to intensified competition and a shift in demand toward lower-priced products. Epson is striving to improve profitability by reducing production costs, for example, by using low-cost designs. At the same time, it is taking action to fight the trend of 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 the downward price trend, 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 technology[*1] that Epson uses in its inkjet printers competes with the thermal inkjet technologies[*2] of other companies; and
2) The 3LCD technology[*3] that Epson uses in its projectors competes with other companies' DLP[*4] and LCOS[*5] technologies.

Epson believes the technology it uses in these types of product is superior to the alternative technologies of other companies, but, if consumer opinion with respect to Epson's technology changes, or if other revolutionary technologies appear on the market and compete with Epson's technologies, Epson may lose that competitive edge 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 TFT panel 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 anywhere from hundreds of thousands to millions 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 trademarks of Texas Instruments Incorporated.
*5. LCOS technology uses liquid crystal on silicon (LCOS) as a display device. The reflective LCD panels used in LCOS systems are characterized by a high aperture ratio. Because the circuits and the switching elements are etched underneath the reflective layer, there is no need for the BM (a light-blocking layer that prevents light from falling on the pixel transistor area), making for a seamless display of the picture.

4. Epson 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, while they have relatively low market share in Japan and America, they have high market share in certain Asian countries. To mitigate the risk that genuine ink cartridges could lose market share, Epson will pursue a policy of earning sustained customer loyalty by emphasizing the quality of its genuine products as well as by boosting user-friendliness, including by using even longer lasting ink and by providing inkjet printers tailored to applications in each market. Epson will also take legal measures if any of the patent rights or trademark rights it holds over its ink cartridges are infringed.
There is no assurance, however, that any of these efforts will be effective, and if Epson’s net sales from consumable products for inkjet printers declines because, for example, the market share of non-genuine ink cartridges increases further or because genuine ink cartridges lose market share or Epson must reduce the prices of Epson brand products, operating results might be adversely affected.

5. Market changes could affect Epson.
Epson is concentrating management resources on core businesses in which it can leverage its unique strengths – printers, projectors, quartz devices and sensors – and on future growth areas as it seeks to strengthen its business foundations, while at the same time also cultivating new businesses that will support the next generation. However, because technological innovation and product cycles are changing extremely rapidly in markets where Epson is focusing its managerial resources, the Company may be unable to respond flexibly to such changes and develop and introduce competitive products. In addition, reduced consumption and capital expenditure in Epson’s main markets stemming from economic downturns 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, Epson’s operating results could be adversely affected.

6. Trends in the electronic devices market could adversely affect Epson.
Certain trends reflect product life cycles and economic conditions in markets for electronic devices such as semiconductors and mobile phone handsets. The electronics industry has historically been subject to large cyclical fluctuations, and Epson has experienced a decline in demand for its products, excess production capacity, and price erosion during downturns.
Epson has moved to put its electronic devices businesses in a stronger financial position, primarily through restructuring, and make them more resistant to such market fluctuations. However, if product demand remains sluggish for an extended period of time, or if the market deteriorates further, Epson’s operating results could be adversely affected. There is also no assurance that Epson can always accurately predict future trends, and it is possible that Epson might not be able to make the right investments at the right time in response to market trends.

7. Epson competes with other companies.
Epson presently faces competition from powerful companies with abundant financial resources or strong financial compositions, and from companies in such countries and regions as Taiwan, Korea, or China that have the ability to manufacture competitive products or compete on price 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.

8. Expanding businesses overseas entails risks for Epson.
Epson is continuing to expand its businesses overseas; more than 60% of its consolidated sales for the business year ended March 2011 were overseas sales. 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 2011, 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 production costs and lead times. There are, however, unavoidable risks

associated with overseas production and sales operations. These include but are not limited to changes in national laws, ordinances, or regulations related to production 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.

9. The intense technological innovation required of Epson entails risks.

Epson is engaged in manufacturing and selling products that require advanced technologies, so technological superiority is a vital element of Epson's competitiveness. Epson possesses core technologies—for example, ultra-fine, ultra-precise processing technologies, low-power consumption technologies, thin-film technologies, surface treatment technologies, high-density mounting technologies, digital control technologies and digital color image processing technologies. By evolving and fusing these technologies, Epson has been able to manufacture and sell products that meet customers' needs, thereby developing the presence that it has today. The 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 in the face of changes in technology, Epson sometimes must undertake long-term investments or capital spending based on product predictions. Thus, while Epson is making every effort to gauge market and customer needs and will maneuver to respond to the 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 be adversely affected.

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

Epson is manufacturing and selling products that generally have short life cycles, such as consumer products. Epson has its own global distribution network. It gathers information on product needs in different regions through local subsidiaries and branches, and it strives to reduce lead times by establishing production sites in regions close to consumers. If the transitions from existing products to new ones do not go smoothly, however, Epson's 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 consumers' needs, a decline in purchases of existing products as consumers anticipate new product introductions, and competition between Epson's existing and new products.

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

Epson procures parts, semi-finished products and finished products from third parties, but it has generally conducted transactions without entering into any long-term purchase agreements. Epson is developing upon its efficient procurement activities by cooperatively engaging with suppliers in maintaining product quality, improving products and reducing 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 be adversely affected. In principle, Epson strives to procure parts and the like from multiple suppliers. However, certain inkjet printer and other products parts are procured from a single source due to difficulty in procuring alternative parts from another company. On the manufacturing side of its business, Epson outsources the manufacture of certain inkjet printer and other products. If demand for such products rises suddenly, it may be difficult to secure alternative or additional manufacturers to outsource to, and Epson might become vulnerable to such risks as an increase in costs or a delay in production.

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

It is vital that Epson hire and retain talented personnel both in Japan and overseas 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 establishing research and development sites and design sites both in Japan and overseas. If Epson is unable to continue to use or employ an adequate number of talented personnel, however, the implementation of its business plans could be adversely affected.

13. Fluctuations in foreign currency exchanges create risks for Epson.

A significant portion of Epson's sales are denominated in U.S. dollars or the euro. Epson is continuing to expand its overseas procurement and move its production sites overseas, thereby attracting an increase in expenses in 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 or business results.

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

15. Epson's intellectual property rights activities expose Epson to certain risks.
Patent rights and other intellectual property rights are extremely important to Epson for maintaining its competitiveness. Epson has itself developed many of the technologies it needs, and it utilizes them as intellectual property in the form of products or technologies by acquiring patent rights, trademark rights and other intellectual property rights for them or entering into agreements with other companies for them. Epson carefully selects the personnel who manage its intellectual properties and is constantly working to strengthen its intellectual property portfolio.
However, if any of the following situations relating to intellectual properties occurs, Epson's operating results could be adversely 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 originally not imposed on it as a result of a merger with or acquisition of a third party, and it might be forced to spend money to find a solution to those restrictions.
4) Intellectual property rights that Epson holds might not give it a competitive advantage or Epson might not be able to use them effectively.
5) Epson or one of its customers might be subject to a third-party's claim of an infringement of intellectual property rights and have to spend a considerable amount of time and money to resolve the issue, or such a claim might interfere with Epson's 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.

16. Problems may arise relating to the quality of Epson's products.
The existence of quality guarantees on Epson's products and the details of those guarantees differ from customer to customer, depending on the agreement it has entered into with them. If 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 display or 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.

17. Epson is vulnerable to risks of problems arising relating to the environment.
Epson is subject, both in Japan and overseas, to various environmental regulations concerning industrial waste and emissions into the atmosphere that arise 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 be adversely affected.

18. 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 and 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 could obstruct Epson’s sales activities and adversely affect Epson’s operating results.

19. Epson is at risk of material legal actions being brought against it.
Epson conducts businesses internationally. Its primary businesses are the development, manufacture and sale of information-related equipment, electronic devices and precision equipment. Given the nature of its businesses, there is a possibility that an action could be brought or legal proceedings could be started against it regarding, for example, intellectual property rights, product liability, antitrust laws or environmental regulations.
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 August 2008 ruling of the supreme court and referred the case back to the supreme court for review. 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.
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.

20. Epson is vulnerable to certain risks in internal control over financial reporting.
Epson has established and operates internal control with the aim of ensuring the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with applicable laws and regulations relevant

to business activities and safeguarding of assets.
With the establishment and operation of internal controls 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 or material weaknesses in the internal controls, it might adversely affect the reliability of Epson's financial reporting.

21. Epson is vulnerable to risks inherent in its tie-ups with other companies.
One of Epson's business strategy options is to enter business tie-ups with other companies. 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.

22. Epson might be severely affected in the event of a natural 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, 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 in Earthquakes were revised in April 2002, so Epson had to revise its earthquake-response policy, look into strengthening numerous buildings that were not built to resist earthquakes, take measures to avoid losses of materials for important parts, and create plans to prevent damage from earthquakes. Epson is also conducting other countermeasures such as partially dispersing its manufacturing sites throughout other regions.
However, if a major earthquake occurs in the central Nagano Prefecture region, it is possible that, despite these countermeasures, the effect on Epson could be extreme.
Several of Epson's manufacturing sites and offices in the Tohoku region were damaged by the Great East Japan Earthquake that struck on March 11, 2011. Epson began to ascertain the personal and physical damage immediately following the disaster, took action to ensure business continuity, and gradually restarted production, but Epson's operating results could be adversely affected by the disaster's aftermath, including by difficulty in procuring certain parts, by production constraints arising from a tight power supply, by reduced demand, or by the materialization of other currently unforeseeable factors.
Although Epson is insured against losses arising from earthquakes, the scope of indemnification is limited.

23. There are risks related to Epson's major shareholders.
The Hattori family, who founded Epson, and the individual shareholders who are related to the Hattori family, as well as the companies whose major shareholders are the Hattori family or such individual shareholders, have the power, if they jointly exercise their voting rights in Epson, to influence to a significant degree the outcome of resolutions of a general shareholders' meeting, such as those for the election of directors.
It is also possible that the interests of these major shareholders might conflict with the interests of other shareholders. For example, because the Hattori family is the major shareholder of companies such as Seiko Holdings Corporation that have business dealings with Epson, it is possible that a conflict of interest might arise between those companies and Epson in transactions or competing businesses. In particular, Seiko Holdings entrusts a large portion of the manufacturing of its watches, its primary business, to Epson.

24. Laws and regulations pose risks for Epson.
Some of Epson's businesses involve products that require legal or regulatory approval or licenses. Plastic corrective lenses, for example, are subject to regulation by certain authorities as they are considered medical equipment in Japan. Such products do not represent a high percentage of Epson's total net sales or income, but

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

Business Conditions

1. Overview of business result

(1) Operating results

Overall, the global economy saw continued modest growth during the fiscal year under review despite a credit crunch, high unemployment, and other causes of deceleration. The economic picture varied by region. In the U.S., economic stimulus measures spurred modest economic growth, though continued high unemployment and other factors weighed down the recovery. Europe also experienced high unemployment, but the economy bounced off bottom and began to show signs of recovering. China and India recorded growth, mainly due to internal demand. As a whole, the other countries of Asia were also headed toward recovery. The Japanese economy, meanwhile, was picking up in the first half according to indicators such as personal consumption and increases in exports and manufacturing. In the second half, however, the economy was already in a holding pattern when northeastern Japan was struck by the devastating Great East Japan Earthquake that struck on March 11, leaving a great deal of economic uncertainty in its wake.

The situation in the main markets of the Epson Group (“Epson”) was as follows.
Demand for consumer inkjet printers was steady overall, though there was some regional variation. Business inkjet printer demand was weakened by corporate belt-tightening in the printing industry and other sectors in the face of concern over economic uncertainty in Europe and America. In the expanding economies of China and other parts of Asia, however, business inkjet demand steadily climbed. While the serial dot-matrix printer (SIDM) market is contracting in America, Europe, and Japan, demand remained firm in some regions, including China, Southeast Asia, and South Asia. In POS systems, retailer capital investment trended upward but lacked vigor. In projectors, the expansion of demand lost some of its momentum in the second half. Nevertheless, full-year projector demand grew, especially for low-end business and education models and for full high-definition models for home theater.
Demand for the main electronic device applications generally remained steady across the period.
New mobile phone demand, underpinned by steady increases in unit volume in India and China, held firm. Upgrade demand drove the mobile phone market as a whole, with faster transmissions speeds providing traction for a raft of new smartphones. The digital camera market remained steady, with sales of SLR models particularly firm. The television market grew, especially in the low price zone. Meanwhile, the market for the closely watched new category of tablet PCs expanded. The portable media player (PMP) market, on the other hand, trended slightly downward as the first round of demand wound down and as media player features become more common on mobile phone handsets.
Markets associated with the precision products segment also showed signs of recovery, with demand for watches climbing in tandem with improvement in the economy. With corporate manufacturing on the mend, demand for semiconductor manufacturing equipment and robots increased. In the eyeglass lens market prices continued to erode.

Epson is currently operating under a mid-range business plan that seeks to restore profitability and rebuild the business foundations of the company as it moves toward the long-range SE15 goal of becoming a community of robust businesses. Now in the second year of the three-year mid-range plan, we are looking to reach break-even or better in net income and to set a profit-generating corporate structure firmly in place.
In conjunction with this effort, we advanced toward completion of a reorganization of the small- and medium-sized displays business and made headway on growth initiatives in the key business domains of printers, projectors and quartz devices.
Included in the extraordinary losses recorded for the 2010 fiscal year were a ¥9,909 million in business structure improvement expenses accompanying the transfer of the small- and medium-sized displays business and a ¥4,755 million loss on disaster associated with the effects of the Great East Japan Earthquake.
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 ¥85.72 and ¥113.12, respectively. This represents an 8% appreciation in the value of the yen against the dollar and a 14% 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 ¥973,663 million ($11,709,717 thousand), down 1.2% from the prior year. Operating income was ¥32,709 million ($393,373 thousand), up

79.5% from the prior year. Ordinary income was ¥31,174 million ($374,912 thousand), up 124.7% from the prior year. And net income was ¥10,239 million ($123,138 thousand), compared to a net loss of ¥19,791 million in the previous year.

A breakdown of the financial results in each reporting segment is provided below. Please note that, with the application on March 27, 2009 of Accounting Standard No. 17, “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information,” Epson has changed the method it uses to account for segment information, effective from the current fiscal year. The main change is that expenses associated with corporate R&D are consolidated under corporate expenses instead of being apportioned to reporting segments as they were in the past.

Information-related equipment
Net sales in the printer business as a whole declined slightly. Inkjet printer (including consumables, as in all printer discussions below) unit shipments increased, as sales of consumer models in the U.S. remained steady throughout the first half. Unit shipments of large-format printers for enterprise grew, largely due to business wins in the U.S. photo and signage markets and expanded demand in the robust Chinese market. Meanwhile, consumables units shipments declined along with changes in the model mix, while average selling prices rose. Office inkjet printer sales were firm, thanks to a series of business wins. SIDM printer unit shipments rode higher on the back of increased demand associated with China’s tax collection system, while shipments of POS system products grew, owing mainly increased demand from small- and medium-sized retailers. Page printer hardware shipments increased as a result of successful tenders, but net sales were adversely affected by ongoing price erosion, as well as by a decline in sales of consumables due to a smaller page printer install base. Net sales of the printer business were largely canceled out by gains in the yen.

The visual instruments business as a whole reported increased net sales. Although tempered to some extent by the strong yen, unit shipments of 3LCD business projectors increased, as demand for education models remained firm in Europe, America, and Asia. Moreover, average selling prices rose as a result of the popularity of short-throw lens projectors and other higher-end models. Increased demand for full-HD home-theater projectors also contributed to higher net sales.

Segment income in the information-related equipment segment declined compared to the same period last year, when last year’s segment income is recalculated using the accounting method applied this year (as with all segments below). The decline was due to yen appreciation and price erosion, which outweighed increased unit shipments of SIDM printers and 3LCD projectors.

As a result of the foregoing factors, full-year net sales in the information-related equipment segment were ¥702,918 million ($8,453,626 thousand), down 1.4% from the prior year. Segment income was ¥70,151 million ($848,630 thousand), compared to operating income of ¥38,030 million in the previous year. Segment income in the same period last year, recalculated using the accounting method applied this year, was ¥71,748 million.

Electronic devices
The quartz device business reported higher net sales. Although hurt by yen appreciation, net sales were boosted by increases in shipments of most products due to the economic recovery, which buoyed demand for electronic devices in general.

The semiconductor business as a whole saw net sales increase. Unit shipments of silicon foundry products, analog ICs, and monochrome LCD drivers for automotive applications increased due to firm demand for electronic components in general. Higher average selling prices brought about by changes in the model mix were also seen to boost revenue.

The displays business as a whole posted sharply lower net sales. Unit shipments of high-temperature polysilicon TFT liquid-crystal panels for 3LCD projectors (“HTPS panels”) increased due to increased demand, especially in the first half, for education and other projectors. However, net sales were hurt by the effects of the strong yen and price erosion. The small- and medium-sized displays business is in the process of being transferred and thus saw net sales decline.

Segment income in the electronic devices business segment increased. In addition to higher revenues, an improved product mix, and lower fixed costs in the semiconductor business, segment income benefited from lower costs associated with the small- and medium-sized displays business. Segment income was, however, negatively impacted by factors such as yen appreciation, a worsening of the product mix in the quartz device business, and HTPS panel price erosion.

As a result of the foregoing factors, full-year net sales in the electronic devices segment were ¥231,235 million ($2,780,938 thousand), down 6.8% from the prior year, while segment income was ¥5,569 million ($66,975 thousand) versus an operating loss of ¥9,266 million a year ago. Segment income in the same period last year, recalculated using the accounting method applied this year, was ¥1,529 million.

Precision products
The precision products segment reported higher demand for IC handlers and robots accompanying a rebound in corporate manufacturing. Sales of watches, meanwhile, also showed signs of rebounding, and the segment as a whole posted higher net sales and, along with it, increased segment income.

As a result of the foregoing factors, full-year net sales in the precision products segment were ¥68,276 million ($821,118 thousand), up 18.2% from the prior year. Segment income was ¥3,307 million ($39,771 thousand), compared to operating loss of ¥4,111 million in the year ago period. Segment loss in the same period last year, recalculated using the accounting method applied this year, was ¥1,311 million.

Other
Full-year net sales in the “Other” segment were ¥1,279 million ($15,382 thousand), compared to ¥19,714 million in the same period last year. Segment loss for the year was ¥286 million ($3,451 thousand), compared to an operating loss of ¥6,669 million in the same period last year. The main reason for the decline in income is that subsidiaries that provided internal services to Epson were dissolved and their functions transferred to various Epson businesses in the previous fiscal year. Segment loss in the same period last year, recalculated using the accounting method applied this year, was ¥100 million.

Adjustments
Segment loss was ¥46,032 million ($533,602 thousand). The loss was primarily due to the recording of research and development expenses for basic research and new businesses that do not belong to a reporting segment, as well as to the recording of selling, general and administrative expenses, largely comprised of Head Office expenses. Segment loss in the same period last year, recalculated using the accounting method applied this year, was ¥53,639 million.

(2) Cash Flow Performance
Net cash provided by operating activities during the year was ¥32,395 million ($389,597 thousand), compared to ¥56,542 million in the previous fiscal year. This decrease was due mainly to a ¥23,318 million decrease in notes and accounts payable-trade accompanying repayment of things such as notes and accounts payable-trade and a ¥15,665 million ($188,394 thousand) increase in inventories due chiefly to a strategic build-up of product inventory for the following year. On the other hand, income before income taxes and minority interests was ¥15,381 million ($184,978 thousand), depreciation and amortization totaled ¥41,159 million ($494,999 thousand), and notes and accounts receivable-trade decreased by ¥8,225 million ($98,917 thousand).
Net cash used in investing activities was ¥23,615 million ($284,004 thousand), compared to ¥43,203 million the previous fiscal year. Comprising the bulk of this was ¥28,308 million ($340,444 thousand) in purchases of property, plant, and equipment associated mainly with new products.
Net cash used in financing activities was ¥42,691 million ($513,421 thousand), compared to ¥41,087 million the previous fiscal year. Most of this was used for repayment of loans.
As a result, cash and cash equivalents at end of period totaled ¥211,777 million ($2,546,927), compared to ¥254,590 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, 2011 (From April 1, 2010, to March 31, 2011) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	638,794	92.7
Electronic devices	214,597	107.0
Precision products	66,090	124.1
Total for the reporting segments	919,483	97.5
Other	632	99.4
Total	920,115	97.5

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, 2011 (From April 1, 2010, to March 31, 2011) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	701,879	98.7
Electronic devices	203,491	94.4
Precision products	66,628	118.4
Total for the reporting segments	971,999	98.9
Other	788	66.7
Total	972,788	98.8

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 ¥11,699 million (1.2%) to ¥973,663 million compared with the previous consolidated fiscal year.
Sales in each reporting segment are discussed below.

In the information-related equipment segment, net sales were ¥702,918 million, a year-over-year decline of ¥9,774 million (1.4%). The following major factors contributed to the decline.
Although consumer inkjet printer unit shipments grew, largely due to strong first-half sales in the Americas, the gains were cancelled out by the effects of yen appreciation and price erosion. Shipments of page printers, especially low-end models, also increased, owing in large part to successful tenders, but net sales were adversely affected by yen appreciation and sluggish consumables sales associated with a smaller page printer install base. In 3LCD projectors, on the other hand, the company saw growth in units shipments of education and home-theater models overseas. Moreover, average selling prices rose as short-throw and full-HD models accounted for a greater percentage of total sales. Serial-impact dot-matrix printer unit shipments also increased, with demand associated with China's tax collection system complemented by steady demand in other emerging economies. Shipments of business inkjet printers to the photo and signage markets grew, largely due to order wins in the U.S. and expanded demand in the robust Chinese market. Net sales in the segment as a whole ended only slightly lower year-over-year, despite the effects of yen appreciation and price erosion.

In the electronic devices segment, net sales were ¥231,235 million, a year-over-year decline of ¥16,765 million (6.8%). The following major factors contributed to the decline.
Demand for electronic devices in general steadily rose as the economy recovered. In the quartz device business unit shipments of most products increased. Likewise, in the semiconductor business unit shipments of silicon foundry products, analog ICs, and monochrome LCD drivers for automotive applications increased. However, the small- and medium-sized displays business, which was in the process of being transferred, saw its net sales hurt by a decline in unit volume, as well as by price erosion in high-temperature polysilicon TFT LCD panels (“HTPS panels”) used in 3LCD projectors.

The precision products segment posted net sales of ¥68,276 million, a year-over-year increase of ¥10,529 million (18.2%). The increase was primarily due to a turnaround in watch unit shipments and to increased sales of IC handlers and robots as corporate capital spending rebounded.

In the “Other” segment, net sales were ¥1,279 million, a year-over-year decline of ¥185 million (12.7%).

Cost of sales and gross profit

The cost of sales was ¥710,700 million, a year-over-year decrease of ¥15,193 million (2.1%). The decrease in cost of sales is primarily a reflection of the effects of yen appreciation, lower R&D expenses due to more rigorous screening and selection of investment projects, continued curtailment of capital spending, and a decline in depreciation and amortization due to the recording of an impairment loss in the electronic devices segment in the previous period.
As a result, gross profit was ¥262,963 million, up ¥3,493 million (1.3%) compared to the previous period.

Selling, general and administrative expenses and operating income

Selling, general and administrative (SG&A) expenses were ¥230,253 million, down ¥10,987 million (4.6%) year-over-year. Amid a slowdown in the pace of the economic recovery, the company once again rigorously screened spending proposals, reduced its R&D, sales promotion, and advertising expenses. SG&A expenses were also helped by the effects of yen appreciation. Logistics expenses also declined, largely as a result of changes that brought greater operational efficiency.
Reflecting these factors, operating income rose ¥14,481 million (79.5%), to ¥32,709 million.
Segment income in each reporting segment was as follows. Accounting Standard No. 17, “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information,” came into effect on March

27, 2009. Effective in the year under review, therefore, the company changed the method it uses to calculate segment income and, for comparison purposes, recalculated the previous period's results using the new method.

Segment income in the information-related equipment segment was ¥70,151 million, compared to ¥71,748 million in the previous period. The slight dip came largely because the effects of yen appreciation and price erosion cancelled out the effects of increased unit shipments of 3LCD projectors and SIDM printers for business applications and the effects of increased operational efficiency, which reduced logistics and other SG&A expenses.

Segment income in the electronic devices segment was ¥5,569 million, compared to 1,529 million in the previous period. Although negatively impacted by yen appreciation and price erosion affecting quartz devices and HTPS panels, segment income jumped due to a combination of improvement in the semiconductor product mix, increased gross profit owing to reduced expenses for small- and medium-sized displays, and reduced R&D and other SG&A expenses.

Segment income in the precision products segment was ¥3,307 million, compared to a ¥1,311 million loss in the previous period. The rebound in income reflects a rise in gross profit that accompanied revenue growth in watches, IC handlers, and robots, among other products.

Other segment loss was ¥286 million, compared to a ¥100 million loss in the previous period.
As for adjustments, segment loss was ¥46,032 million, compared to a loss of¥ 53,639 million in the previous period. The smaller loss was primarily due to the recording of R&D expenses for basic research and new businesses that do not belong to a reporting segment, as well as to the recording of SG&A expenses, largely comprised of Head Office expenses, and more rigorous screening of budget expenditures.

Non-operating income and expenses
Non-operating income minus non-operating expenses amounted to a net loss of ¥1,534 million, a ¥2,817 million improvement from the ¥4,351 million loss in the previous period. The main reason for the improvement is that the loss on foreign exchange was ¥1,239 million in the year under review, compared to a loss of ¥5,076 million in the previous period.

Ordinary income
Ordinary income was ¥31,174 million, up ¥17,299 million (124.7%) compared to the previous period.

Extraordinary income and losses
Extraordinary income minus extraordinary loss amounted to a net loss of ¥15,793 million, a ¥1,118 million increase in loss from the ¥14,675 million recorded in the previous period. The increase in extraordinary loss was primarily due to a ¥7,269 million impairment loss on business assets in the small- and medium-sized display business in the previous period, as well as the recording of ¥9,909 million in business structure improvement expenses associated with the transfer and termination of the small- and medium-sized displays business and a ¥4,755 million loss on disaster, comprising the loss or damage of inventory as a result of the Great East Japan Earthquake, which combined to negate a ¥2,274 million gain on sales of noncurrent assets from the sale by a subsidiary of buildings and structures during the year under review.

Income before income taxes and minority interests
Epson thus recorded income before income taxes and minority interests of ¥15,381 million, an increase of ¥16,181 million from the period.

Income taxes
Income taxes decreased by ¥14,018 million to ¥4,971 million. In the previous period, given the taxable income situation of the domestic group companies presenting a consolidated tax return, the company revised and took a write-down on deferred tax assets. Conversely, in the fiscal year under review the company increased its deferred tax assets as it expects financial improvement of Seiko Epson on a non-consolidated basis. The effective tax rate after the application of deferred tax accounting came to 32.3%.

Minority interests in income
Minority interests in income for the period under review were ¥170 million, compared to ¥1 million in the previous period. This was due to a decrease in losses distributed proportionally to minority interests in the period under review in conjunction with Epson Toyocom Corporation becoming a wholly owned subsidiary during the previous period.

Net income
As a result of the foregoing, Epson posted net income of ¥10,239 million, a ¥30,030 million increase from the previous period.

(2) Liquidity and capital resources
Cash flow
Net cash provided by operating activities in the period under review was ¥32,395 million, down ¥24,146 million from the previous period. Among the factors contributing to increased cash flow were the recording of a ¥16,181 million increase in income before income taxes and minority interests, a ¥16,599 million effect from a decrease in notes and accounts receivable-trade, and ¥9,909 million in business structure improvement expenses associated with the transfer of the small- and medium-sized displays business. Factors contributing to the decrease included a ¥40,965 million effect from a decrease in notes and accounts payable-trade accompanying repayments, a ¥8,536 million effect from an increase in inventories due to a strategic build-up of product inventory for the following year, the recording of a ¥7,269 million impairment loss in the preceding period associated with the small- and medium-sized displays business, and a ¥6,236 million decrease in depreciation and amortization due to more rigorous selectivity in investments in past years.

Net cash used in investing activities totaled ¥23,615 million, down ¥19,588 million from the previous period. Cash used in the year under review decreased due to ¥13,405 million used to acquire subsidiary company shares in the previous period.

Net cash used in financing activities was ¥42,691 million, a ¥1,604 million increase compared to the previous period. While loan repayments decreased, net cash used in financing activities increased mainly as a result of a ¥2,621 million increase in dividend payments as the company's financial performance improved.

Due to these factors, as of March 31, 2011, cash and cash equivalents at the end of the period stood at ¥211,777 million, a drop of ¥42,812 million from the previous period , giving Epson sufficient liquidity.

The combined total of short- and long-term loans payable was ¥180,722 million, a decrease of ¥28,338 million compared to the previous period, owing to progress in repaying general interest-bearing liabilities.

Long-term loans payable (excluding the current portion), which comprise the majority of loans, amount to ¥107,500 million as of March 31, 2011, at a weighted average interest rate of 1.62% and with a repayment deadline of March 2015. These borrowings were obtained as unsecured loans primarily from banks.

Financial condition
Total assets as of March 31, 2011 stood at ¥798,229 million, a decrease of ¥71,861 million from the previous fiscal year-end due primarily to a decrease in current assets. Current assets declined by ¥52,680 million. The main cause of the decrease was a ¥42,811 million total decline in cash and deposits and in securities, mainly due to repayment of interest-bearing liabilities and payment of notes and accounts payable-trade. Total property, plant and equipment declined by ¥11,731 million, primarily because of a more rigorous approach to the selection of investments. Total liabilities as of March 31, 2011 were ¥527,421 million, down ¥59,804 million from the previous fiscal year. This decrease in total liabilities was due to repayment of interest-bearing liabilities that results in a decrease in short-term loans payable, current portion of bonds, current portion of long-term loans payable, bonds payable, and long-term loans payable totaling ¥38,338 million, as well as a ¥17,935 million decrease in notes and accounts payable-trade.
Retained earnings increased by ¥6,243 million, largely as a result of having posted net income. Nevertheless,

total net assets decreased by ¥12,056 million compared to the end of the previous period, mainly because of a -¥63,812 million foreign currency translation adjustment, a decline of ¥16,106 million, due to the appreciation of the yen versus the euro and US dollar.

Working capital, defined as current assets less current liabilities, was ¥228,108 million, a decrease of ¥39,450 million compared with March 31, 2011.

The ratio of interest-bearing liabilities to total assets declined to 34.1% from 35.8% 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 ¥54,377 million. This included ¥25,622 million in the information-related equipment segment, ¥7,326 million in the electronic devices segment, ¥3,332 million in the precision products segment, and ¥18,096 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, the company developed a low environmental impact color inkjet printer. Equipped with an energy-saving “deep-sleep” feature that puts the printer in a sleep mode where it uses just 0.8W of power, this inkjet product boasts a TEC value (a value defined by the International ENERGY STAR program that indicates the typical electricity consumption of a product when in operation and standby states) of 1.27 kWh, the lowest[*1] TEC value of any high-speed A3 color printer in Japan that prints at least 21 sheets per minute. The company also developed “Epson UltraChrome® GS ink”, a new eco-solvent GS ink for commercial large-format printers that produces little of the odor associated with ordinary solvent-based inks and that does not contain carcinogenic nickel compounds, thus minimizing the harmful impact on the environment and employees.
In the visual instruments business, the company developed a mobile 3LCD projector that weighs just 1.7 kg and is an ultra-slim 44 mm, making it the world's thinnest[*2] 3LCD model. With 3,000 lumens of brightness, the projector is capable of displaying sharp, vivid images even in well-lit rooms. A short-throw lens and both vertical and horizontal keystone correction enable the projector to throw a bright, high-quality picture on large screens even in limited space.

*1 As of November 24, 2010, according to Epson research
*2 As of September 16, 2010, according to Epson research

Electronic devices
In the quartz device business, the company developed an ultra-compact yet highly accurate, high-resolution absolute pressure[*3] sensor that measures 7.0 x 5.0 mm along the edges and is only 2.0 mm thick. The sensor employs a newly developed, original QMEMS[*4] pressure-sensing structure that provides total pressure accuracy of ±30 Pa[*5] and a resolution[*6] of 0.3 Pa.
The company also developed gyroscopic sensors for vehicle attitude sensing applications, such as electronic stability control (ESC) and rollover protection systems. Using QMEMS technology to fabricate crystal sensing elements in an original hammerhead structure, the company was able to realize very small sensors that exhibit stable characteristics over a wide temperature range (-40 to +125°C). Sensor reliability was increased by providing a diagnostic circuit that detects failures at any given time and at startup. Excellent vibration resistance and shock survivability were achieved by optimizing the sensing elements and their support structure.
In the semiconductor business, the company developed a display control platform for e-paper displays that provide laser printer-like image quality and fast refresh rates. The platform is built around core semiconductor chips and firmware used to control the driving of e-paper displays. These components are optimized to run together as a fine-tuned system. The platform's new driving scheme employs high-speed image processing technology originally developed for photo printers to enable e-paper displays with resolutions of 300 dpi and higher to be refreshed at high speed.

*3 Absolute pressure is the pressure zero-referenced against a perfect vacuum.
*4 QMEMS is a combination of “quartz,” a crystalline material that has excellent stability and precision, and

“MEMS,” micro electro-mechanical systems engineered using microfabrication technology. QMEMS refers to compact, high-performance devices made from quartz material and is a registered trademark of Epson Toyocom Corporation.
*5 Pa (Pascal) is the international unit for pressure.
*6 Resolution is the measurement or detection capability of a sensor or device.

Precision products
In the factory automation products business the company developed new vertical six-axis robots. Equipped with original Smart Motion Control technology[*7] that provides outstanding continuous-path control while enabling high speed with low vibration, the new robots also have a slim, space-efficient design that gives them among the shortest cycle times in their class[*8].

*7 New acceleration/deceleration tuning and other original Epson robot control technologies that enable high speed while achieving low vibration to optimize robot motion (straight and arcing motions, and motion when carrying heavy loads)
*8 Compared to other vertically articulated six-axis robots with similar payload and arm length. Source: Epson research, as of the end of December 2010.

5. Issues for Fiscal 2011

Epson’s operating environment is marked by an acceleration of trends including the increasing influence of emerging markets on the global economy and a shift to sustainable industrial and economic activities. With society being transformed by changes such as these, Epson believes that customer values are also on the verge of dramatic change.
Seeing this situation as an opportunity, Epson is implementing structural changes as it seeks to go forward on a new growth path. To do this, it will rediscover its traditional strengths and concentrate its management resources on businesses that have growth potential and/or strategic importance.
Toward this end, Epson established the SE15 Long-Range Corporate Vision in March 2009, setting out its vision for the period up to 2015, and the three-year SE15 Mid-Range Business Plan (FY2009-FY2011).
Under the SE15 Long-Range Corporate Vision, Epson will focus on “compact, energy-saving, high-precision technologies” as its core strengths since its foundation, and will leverage these strengths as it looks to achieve sustainable growth. Through the consolidation of management resources on growth businesses and the formation of Group-wide platforms, Epson seeks to become “a community of robust businesses,” creating products and services that emotionally engage customers worldwide.
Based on the assumption of continuing severe business conditions, the SE15 Mid-Range Business Plan (FY2009-FY2011) describes how Epson will combine its strengths to respond to this situation. Epson will implement a range of measures to ensure its return to a profit-generating structure on the path to realizing the SE15 Long-Range Corporate Vision.
Going forward, Epson will further shift management resources to areas where it can leverage its strengths and to businesses that have growth potential and/or strategic importance, so as to foster new businesses that will drive future growth. In fiscal 2011, the final year of the SE15 Mid-Range Business Plan (FY2009-FY2011), Epson will step up its efforts to move onto the growth path set out in SE15 and will continue to strengthen its business structure and pursue its ongoing structural reforms.
By demonstrating Group synergies and launching speedy and efficient initiatives, Epson is looking to achieve by 2015 both ROS and ROE of 10% or above on a continuous basis in addition to boosting net sales.

Plans for businesses with growth potential
Printers
In printers, Epson will leverage its core and proprietary Micro Piezo inkjet technology to further strengthen the foundations of its business. In applications that range from consumer through to business markets, Epson will take the customers’ viewpoint as it develops products that provide ease-of-use and which emotionally engage users.
Epson will also expand operations by increasing the number of models for emerging markets and by launching environmentally considerate models. It will also seek to expand into the commercial and industrial sectors through the application of Micro Piezo technology.

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

Quartz devices and sensors
By drawing on the technical expertise it has accumulated over the years and by rebuilding its manufacturing infrastructure, Epson is looking to create high-value-added microdevices and reinforce its position as the leading company in the crystal device market.
Quartz devices are positioned as the core products of Epson’s electronic devices businesses. By creating synergies with its semiconductor and other technologies, Epson will fortify its lineup of sensing devices and applied products.

Please note that Epson manufacturing sites in the Tohoku area of Japan were affected by the Great East Japan Earthquake that struck on March 11, 2011. While carefully confirming the situation regarding employees and facilities, Epson successively restarted production as it sought to resume operations. Going forward, Epson will have to keep a close eye on how the parts procurement situation impacts production of certain finished goods even as it seeks to minimize impacts by sourcing substitute parts or engineering workarounds.

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.

Although it recorded unforeseen extraordinary losses during the year, including a ¥4,755 million loss associated with inventory and equipment as a result of the Great East Japan Earthquake that struck on March 11, 2011, the Company increased its annual dividend by 10 yen per share, declaring a 20-yen dividend (10 yen of which was paid as an interim dividend at the end of the first half). The two main considerations in this decision were the Company's policy of paying stable dividends and the fact that it posted positive net income, thus achieving the goal established at the beginning of the period of reaching or exceeding break-even in this income category.

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

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

Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 29, 2010, by resolution of the board of directors	1,997	10
June 20, 2011, by resolution of the general shareholders' meeting	1,997	10

Corporate Governance

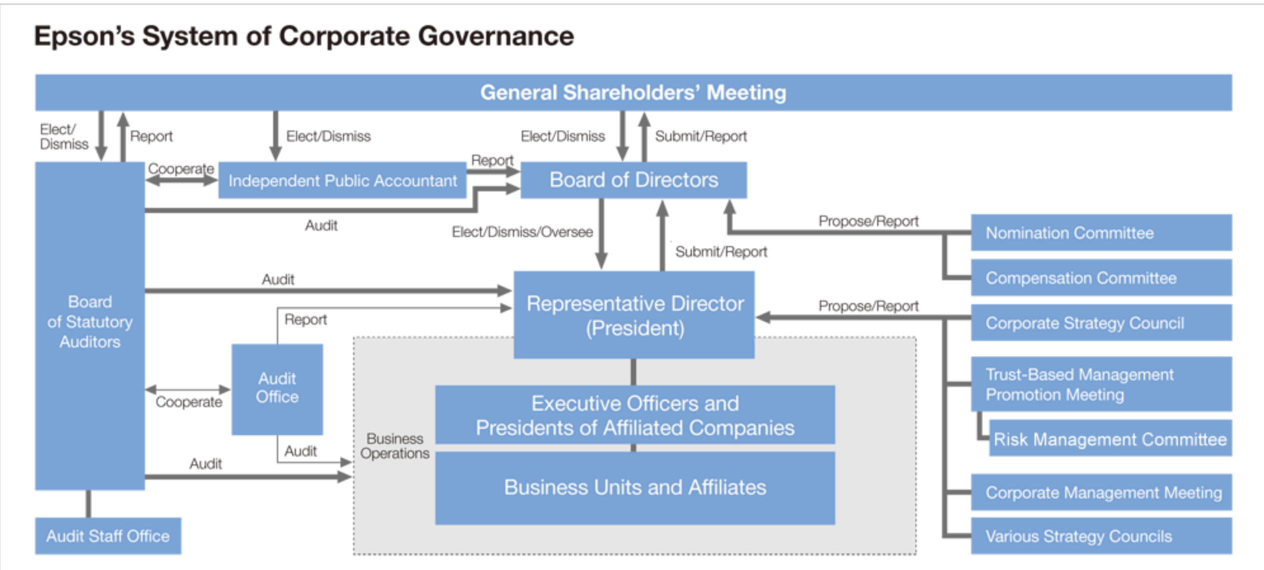
1. Approach to corporate governance
(1) Corporate governance system
Outline
Epson's basic approach to corporate governance is encapsulated in its commitment to sustaining trust-based management. Along with ongoing efforts to increase enterprise value, Epson has initiated a number of practices designed to reinforce management checks and balances and to assure corporate ethics compliance. In so doing, the Company seeks to ensure the transparency and soundness of management in the eyes of its customers, shareholders, employees and other stakeholders.
The company has a board of directors and a board of auditors. The ten-member board of directors meets once a month and convenes extraordinary meetings as needed. The board of directors makes decisions regarding basic management policies, key business operations, period-end closing, disclosure timeframes, and other important issues. Various other corporate management deliberative bodies are in place to oversee the execution of business operations. The main corporate management meetings 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.

Trust-Based Management Council
The Trust-Based Management Council meets to oversee legal compliance through internal controls, to discuss risk management issues, and to manage the operating effectiveness of internal controls in general.

Nomination Committee/ Compensation Committee
Epson has established the Nomination Committee for screening board of director candidates and the Compensation Committee for deliberating director remuneration issues.

Epson's system of corporate governance, including the elements above, is as follows:



Reasons for adopting the current system of corporate governance
Epson is currently reorganizing its businesses, focusing management resources on growth areas and key segments to achieve the goals of "SE15," its long-range corporate vision. The current system of corporate governance is ideal for driving reorganization and putting Epson back on a growth trajectory. By having directors on the board who understand the situation inside the Company simultaneously oversee the execution of business operations, the Company is able to expedite decisions and manage its businesses in a way that is best

for the Epson Group as a whole.
Moreover, the engagement of outside auditors and the high degree of independence they bring ensures sufficient oversight of management not only from a compliance perspective but also in terms of advice on the broader aspects of management.

Internal control system and risk management improvements
Epson considers Epson's Management Philosophy to be its most important business concept, and to realize the mission stated in the Management Philosophy, the Company established "Principles of Corporate Behavior," rules for proper business conduct that are shared across the Group, worldwide. Departments within Epson pursue improvements to internal controls based on the Principles of Corporate Behavior. These improvements are reported to the Trust-Based Management Council, which is attended by all directors and auditors. By doing this, Epson is taking action to steadily improve the level of internal control for the entire Group.

Business execution system
Epson is instituting a system that will ensure the appropriate and efficient execution of business. To that end, Epson has established regulations governing each job function, the division of operational duties, and the management of affiliated companies while distributing power and authority across the entire Group.
To ensure the appropriateness of corporate activities, affiliated companies must report or receive prior approval from the parent company for changes in management regulations. Regulations at affiliates that meet certain criteria are put on the agenda for discussion at the parent company's board meetings, thereby creating a system of business oversight for the Group.
Responsibility for the business execution systems of affiliates lies with the person responsible at the relevant operations division, and support for cross-organizational projects and the like is provided by the respective Head Office supervisory departments.
Personnel responsible for business operations must report to the board of directors on the items below at least once every three months.

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

Safeguarding and management of work-related information
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.
Regulations include the Basic Information Security Regulation, which helps to prevent leaks by providing Group-wide rules for managing information according to the level of sensitivity.

Compliance-based management
Epson has established Principles of Corporate Behavior for putting its Management Philosophy into practice, as well as regulations that spell out the compliance-based management requirements that underpin the principles, and an organizational compliance framework.
The president holds overall responsibility for management's legal compliance, with the persons responsible at each operations division in charge of compliance management at their respective businesses and subsidiaries. Head Office supervisory departments cooperate with the divisions to drive cross-organizational projects.
Epson has installed a legal compliance hotline and other counseling services for reporting any violations.
There is also web-based and other in-house compliance training for employees, including those at subsidiaries.
The Trust-Based Management Council was established to deliberate legal compliance issues under the leadership of the president. The Trust-Based Management Council manages the overall state of compliance at Epson, including compliance with laws, internal regulations, and corporate ethics, as well as approaches to key areas of compliance. Auditors also take seats on the council to verify the details of legal compliance programs.
The president periodically reports to the board of directors on compliance management issues and formulates appropriate measures to respond to these issues.
Epson's Principles of Corporate Behavior categorically state that the Company will not be involved with anti-social elements in any way.

Risk management
Epson’s risk management system is founded on regulations that define the organization, procedures, and other key elements of this system.
Overall responsibility for risk management resides with the president, with the persons responsible at each operations division in charge of risk management at their respective businesses and subsidiaries.
The Trust-Based Management Council was established to deliberate risk management issues under the leadership of the president. The Council identifies important Group risks and manages programs to control them. When major risks become apparent, the president leads the entire company in mounting a swift initial response in line with Epson’s prescribed crisis management program.
The president periodically reports to the board of directors on risk management issues and formulates appropriate measures to respond to these issues.

(2) Audit system
Internal audit
Epson’s compliance system guards against potential legal and internal regulatory violations in departmental operations, and the Audit Office reports directly to the president the results of routine internal audits, including those conducted at Epson subsidiaries. The Audit Office evaluates the effectiveness of the governance process and requests improvements where needed.

Statutory audit
Epson has assigned three outside statutory auditors to its five-member board of statutory auditors to ensure greater independence and transparency of audits.
Based on corporate regulations governing auditors and audit procedures, statutory auditors have the authority to conduct hearings with directors and other personnel whenever they deem such hearings necessary. Statutory auditors are also authorized to attend 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.
Epson has established an Audit Staff Office with specialized personnel to assist the statutory auditors in their duties. The views of the board of statutory auditors are given a great deal of weight in the evaluation and transfer of personnel assigned to this office.
To improve the effectiveness of their audits, statutory auditors consult on a regular basis with the Audit Office and independent public accountants.
Statutory auditors hold regular meetings with representative directors to directly assess business operations.

(3) Outside directors and outside statutory auditors
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.
There is a high degree of independence between Epson and its three outside statutory auditors because, at present, there are no conflicts of interest between Epson and said auditors, or between Epson and other companies by which the auditors are employed.

There is no particular system of coordination between outside statutory auditors and audit functions in the Group; however, statutory auditors actively consult with the Audit 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 take seats on the Trust-Based Management Council, which manages the operational effectiveness of internal controls, 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.

Outside directors
Epson does not currently have any outside directors. Objective, neutral oversight of management from the outside is an essential element of corporate governance, and oversight of the board of directors at Epson is reinforced by having three outside statutory auditors on its five-member board of statutory auditors. Epson

proactively discloses information to statutory auditors, including outside statutory auditors, to ensure the transparency of its decision making and operational processes by, for example, reserving seats for the auditors at all corporate management meetings.

(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 system is detailed as follows.

The specific monthly salaries of directors are set according to their title, and in consideration of Epson's business performance. Director bonuses are paid according to the level of achievement with respect to performance targets predefined by the board of directors. Bonuses are treated as incentives for directors to ensure performance goals for the year are met. 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	Bonus	
Directors	408	408	-	12
Statutory auditors (including total for outside statutory auditors)	115 (57)	115 (57)	-	6 (3)
Total	523	523	-	18

Notes

1. The numbers above include two directors and one statutory auditor who retired at the closing of the general shareholders' meeting on June 22, 2010.
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. The remuneration paid does not include director bonuses since bonuses will not be paid for the fiscal year under review.
6. Stock options are not granted as remuneration.

(5) Stock holdings

Balance sheet total of stocks held for reasons other than pure investment

26 companies ¥10,026 million

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

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	5,586	Maintain and strengthen business ties
Mizuho Financial Group, Inc.	15,003,480	2,070	Maintain and strengthen business ties
Seiko Holdings Corporation	1,644,080	468	Maintain and strengthen business ties
The Hachijuni Bank, Ltd.	489,500	234	Maintain and strengthen business ties
Hakuto Co., Ltd.	190,000	165	Maintain and strengthen business ties
Iwasaki Electric Co., Ltd.	1,000,000	164	Maintain and strengthen business ties
King Jim Co., Ltd.	221,980	141	Maintain and strengthen business ties
Marubun Corporation	332,640	139	Maintain and strengthen business ties
Joshin Denki Co., Ltd.	70,000	56	Maintain and strengthen business ties
Otuska Corporation	10,000	53	Maintain and strengthen business ties
Pixelworks, Inc.	100,000	29	Maintain and strengthen business ties
Mizuho Trust & Banking Co., Ltd.	10,000	0	Maintain and strengthen business ties

(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	2
Designated and Engagement Partner, Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	5
Designated and Engagement Partner, Certified Public Accountant	Taisuke Ide	Ernst & Young ShinNihon LLC	2

Note

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

(b) Composition of auditing team

The auditing team comprises 35 staff including 11 certified public accountants, eight junior accountants, and 16 other accounting staff.

(7) Outline of contract limiting liability

The Company's contract with the outside statutory auditor is based on Article 427, Paragraph 1, of the Japanese Companies Act, and the contract 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. The scope of liability concerning the outside statutory auditor is limited to errors and omissions that occur in good faith and that are not serious.

(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	159	0	144	13
Consolidated subsidiaries	146	-	124	-
Total	305	0	268	13

(2) Other important remuneration

Previous fiscal year

Total payments for audits carried out on behalf of 26 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2010, amounted to ¥136 million.

Fiscal year under review

Total payments for audits carried out on behalf of 38 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2011, amounted to ¥177 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 particular training courses.

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 the basic policy described below governing persons who control the Company's 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, however, nor do they serve the common interests of shareholders. Epson recognizes the need to use all necessary and appropriate means to protect the Company's corporate value and the common interests of its shareholders against persons seeking to improperly acquire large numbers of shares in an attempt to gain control over decisions concerning the Company's financial and business policies.

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

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

The purpose of the Plan is to 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 provision, the question of whether to invoke preventive provisions is subject to the approval of a special committee made up of highly independent external parties. Actions of the special committee shall include examination of stock acquisition details, requesting information from the Epson board of directors regarding alternative proposals, disclosing information to shareholders, and negotiating with parties intending to make acquisitions. The special committee shall advise the Epson board of directors regarding the necessity of the activation of provisions, and the Epson board of directors shall promptly accept or reject a resolution regarding the activation of provisions, paying the utmost consideration to that advice. Since the Plan was to be in force until the close of the June 20, 2011 general shareholders' meeting, the Company decided to renew a revised version of the Plan, subject to the approval of shareholders at the general shareholders' meeting.

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
Seiji Hanaoka	Chairman	
Yasuo Hattori	Vice Chairman	
Minoru Usui	President (Representative Director)	
Masayuki Morozumi	Executive Vice President (Representative Director)	General Administrative Manager, Business Infrastructure Improvement Division, and Chief Operating Officer, Electronic Devices and Precision Products Operations Segment
Kenji Kubota	Senior Managing Director (Representative Director)	General Administrative Manager, Corporate Strategy Division
Torao Yajima	Managing Director	Chief Operating Officer, Microdevices Operations Division, and President, Epson Toyocom Corporation
Seiichi Hirano	Managing Director	President, Epson Sales Japan Corporation
Tadaaki Hagata	Managing Director	Chief Operating Officer, Imaging Products Operations segment
Noriyuki Hama	Director	General Administrative Manager, Human Resources Division
Yoneharu Fukushima	Director	General Administrative Manager, Corporate Research & Development Division, and General Manager, I Project
Kenji Uchida	Standing Statutory Auditor	
Toru Oguchi	Standing Statutory Auditor	
Yoshiro Yamamoto	Outside Statutory Auditor	
Tatsuhiro Ishikawa	Outside Statutory Auditor	
Kenji Miyahara	Outside Statutory Auditor	
Hiroshi Komatsu	Managing Executive Officer	Deputy Chief Operating Officer, Imaging Products Operations Segment
John Lang	Managing Executive Officer	President and Chief Executive Officer, Epson America, Inc
Masataka Kamiyanagi	Managing Executive Officer	General Administrative Manager, Intellectual Property Division
Akihiko Sakai	Executive Officer	President, Tohoku Epson Corporation
Akio Mori	Executive Officer	Deputy General Administrative Manager, Corporate Research & Development Division

Kiyofumi Koike	Executive Officer	Chairman and President, Epson (China) Co., Ltd.
Ryuhei Miyagawa	Executive Officer	Deputy Chief Operating Officer, Microdevices Operations Division, Senior General Manager, Sensing System Business Unit, and Senior General Manager, Imaging Interface Business Unit
Koichi Endo	Executive Officer	Chairman, Epson Singapore Pte. Ltd. and Chairman, Singapore Epson Industrial Pte. Ltd.
Hiromi Taba	Executive Officer	President, Epson Europe B.V.
Koichi Kubota	Executive Officer	Chief Operating Officer, Visual Instruments Operating Division
Motonori Okumura	Executive Officer	Chief Operating Officer, Imaging & Information Operating Division
Takashi Oguchi	Executive Officer	President, P.T. Indonesia Epson Industry
Shigeki Inoue	Executive Officer	Deputy General Administrative Manager, Corporate Strategy Division

Index to Consolidated Financial Statements
Seiko Epson Corporation and Subsidiaries

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Assets			
Current assets			
Cash and deposits	¥193,117	¥125,807	$1,513,012
Notes and accounts receivable-trade	144,435	140,564	1,690,487
Short-term investment securities	51,511	76,009	914,119
Merchandise and finished goods	90,284	90,900	1,093,205
Work in process	39,198	37,133	446,578
Raw materials and supplies	21,710	23,876	287,143
Deferred tax assets	9,307	12,419	149,356
Other	48,903	38,821	466,929
Allowance for doubtful accounts	(2,258)	(2,003)	(24,088)
Total current assets	596,210	543,530	6,536,741
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	405,096	399,318	4,802,381
Machinery, equipment and vehicles	467,364	439,113	5,280,974
Tools, furniture and fixtures	174,014	156,671	1,884,197
Land	54,912	54,744	658,376
Construction in progress	4,318	4,792	57,630
Other	127	114	1,432
Accumulated depreciation	(880,479)	(841,132)	(10,115,838)
Total property, plant and equipment	225,354	213,623	2,569,152
Intangible assets			
Goodwill	2,873	2,632	31,653
Other	15,187	11,984	144,125
Total intangible assets	18,060	14,616	175,778
Investments and other assets			
Investment securities	16,087	13,319	160,180
Long-term loans receivable	47	47	565
Deferred tax assets	4,551	4,236	50,944
Other	9,978	8,929	107,384
Allowance for doubtful accounts	(200)	(73)	(877)
Total investments and other assets	30,464	26,458	318,196
Total noncurrent assets	273,879	254,699	3,063,126
Total assets	¥870,090	¥798,229	$9,599,867

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥90,768	¥72,833	$875,923
Short-term loans payable	21,739	31,129	374,371
Current portion of bonds	30,000	30,000	360,793
Current portion of long-term loans payable	35,728	42,093	506,229
Accounts payable-other	58,576	51,112	614,696
Income taxes payable	10,024	6,472	77,835
Deferred tax liabilities	83	116	1,395
Provision for bonuses	14,484	16,681	200,613
Provision for product warranties	9,928	8,199	98,604
Other	57,317	56,782	682,950
Total current liabilities	328,652	315,422	3,793,409
Noncurrent liabilities			
Bonds payable	70,000	60,000	721,587
Long-term loans payable	151,593	107,500	1,292,844
Deferred tax liabilities	10,207	8,921	107,288
Provision for retirement benefits	20,008	26,289	316,163
Provision for loss on litigation	—	2,102	25,279
Provision for product warranties	450	420	5,051
Provision for recycling costs	396	478	5,748
Other	5,917	6,287	75,637
Total noncurrent liabilities	258,574	211,999	2,549,597
Total liabilities	587,226	527,421	6,343,006
Net assets			
Shareholders' equity			
Capital stock			
Authorized - 607,458,368 shares			
Issued - 199,817,389 shares	53,204	53,204	639,855
Capital surplus	84,321	84,321	1,014,082
Retained earnings	187,358	193,602	2,328,346
Treasury stock			
March 31, 2011 - 23,924 shares			
March 31, 2010 - 22,089 shares	(35)	(38)	(457)
Total shareholders' equity	324,847	331,088	3,981,826
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	4,023	2,558	30,763
Deferred gains or losses on hedges	130	(572)	(6,879)
Foreign currency translation adjustment	(47,705)	(63,812)	(767,429)
Total accumulated other comprehensive income	(43,552)	(61,826)	(743,545)
Minority interests	1,568	1,545	18,580
Total net assets	282,864	270,808	3,256,861
Total liabilities and net assets	¥870,090	¥798,229	$9,599,867

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

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Net sales	¥985,363	¥973,663	$11,709,717
Cost of sales	725,894	710,700	8,547,204
Gross profit	259,469	262,963	3,162,513
Selling, general and administrative expenses	241,241	230,253	2,769,140
Operating income	18,227	32,709	393,373
Non-operating income:			
Interest income	1,259	938	11,280
Rent income	1,014	1,562	18,785
Amortization of negative goodwill	1,368	708	8,514
Other	4,084	3,741	45,016
Total non-operating income	7,726	6,951	83,595
Non-operating expenses:			
Interest expenses	5,070	4,225	50,811
Foreign exchange losses	5,076	1,239	14,900
Rent expenses on real estates	613	944	11,352
Other	1,318	2,076	24,993
Total non-operating expenses	12,078	8,485	102,056
Ordinary income	13,875	31,174	374,912
Extraordinary income:			
Gain on sales of noncurrent assets	595	2,274	27,348
Reversal of provision for product warranties	87	873	10,499
Gain on transfer of business	-	513	6,169
Other	1,394	490	5,917
Total extraordinary income	2,078	4,152	49,933
Extraordinary loss:			
Loss on disaster	-	4,755	57,185
Business structure improvement expenses	-	9,909	119,170
Provision for loss on litigation	-	2,013	24,209
Other	16,753	3,267	39,303
Total extraordinary losses	16,753	19,945	239,867
Income (loss) before income taxes and minority interests	(799)	15,381	184,978
Income taxes-current	13,740	9,121	109,692
Income taxes-deferred	5,249	(4,149)	(49,897)
Total income taxes	18,989	4,971	59,795
Income (loss) before minority interests	(19,789)	10,409	125,183
Minority interests in income	1	170	2,045
Net income (loss)	(¥19,791)	¥10,239	$123,138

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

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Income (loss) before minority interests	(¥19,789)	¥10,409	$125,183
Other comprehensive income			
Valuation difference on available-for-sale securities	1,188	(1,460)	(17,558)
Deferred gains or losses on hedges	2,306	(702)	(8,442)
Foreign currency translation adjustment	(8,457)	(16,099)	(193,627)
Share of other comprehensive income of associates accounted for using equity method	(55)	(135)	(1,623)
Total other comprehensive income	(5,018)	(18,398)	(221,250)
Comprehensive income	(¥24,807)	(¥7,988)	($96,067)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	(¥24,746)	(¥8,034)	($96,620)
Comprehensive income attributable to minority interests	(¥61)	¥46	$553

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

Consolidated Statements of Changes in Net Assets

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Shareholders' equity			
Capital stock			
Balance at the end of previous period	¥53,204	¥53,204	$639,855
Changes of items during the period			
Total changes of items during the period	-	-	-
Balance at the end of current period	53,204	53,204	639,855
Capital surplus			
Balance at the end of previous period	79,500	84,321	1,014,082
Changes of items during the period			
Increase by share exchanges	4,820	-	-
Total changes of items during the period	4,820	-	-
Balance at the end of current period	84,321	84,321	1,014,082
Retained earnings			
Balance at the end of previous period	208,524	187,358	2,253,253
Changes of items during the period			
Dividends from surplus	(1,374)	(3,995)	(48,045)
Net income (loss)	(19,791)	10,239	123,138
Total changes of items during the period	(21,165)	6,243	75,093
Balance at the end of current period	187,358	193,602	2,328,346
Treasury stock			
Balance at the end of previous period	(8)	(35)	(420)
Changes of items during the period			
Purchase of treasury stock	(27)	(2)	(37)
Disposal of treasury stock	0	-	-
Total changes of items during the period	(26)	(2)	(37)
Balance at the end of current period	(35)	(38)	(457)
Total shareholders' equity			
Balance at the end of previous period	341,220	324,847	3,906,770
Changes of items during the period			
Increase by share exchanges	4,820	-	-
Dividends from surplus	(1,374)	(3,995)	(48,045)
Net income (loss)	(19,791)	10,239	123,138
Purchase of treasury stock	(27)	(2)	(37)
Disposal of treasury stock	0	-	-
Total changes of items during the period	(16,372)	6,241	75,056
Balance at the end of current period	324,847	331,088	3,981,826
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	2,835	4,023	48,382
Changes of items during the period			
Net changes of items other than shareholders' equity	1,188	(1,464)	(17,619)
Total changes of items during the period	1,188	(1,464)	(17,619)
Balance at the end of current period	4,023	2,558	30,763
Deferred gains or losses on hedges			
Balance at the end of previous period	(2,175)	130	1,563
Changes of items during the period			
Net changes of items other than shareholders' equity	2,306	(702)	(8,442)
Total changes of items during the period	2,306	(702)	(8,442)
Balance at the end of current period	130	(572)	(6,879)
Foreign currency translation adjustment			
Balance at the end of previous period	(39,255)	(47,705)	(573,722)
Changes of items during the period			
Net changes of items other than shareholders' equity	(8,449)	(16,106)	(193,707)
Total changes of items during the period	(8,449)	(16,106)	(193,707)
Balance at the end of current period	(47,705)	(63,812)	(767,429)

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Total accumulated other comprehensive income			
Balance at the end of previous period	(38,596)	(43,552)	(523,777)
Changes of items during the period			
Net changes of items other than shareholders' equity	(4,955)	(18,274)	(219,768)
Total changes of items during the period	(4,955)	(18,274)	(219,768)
Balance at the end of current period	(43,552)	(61,826)	(743,545)
Minority interests			
Balance at the end of previous period	16,007	1,568	18,857
Changes of items during the period			
Net changes of items other than shareholders' equity	(14,439)	(22)	(277)
Total changes of items during the period	(14,439)	(22)	(277)
Balance at the end of current period	1,568	1,545	18,580
Total net assets			
Balance at the end of previous period	318,631	282,864	3,401,850
Changes of items during the period			
Increase by share exchanges	4,820	-	-
Dividends from surplus	(1,374)	(3,995)	(48,045)
Net income (loss)	(19,791)	10,239	123,138
Purchase of treasury stock	(27)	(2)	(37)
Disposal of treasury stock	0	-	-
Net changes of items other than shareholders' equity	(19,394)	(18,297)	(220,045)
Total changes of items during the period	(35,767)	(12,056)	(144,989)
Balance at the end of current period	¥282,864	¥270,808	$3,256,861

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

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars
	March 31, 2010	March 31, 2011	March 31, 2011
Consolidated statements of cash flows			
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	(¥799)	¥15,381	$184,978
Depreciation and amortization	47,395	41,159	494,999
Equity in (earnings) losses of affiliates	(126)	(77)	(926)
Amortization of goodwill	(462)	240	2,886
Business structure improvement expenses	—	9,909	119,170
Loss on disaster	—	4,755	57,185
Increase (decrease) in allowance for doubtful accounts	(918)	(192)	(2,309)
Increase (decrease) in provision for bonuses	2,931	2,309	27,769
Increase (decrease) in provision for product warranties	58	(1,309)	(15,742)
Increase (decrease) in provision for retirement benefits	8,287	329	3,956
Interest and dividends income	(1,536)	(1,174)	(14,119)
Interest expenses	5,070	4,225	50,811
Foreign exchange losses (gains)	(1,165)	(60)	(721)
Loss (gain) on sales of noncurrent assets	(286)	(2,303)	(27,696)
Loss on retirement of noncurrent assets	1,038	895	10,763
Loss (gain) on sales of investment securities	(365)	19	228
Decrease (increase) in notes and accounts receivable-trade	(8,373)	8,225	98,917
Decrease (increase) in inventories	(7,128)	(15,665)	(188,394)
Increase (decrease) in accrued consumption taxes	(667)	(761)	(9,152)
Increase (decrease) in notes and accounts payable-trade	17,646	(23,318)	(280,432)
Other, net	12,898	2,643	31,785
Subtotal	73,497	45,230	543,956
Interest and dividends income received	336	2,023	24,329
Interest expenses paid	(5,131)	(4,320)	(51,954)
Income taxes paid	(12,159)	(10,538)	(126,734)
Net cash provided by (used in) operating activities	56,542	32,395	389,597
Net cash provided by (used in) investing activities			
Decrease (increase) in time deposits	523	(2)	(0)
Purchase of investment securities	(14)	(7)	(84)
Proceeds from sales of investment securities	929	260	3,126
Purchase of property, plant and equipment	(27,196)	(28,308)	(340,444)
Proceeds from sales of property, plant and equipment	895	2,844	34,192
Purchase of intangible assets	(4,640)	(2,286)	(27,492)
Proceeds from sales of intangible assets	5	12	144
Purchase of long-term prepaid expenses	(204)	(699)	(8,406)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	53	637
Proceeds from transfer of business	—	4,062	48,851
Other, net	(13,501)	455	5,472
Net cash provided by (used in) investing activities	(43,203)	(23,615)	(284,004)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(20,382)	10,092	121,371
Proceeds from long-term loans payable	2,000	—	—
Repayment of long-term loans payable	(18,543)	(37,728)	(453,734)
Proceeds from issuance of bonds	—	20,000	240,529
Redemption of bonds	—	(30,000)	(360,819)
Repayments of lease obligations	(2,654)	(989)	(11,894)
Purchase of treasury stock	(27)	(2)	(24)
Proceeds from sales of treasury stock	0	—	—
Cash dividends paid	(1,374)	(3,995)	(48,045)
Cash dividends paid to minority shareholders	(105)	(67)	(805)
Net cash provided by (used in) financing activities	(41,087)	(42,691)	(513,421)
Effect of exchange rate change on cash and cash equivalents	(2,000)	(9,020)	(108,491)
Net increase (decrease) in cash and cash equivalents	(29,749)	(42,932)	(516,319)
Cash and cash equivalents at beginning of period	284,340	254,590	3,061,815
Increase in cash and cash equivalents from newly consolidated subsidiary	—	119	1,431
Cash and cash equivalents at end of period	¥254,590	¥211,777	$2,546,927

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.

In the accompanying consolidated financial statements, “Epson” is referred to as the Company and its consolidated subsidiaries and affiliates.

The amounts in the accompanying consolidated financial statements and the notes are rounded down.

2. Number of group companies

As of March 31, 2011, the Company had 92 consolidated subsidiaries. It has applied the equity method in respect to one unconsolidated subsidiary and five affiliates.

3. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

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

Investments in affiliates in which Epson has significant influence are accounted for using the equity method. Consolidated income includes Epson's current equity in net income or loss of affiliates after elimination of significant unrealized inter-company profits.
The difference between the cost and the underlying net assets of investments in subsidiaries is recognized as "goodwill" and is included in the intangible assets account (if the cost is in excess) or in the noncurrent liabilities account (if the underlying net asset is in excess). Goodwill is amortized on a straight-line basis over a period of five years.

(2) Foreign currency translation and transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates, and the resulting transaction gains or losses are included in income for the current period.

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

(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. If certain hedging criteria are met, such gains and losses are deferred and accounted for as deferred gains or losses on hedges in net assets.

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.

(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.

(20) Changes in significant accounting policies

Effective April 1, 2010, Epson adapted the Accounting Standards Board of Japan (“ASBJ”) Statement No.18, “Accounting Standard for Asset Retirement Obligations” and its Guidance No.21, “Guidance on Accounting Standard for Asset Retirement Obligations,” issued on March 31, 2008.

The adoption of these standards did not have a material effect on Epson’s results of operations and financial position for the year ended March 31, 2011.

(21) Comprehensive income

Effective from the year ended March 31, 2011, Epson adapted ASBJ Statement No. 25, “Accounting Standard for Presentation of Comprehensive Income” which was announced on June 30, 2010. According to the announcement, comprehensive income for the years ended March 31, 2010 and 2011, are presented.

4. U.S. dollar amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥83.15 = U.S.$1, the exchange rate prevailing as of March 31, 2011, has been used.

5. Acquisitions and business transfer

(1) Acquisitions

As of March 11, 2009, the Company owned 66.69% of the issued and outstanding shares of consolidated subsidiary Epson Toyocom Corporation (“Epson Toyocom”). Aiming to make Epson Toyocom a wholly-owned

subsidiary, the Company, from March 12, 2009, to April 23, 2009, undertook a tender offer to acquire all of the issued and outstanding shares of Epson Toyocom. As a result, the Company's ownership of Epson Toyocom's issued shares rose to 91.05% as of April 30, 2009. On June 1, 2009, the Company conducted a share exchange by which Epson Toyocom became a wholly-owned subsidiary.
By completing this tender offer and share exchange, Epson intended to increase management speed and further improve efficiency with the purpose of enhancing Group synergies, strengthening business foundations and optimizing corporate value.

Details such as acquisition cost, share exchange ratio and calculation method, and goodwill generated are as follows:

Acquisition cost of the subsidiary's shares

	Millions of yen
Cash	¥13,045
Value of the Company's shares used for acquisition (Note)	4,820
Consulting fees, etc.	360
Total acquisition cost	¥18,225

Note: The value of the Company's shares was based on its share price on the date of the share exchange.

Share exchange ratio and calculation method
Exchange ratio: One share of the Company's common stock for 0.21 share of Epson Toyocom common stock

The above share exchange ratio was calculated after Epson Toyocom selected PwC Advisory Co., Ltd. as third-party consultants, and the Company engaged Merrill Lynch Japan Securities Co., Ltd. from the tender offer stage as financial advisors. The ratio was determined after careful deliberations and close consultations among the various parties.

Details of the number and value of shares exchanged are as follows:
Number of shares exchanged: 3,452,797
Value of shares exchanged: ¥4,820 million

Goodwill generated
Value of goodwill generated: ¥4,140 million

The Company recognizes the difference between the acquisition cost of the outstanding Epson Toyocom shares and the decrease in minority interests as goodwill. Goodwill is amortized over five years using the straight-line method.

Accounting for this transaction was based on the “Accounting Standard for Business Combinations” issued by the Business Accounting Council on October 31, 2003 and on the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” issued by ASBJ on November 15, 2007.

(2) Business Transfer

(a) LCDs business transfer

As of April 1, 2010, Epson transferred a part of its business and some assets in the field of small- and medium-sized liquid crystal displays (“LCDs”) to Sony Corporation (“Sony”) and Sony Mobile Display Corporation (“SMD”). In a changing market environment, Epson had found it difficult to distinguish its small- and medium-sized display business from the competition, and judged that transferring the aforementioned business to the Sony Group was the most appropriate way of optimizing its liquid crystal technologies and amorphous silicon TFT production capability.

Outline of transfer

Date of transfer: April 1, 2010

Gain on business transfer: ¥513 million ($6,169 thousand)

Carrying amounts of assets and liabilities transferred:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥3,604	$43,355
Noncurrent assets	228	2,742
Total	¥3,833	$46,097
Current liabilities	¥231	$2,778
Noncurrent liabilities	54	649
Total	¥285	$3,427

The business transferred was included in the electronic devices segment.

(b) The subsidiary’s equity transfer

As of February 2, 2011, the Company and Sony executed an agreement for transferring all of the equity of Suzhou Epson Co., Ltd. (“Suzhou Epson”), to the Sony Group. As part of its SE15 long-range corporate vision and mid-range business plan, Epson is completing business structure reforms in its small- and medium-sized TFT LCD business. In implementing these reforms, in April 2010 Epson transferred to the Sony Group certain assets of the small- and medium-sized display front-end process manufacturing-related business operated by its subsidiary, Epson Imaging Devices Corporation ("Epson Imaging"). Epson has now determined that it would also be beneficial to transfer Suzhou Epson, which undertook the back-end and touch panel assembly processes of Epson Imaging's display business, to the Sony Group.

Outline of transfer

Transferred to: Sony (China) Limited

Outline of Suzhou Epson:

Company name	Suzhou Epson Co., Ltd.
Business activities	Production of small-and medium-sized TFT LCD displays
Net sales	¥59,913 million ($720,541 thousand) (fiscal year ended March 31, 2011)
Total assets	¥19,443 million ($233,830 thousand) (as of March 31, 2011)
Total liabilities	¥8,034 million ($96,620 thousand) (as of March 31, 2011)
Ownership before transfer	Seiko Epson Corporation 100% (including indirect ownership)

Agreed-upon purchase price and date of transfer:

Agreed-upon purchase price	CNY 775 million (¥9,827 million, calculated at the foreign exchange rate as of March 31, 2011; $118,184 thousand)
Ownership after transfer	-%
Date of transfer	Planned for the first half of the fiscal year ending March 31, 2012

The business transferred was included in the electronic devices segment.

6. Inventories

Losses recognized and charged to cost of sales as a result of valuations as of March 31, 2010 and 2011, were ¥30,115 million and ¥30,654 million ($368,659 thousand), respectively.

7. 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, 2011, comprised the following:

Held-to-maturity debt securities

	March 31, 2011	
	Millions of yen	Thousands of U.S. dollars
Commercial paper	¥9,999	$120,253

National government bonds	109	1,310
Total	¥10,108	$121,563

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, 2010 and 2011, were as follows:

Other securities

	Millions of yen			
	March 31, 2010			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥6,300	¥5,749	(¥88)	¥11,961
Certificate of deposit	51,500	-	(-)	51,500
Other	227	-	(-)	227
Total	¥58,027	¥5,749	(¥88)	¥63,688

	Millions of yen			
	March 31, 2011			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	¥6,188	¥4,049	(¥771)	¥9,466
Certificate of deposit	66,000	-	(-)	66,000
Other	189	-	(-)	189
Total	¥72,378	¥4,049	(¥771)	¥75,655

	Thousands of U.S. dollars			
	March 31, 2011			
		Gross unrealized		
	Cost	Gains	Losses	Market value (carrying value)
Equity securities	$74,432	$48,682	($9,272)	$113,842
Certificate of deposit	793,746	-	(-)	793,746
Other	2,273	-	(-)	2,273
Total	$870,451	$48,682	($9,272)	$909,861

For the years ended March 31, 2010 and 2011, 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, the related gains and losses for the year ended March 31, 2010, were ¥551 million, ¥394 million and ¥29 million, respectively. The total sales of other securities, the related gains and

losses for the year ended March 31, 2011, were ¥108 million ($1,298 thousand), ¥6 million ($72 thousand) and ¥26 million ($312 thousand), respectively.
Unlisted securities, which were carried at costs of ¥967 million and ¥1,428 million ($17,173 thousand) at March 31, 2010 and 2011 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 at March 31, 2010 and 2011, were ¥2,804 million and ¥2,131 million ($25,628 thousand), respectively.

8. Short-term and long-term loans payable

Short-term loans payable and long-term loans payable at March 31, 2010 and 2011, comprised the following:

	Millions of yen				Thousands of U.S. dollars
	March 31				March 31,
	2010	2011			2011
	Amount	Amount	Average interest rate	Last due	Amount
Short-term loans payable	¥21,739	¥31,129	0.84%	-	$374,371
Current portion of long-term loans payable	35,728	42,093	1.07	-	506,229
Current portion of lease obligations	1,059	461	-	-	5,544
Long-term loans payable from financial institutions	151,593	107,500	1.62	2015	1,292,844
Lease obligations	1,533	973	-	2017	11,716
Unsecured bonds issued by the Company	30,000	-	1.05	2010	-
Unsecured bonds issued by the Company	20,000	20,000	1.44	2012	240,529
Unsecured bonds issued by the Company	30,000	30,000	1.65	2011	360,793
Unsecured bonds issued by the Company	20,000	20,000	1.70	2012	240,529
Unsecured bonds issued by the Company	-	20,000	0.58	2015	240,529
Total	¥311,655	¥272,157			$3,273,084

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, 2011.

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, 2011, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥42,093	$506,229
2013	30,500	366,806
2014	75,000	901,986
2015	2,000	24,052
Total	¥149,593	$1,799,073

The maturities of lease obligations outstanding as of March 31, 2011, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥461	$5,544
2013	402	4,859
2014	348	4,185
2015	195	2,345
2016	20	240
Thereafter	6	72
Total	¥1,434	$17,245

The maturities of bonds outstanding as of March 31, 2011, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥30,000	$360,793
2013	40,000	481,058
2016	20,000	240,529
Total	¥90,000	$1,082,380

9. Goodwill

Epson had goodwill and negative goodwill as of March 31, 2010 and 2011. Goodwill is 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, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2010	2011	2011
Goodwill	¥3,703	¥2,754	$33,120
Negative goodwill	830	122	1,467

10. Retirement benefits

The Company and its Japanese subsidiaries maintain corporate defined benefit pension plans and defined contribution pension plans covering the majority of their employees. In certain cases, additional severance costs may be provided.

The funded status of these plans as of March 31, 2010 and 2011, was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2010	2011	2011
Projected benefit obligations	¥229,649	¥233,973	$2,813,866
Plan assets at fair value	193,268	197,622	2,376,693
Unfunded status	36,381	36,351	437,173
Unrecognized items:			
Actuarial gains (losses)	(17,081)	(16,828)	(202,381)
Prior service cost reduction from plan amendment	(476)	(219)	(2,646)
Provision for retirement benefits - net	18,822	19,303	232,146
Prepaid pension cost	1,186	1,213	14,588
Provision for retirement benefits	¥20,008	¥20,516	$246,734

In addition to the above-mentioned provision for retirement benefits, additional severance costs of ¥5,772 million ($69,416 thousand), which related to business structure improvement, were recorded in provision for retirement benefits as of March 31, 2011.

The composition of net pension and severance costs for the years ended March 31, 2010 and 2011, was as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2010	2011	2011
Service cost	¥8,257	¥7,744	$93,132
Interest cost	5,944	6,064	72,928
Expected return on plan assets	(5,720)	(6,263)	(75,321)
Amortization and expenses:			
Actuarial losses	6,999	3,952	47,528
Prior service costs	257	257	3,104
Net pension and severance costs	15,737	11,755	141,371
Contribution to defined contribution pension plan	3,581	3,613	43,451
	¥19,319	¥15,368	$184,822

In addition to the above-mentioned net pension and severance costs, additional severance costs of ¥6,239 million ($75,033 thousand), which related to specific reorganization programs, were recorded in business structure improvement expenses for the year ended March 31, 2011.

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2010 and 2011, were primarily as follows:

	Year ended March 31	
	2010	2011
Discount rate	2.5%	2.5%
Long-term rate of return on plan assets	3.2	3.2

11. Net assets

The Japanese Companies Act stipulates that an amount equal to 10% of dividends shall be distributed as additional paid-in capital or legal reserve on the date of distribution until an aggregated amount of additional paid-in capital and legal reserve equals 25% of common stock.

Under the Japanese Companies Act, distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met.

Under the Japanese Companies Act, the distributions of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held within three months after the balance sheet date, and accordingly such distributions are recorded at the time of resolution.

The 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, 2010 and 2011:

	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,
	2010	2011	2011	2010	2011	2011
Year-end	¥7.00	¥10.00	$0.12	¥1,374	¥1,997	$24,016
Interim	-	¥10.00	$0.12	-	¥1,997	$24,016
Total	¥7.00	¥20.00	$0.24	¥1,374	¥3,995	$48,045

The effective date of the distribution for year-end cash dividend, which was paid during the year ended March 31, 2010, was June 25, 2009. The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2011, were June 23, 2010, and December 3, 2010, respectively.

The proposed cash dividends of retained earnings of the Company for the year ended March 31, 2011, approved at the general shareholders' meeting, which was held on June 20, 2011, were as follows:

Cash dividends per share		Cash dividends	
Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars
¥10.00	$0.12	¥1,997	$24,016

The effective date of the distribution was June 21, 2011.

12. Net income (loss) per share

Calculation of net income (loss) per share for the years ended March 31, 2010 and 2011, is as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2010	2011	2011
Net income (loss) attributable to common shares	(¥19,791)	¥10,239	$123,138
	Thousands of shares		
Weighted-average number of common shares outstanding	199,225	199,794	
	Yen		U.S. dollars
Net income (loss) per share	(¥99.34)	¥51.25	$0.61

Diluted net loss per share is not calculated herein since a net loss was incurred and Epson had no dilutive potential common shares outstanding during the years ended March 31, 2010. Diluted net income per share is not calculated herein since Epson had no dilutive potential common shares outstanding during the year ended March 31, 2011.

13. Income taxes

Epson is subject to a number of different income taxes that amounted to a statutory income tax rate in Japan of approximately 40.4 % for each of the years ended March 31, 2010 and 2011.

The significant components of deferred tax assets and liabilities as of March 31, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2010	2011	2011
Deferred tax assets:			
Net operating tax loss carry-forwards	¥52,509	¥65,424	$786,819
Property, plant and equipment and intangible assets (Impairment loss and excess of depreciation)	44,082	29,439	354,046
Inter-company profits on inventories and write downs	20,207	20,820	250,390
Provision for retirement benefits	6,331	8,803	105,868
Provision for bonuses	4,146	5,673	68,226
Devaluation of investment securities	2,900	2,842	34,179
Provision for product warranties	2,966	2,252	27,083
One-time depreciation for assets	1,808	1,910	22,970
Others	14,558	21,381	257,201
Gross deferred tax assets	149,510	158,549	1,906,782
Less: valuation allowance	(131,482)	(138,170)	(1,661,707)
Total deferred tax assets	18,028	20,378	245,075
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries and affiliates	(8,324)	(7,504)	(90,246)
Net unrealized gains on land held by a subsidiary	(2,613)	(2,613)	(31,425)
Valuation difference on available-for-sale securities	(1,683)	(744)	(8,947)
Reserve for special depreciation for tax purpose	(344)	(197)	(2,369)
Others	(1,493)	(1,701)	(20,483)
Gross deferred tax liabilities	(14,459)	(12,760)	(153,470)
Net deferred tax assets	¥3,568	¥7,617	$91,605

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	
	2010	2011
Statutory income tax rate	40.4%	40.4%
Reconciliation:		
Tax rate differences in overseas subsidiaries	532.9	(39.8)
Entertainment expenses, etc. permanently non-tax deductible	204.0	22.2
Changes in valuation allowance	(3,168.4)	7.1
Other	15.8	2.5
Income tax rate per statements of income	(2,375.4%)	32.3%

14. Selling, general and administrative expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2010	2011	2011
Salaries and wages	¥73,239	¥76,609	$921,334
Advertising	15,303	14,918	179,410
Sales promotion	16,052	15,420	185,447
Shipping costs	14,325	14,815	178,171
Research and development costs	32,316	23,986	288,466
Allowance for doubtful accounts	517	266	3,199
Other	89,485	84,236	1,013,113
Total	¥241,241	¥230,253	$2,769,140

15. Research and development costs

Research and development costs, which are included in the cost of sales and selling, general and administrative expenses, totaled ¥68,849 million and ¥54,377 million ($653,962 thousand) for the years ended March 31, 2010 and 2011, respectively.

16. Business structure improvement expenses

Business structure improvement expenses for the year ended March 31, 2011, comprised expenses related to the termination of the small- and medium-sized displays business.

17. Loss on disaster

Loss on disaster for the year ended March 31, 2011, comprised incurred losses related to the Great East Japan Earthquake.

18. Leases

As of March 31, 2010, capital leases, mainly comprised of plants, production equipment in the electronic devices segment, host computers and computer terminals.
As of March 31, 2011, 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, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
Future lease payments	2010	2011	2011
Due within one year	¥2,810	¥2,337	$28,105
Due after one year	8,872	6,671	80,229
Total	¥11,682	¥9,008	$108,334

19. Cash flow information

Cash and cash equivalents as of March 31, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2010	2011	2011
Cash and deposits	¥193,117	¥125,807	$1,513,012
Short-term investment securities	51,511	76,009	914,119
Short-term loans receivables	10,000	10,000	120,264
Less:			
Short-term loans payable (overdrafts)	(0)	(2)	(24)
Time deposits due over three months	(27)	(27)	(324)
Short-term investment securities due over three months	(11)	(10)	(120)
Cash and cash equivalents	¥254,590	¥211,777	$2,546,927

The Company obtained marketable securities, the fair value of which was \9,918 million and \10,008 million ($120,360 thousand) as of March 31, 2010 and 2011, respectively, as deposit for the short-term loans receivables above.

20. Derivative instruments

The table below lists notional amounts and fair value of derivatives as of March 31, 2010 and 2011, by transaction and type of instrument, excluding derivatives qualifying for hedge accounting.

Currency-related transactions

	Millions of yen		
	March 31, 2010		
Instruments	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥52,622	(¥1,705)	(¥1,705)
Euro (purchased Japanese yen)	20,530	624	624
Australian dollar (purchased Japanese yen)	1,203	(78)	(78)
Singapore dollar (purchased Japanese yen)	2,675	(117)	(117)
Hong Kong dollar (purchased Japanese yen)	3,272	(106)	(106)
Euro (purchased Singapore dollar)	38	0	0
Australian dollar (purchased Singapore dollar)	3	(0)	(0)
Purchased -			
U.S. dollar (sold Japanese yen)	4	0	0
Euro (sold Japanese yen)	124	0	0
U.S. dollar (sold Taiwan dollar)	190	(4)	(4)
Sterling pound (sold Singapore dollar)	9	0	0
Indonesia rupiah (sold U.S. dollar)	1,693	53	53
Total	¥82,369	(¥1,332)	(¥1,332)

	Millions of yen		
	March 31, 2011		
Instruments	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	¥18,241	(¥328)	(¥328)
Euro (purchased Japanese yen)	15,547	(788)	(788)
Sterling pound (purchased Japanese yen)	190	0	0
Australian dollar (purchased Japanese yen)	1,039	(39)	(39)
Euro (purchased Singapore dollar)	98	(2)	(2)
Australian dollar (purchased Singapore dollar)	5	(0)	(0)
Purchased -			
U.S. dollar (sold Japanese yen)	2,867	30	30
Euro (sold Japanese yen)	1	0	0
Indonesia rupiah (sold U.S. dollar)	1,746	78	78
Total	¥39,738	(¥1,048)	(¥1,048)

Instruments	Thousands of U.S. dollars		
	March 31, 2011		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sold -			
U.S. dollar (purchased Japanese yen)	$219,425	($3,944)	($3,944)
Euro (purchased Japanese yen)	186,975	(9,477)	(9,477)
Sterling pound (purchased Japanese yen)	2,285	0	0
Australian dollar (purchased Japanese yen)	12,495	(469)	(469)
Euro (purchased Singapore dollar)	1,178	(24)	(24)
Australian dollar (purchased Singapore dollar)	60	(0)	(0)
Purchased -			
U.S. dollar (sold Japanese yen)	34,479	360	360
Euro (sold Japanese yen)	12	0	0
Indonesia rupiah (sold U.S. dollar)	20,998	938	938
Total	$477,907	($12,616)	($12,616)

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, 2010 and 2011, by transaction and type of instrument, qualifying for hedge accounting.

(a) Currency-related transactions

Instruments	Hedged items	Millions of yen	
		March 31, 2010	
		Notional amounts	Fair value
Forward exchange contracts:			
Sold -			
Euro (purchased Japanese yen)	Forecasted transactions in foreign currency sales	¥5,297	¥179
Purchased -			
U.S. dollar (sold Japanese yen)	Forecasted transactions in	1,077	38
U.S. dollar (sold Taiwan dollar)	foreign currency purchase	283	(3)
Total		¥6,658	¥215

Instruments	Hedged items	Millions of yen	
		March 31, 2011	
		Notional amounts	Fair value
Forward exchange contracts:			
Sold -			
Euro (purchased Japanese yen)	Forecasted transactions in foreign currency sales	¥24,454	(¥598)
Purchased -			
U.S. dollar (sold Japanese yen)	Forecasted transactions in foreign currency purchase	1,976	44
Total		¥26,430	(¥553)

		Thousands of U.S. dollars	
		March 31, 2011	
Instruments	Hedged items	Notional amounts	Fair value
Forward exchange contracts:			
Sold -			
Euro (purchased Japanese yen)	Forecasted transactions in foreign currency sales	$294,095	($7,179)
Purchased -			
U.S. dollar (sold Japanese yen)	Forecasted transactions in foreign currency purchase	23,764	529
Total		$317,859	($6,650)

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

(b) Interest-related transactions

		Millions of yen	
		March 31, 2010	
Instruments	Hedged items	Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	¥78,822	¥50,093

		Millions of yen	
		March 31, 2011	
Instruments	Hedged items	Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	¥50,093	¥50,000

		Thousands of U.S. dollars	
		March 31, 2011	
Instruments	Hedged items	Notional amounts	Due after one year
Interest rate swaps:			
Pay-fixed, receive-floating	Floating interest rate in long-term loans payables	$602,441	$601,322

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 21 “Financial risk management and fair value of financial instruments.”

21. 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 the authorization of Epson's director responsible for finance 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, 2010 and 2011, were as follows:

	Millions of yen		
	March 31, 2010		
Instruments	Carrying value	Fair value	Unrealized gains (losses)
Cash and deposits	¥193,117	¥193,117	-
Notes and accounts receivable-trade	144,435	144,435	-
Short-term investment securities	51,500	51,500	-
Investment securities	12,188	12,188	-
Total	¥401,241	¥401,241	-
Notes and accounts payable-trade	90,768	90,768	-
Short-term loans payable	21,739	21,739	-
Accounts payable-other	58,576	58,576	-
Bonds payable (including current portion)	100,000	101,211	¥1,211
Long-term loans payable (including current portion)	187,322	189,764	2,441
Total	¥458,406	¥462,059	¥3,652
Derivative instruments	(¥1,116)	(¥1,116)	-

Investments in unconsolidated subsidiaries and affiliates of ¥2,804 million, unlisted securities of ¥967 million, at March 31, 2010, 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, 2011 Carrying value	 Fair value	 Unrealized gains (losses)
Cash and deposits	¥125,807	¥125,807	-
Notes and accounts receivable-trade	140,564	140,564	-
Short-term investment securities	76,009	76,009	-
Investment securities	9,754	9,754	-
Total	¥352,136	¥352,136	-
Notes and accounts payable-trade	72,833	72,833	-
Short-term loans payable	31,129	31,129	-
Accounts payable-other	51,112	51,112	-
Bonds payable (including current portion)	90,000	90,755	¥755
Long-term loans payable (including current portion)	149,593	151,816	2,222
Total	¥394,668	¥397,646	¥2,977
Derivative instruments	(¥1,602)	(¥1,602)	-

Instruments	Thousands of U.S. dollars March 31, 2011 Carrying value	 Fair value	 Unrealized gains (losses)
Cash and deposits	$1,513,012	$1,513,012	-
Notes and accounts receivable-trade	1,690,487	1,690,487	-
Short-term investment securities	914,119	914,119	-
Investment securities	117,306	117,306	-
Total	$4,234,924	$4,234,924	-
Notes and accounts payable-trade	875,923	875,923	-
Short-term loans payable	374,371	374,371	-
Accounts payable-other	614,696	614,696	-
Bonds payable (including current portion)	1,082,380	1,091,459	$9,079
Long-term loans payable (including current portion)	1,799,073	1,825,795	26,722
Total	$4,746,443	$4,782,244	$35,801
Derivative instruments	($19,266)	($19,266)	-

Derivative instruments in the table above represent a net amount.

Unlisted securities of ¥1,428 million ($17,173 thousand) at March 31, 2011 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 (including current portion)

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.

22. Contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks and others were \1,413 million and \1,090 million ($13,108 thousand) as of March 31, 2010 and 2011, respectively.

23. Related party transactions

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

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

The company and its subsidiary's transactions with these related parties for the years ended March 31, 2010 and 2011, and related balances on March 31, 2010 and 2011, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2010	2011	2011
Transactions:			
With Sunritz -			
Rental expenses for real estates	¥18	¥18	$216
With Hamazawa -			
Rental expenses for real estates	23	21	252

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2010	2011	2011
Balances:			
With Sunritz -			
Other investments	¥1	¥1	$12

24. Segment information

From the current fiscal year, Epson adopted ASBJ Statement No.17, “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Revised on March 27, 2009) and its implementation guidelines, ASBJ Guidance No.20, “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information,” issued on March 21, 2008. As a result, segment information for the years ended March 31, 2010 and 2011 are based on the revised standard.

(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 three 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, the electronic devices segment and the 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, label writers and personal computers.

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

The precision products segment mainly includes watches, watch movements, plastic corrective lenses, 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 years ended March 31, 2010 and 2011:

	Millions of yen							
	Year ended March 31, 2010							
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated statement of income totals [Note 3]
	Information-related equipment	Electronic devices	Precision products	Total				
Net sales:								
Customers	¥711,378	¥215,534	¥56,284	¥983,197	¥1,182	¥984,379	¥983	¥985,363
Inter-segment	1,314	32,466	1,461	35,243	282	35,526	(35,526)	-
Total	712,692	248,001	57,746	1,018,440	1,465	1,019,905	(34,542)	985,363
Segment income (loss)	71,748	1,529	(1,311)	71,966	(100)	71,866	(53,639)	18,227
Segment assets	302,253	154,693	45,696	502,643	1,411	504,055	366,035	870,090
Other								
Depreciation and amortization	24,319	10,455	3,842	38,618	38	38,656	8,446	47,103
Increase in property, plant, equipment and intangible assets	12,502	9,862	1,876	24,240	7	24,247	2,941	27,189
Amortization of goodwill	¥–	¥866	¥–	¥866	¥–	¥866	¥38	¥905

	Millions of yen							
	Year ended March 31, 2011							
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated statement of income totals [Note 3]
	Information-related equipment	Electronic devices	Precision products	Total				
Net sales:								
Customers	¥701,879	¥203,491	¥66,628	¥971,999	¥788	¥972,788	¥875	¥973,663
Inter-segment	1,039	27,743	1,647	30,430	490	30,921	(30,921)	-
Total	702,918	231,235	68,276	1,002,430	1,279	1,003,709	(30,046)	973,663
Segment income (loss)	70,151	5,569	3,307	79,028	(286)	78,741	(46,032)	32,709
Segment assets	311,486	142,000	46,087	499,574	837	500,412	297,816	798,229
Other								
Depreciation and amortization	21,638	9,820	3,381	34,840	38	34,879	6,092	40,971
Increase in property, plant, equipment and intangible assets	17,813	9,965	1,856	29,634	5	29,639	2,324	31,963
Amortization of goodwill	¥−	¥910	¥−	¥910	¥−	¥910	¥38	¥949

	Thousands of U.S. dollars							
	Year ended March 31, 2011							
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated statement of income totals [Note 3]
	Information-related equipment	Electronic devices	Precision products	Total				
Net sales:								
Customers	$8,441,131	$2,447,276	$801,298	$11,689,705	$9,489	$11,699,194	$10,523	$11,709,717
Inter-segment	12,495	333,662	19,820	365,977	5,893	371,870	(371,870)	-
Total	8,453,626	2,780,938	821,118	12,055,682	15,382	12,071,064	(361,347)	11,709,717
Segment income (loss)	843,680	66,975	39,771	950,426	(3,451)	946,975	(553,602)	393,373
Segment assets	3,746,085	1,707,757	554,263	6,008,105	10,079	6,018,184	3,581,683	9,599,867
Other								
Depreciation and amortization	260,241	118,099	40,661	419,001	469	419,470	73,266	492,736
Increase in property, plant, equipment and intangible assets	214,228	119,843	22,321	356,392	60	356,452	27,949	384,401
Amortization of goodwill	$−	$10,944	$−	$10,944	$−	$10,944	$469	$11,413

Notes;

1. Intra-group services are categorized within "Other."
2. Adjustments were as follows.

Net sales	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Corporate expenses	¥3,196	¥3,764	$45,267
Eliminations	(37,738)	(33,810)	(406,614)
Total	(¥34,542)	(¥30,046)	($361,347)

Segment income (loss)	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Corporate expenses [Note]	(¥53,831)	(¥46,440)	($558,508)
Eliminations	191	408	4,906
Total	(¥53,639)	(¥46,032)	($553,602)

[Note] Corporate expenses that are categorized under adjustments within segment income comprise expenses that do not correspond to the reporting segments. These include expenses relating to research and development for new businesses and basic technology, and general corporate expenses.

Segment assets	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2010	2011	2011
Corporate expenses	¥378,169	¥310,168	$3,730,221
Eliminations	(12,134)	(12,351)	(148,538)
Total	¥366,035	¥297,816	$3,581,683

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
	2010	2011	2011
Corporate expenses	¥1,689	¥2,173	$26,134
Intangible assets [Note]	1,252	151	1,815
Total	¥2,941	¥2,324	$27,949

[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.

3. Segment income (loss) has been adjusted to match consolidated operating income (loss).

(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, 2011:

	Millions of yen				
	Year ended March 31, 2011				
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	¥370,124	¥134,203	¥107,848	¥361,487	¥973,663

	Thousands of U.S. dollars				
	Year ended March 31, 2011				
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	$4,451,294	$1,613,986	$1,297,029	$4,347,408	$11,709,717

[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, 2011:

	Millions of yen		
	Year ended March 31, 2011		
	Japan	Other	Total
Property, plant and equipment	¥165,402	¥48,220	¥213,623

	Thousands of U.S. dollars		
	Year ended March 31, 2011		
	Japan	Other	Total
Property, plant and equipment	$1,989,200	$579,952	$2,569,152

(e) Information of impairment loss

The following table summarizes information of impairment loss in each reporting segments for the year ended March 31, 2011:

	Millions of yen					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Impairment loss	¥208	¥1,052	¥8	¥0	¥428	¥1,698

	Thousands of U.S. dollars					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Impairment loss	$2,501	$12,676	$96	$0	$5,147	$20,420

[Note] Impairment loss that is categorized under corporate expenses comprises losses that do not correspond to the reporting segments. It includes losses relating to research and development for new businesses and basic technology, and general corporate losses.

(f) Information of goodwill

The following table summarizes information of goodwill in each reporting segments for the year ended March 31, 2011:

	Millions of yen					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Goodwill	¥−	¥2,664	¥−	¥−	¥89	¥2,754

	Thousands of U.S. dollars					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Goodwill	$−	$32,050	$−	$−	$1,070	$33,120

[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.

	Millions of yen					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Amortization of negative goodwill	¥–	¥660	¥48	¥–	¥–	¥708
Negative goodwill	¥–	¥–	¥122	¥–	¥–	¥122

	Thousands of U.S. dollars					
	Year ended March 31, 2011					
	Information-related equipment	Electronic devices	Precision products	Other	Corporate expenses [Note]	Total
Amortization of negative goodwill	$–	$7,937	$577	$–	$–	$8,514
Negative goodwill	$–	$–	$1,467	$–	$–	$1,467

25. Subsequent events

The Company issued straight bonds, as outlined below, under the following conditions established on June 7, 2011, pursuant to the comprehensive resolution approved by the Company's board of directors held on April 28, 2011.

The 6th Series unsecured straight bonds (with inter-bond pari passu clause)

Total amount of issuance: ¥20,000 million ($240,529 thousand)

Issue price: ¥100 purchase value of ¥100

Interest rate: 0.493% per annum

Payment date: June 14, 2011

Maturity date: June 13, 2014

Purpose for funds: Repayment of loans and redemption of bonds

The 7th Series unsecured straight bonds (with inter-bond pari passu clause)

Total amount of issuance: ¥20,000 million ($240,529 thousand)

Issue price: ¥100 purchase value of ¥100

Interest rate: 0.723% per annum

Payment date: June 14, 2011

Maturity date: June 14, 2016

Purpose for funds: Repayment of loans and redemption of bonds

26. Other

The Company and related subsidiaries are subject to allegations concerning a TFT-LCD price-fixing cartel, and received from competition authorities in the United States and elsewhere instructions and notices to submit relevant materials. In August 2009, Epson Imaging Devices Corporation, a consolidated subsidiary of the Company, concluded a plea agreement by which it paid a fine of U.S.$26 million to the United States Department of Justice, and criminal procedures were completed in October 2009. Related civil lawsuits have been brought before courts in United States and elsewhere by clients and others.

Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
Seiko Epson Corporation

We have audited the accompanying consolidated balance sheets of Seiko Epson Corporation and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 21, 2011

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, Rental of assets, Interlocking directors
Epson Direct Corporation	Matsumoto-shi, Nagano	150 (million JPY)	Sales of information-related equipment	100.0 (100.0)	Sales of PCs, etc., Rental of assets
Epson Toyocom Corporation *	Hino-shi, Tokyo	12,266 (million JPY)	Manufacture and sales of electronic devices	100.0	Manufacture and sales of crystal devices, etc. Rental of assets, Interlocking directors
Tohoku Epson Corporation	Sakata-shi, Yamagata	480 (million JPY)	Manufacture of information-related equipment	100.0	Manufacture of printer components, Loan of assets
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Manufacture of information-related equipment and electronic devices	100.0	Manufacture of printer components and crystal devices Financial assistance
Epson Imaging Devices Corporation	Tottori-shi, Tottori	50 (million JPY)	Manufacture and sales of electronic devices	100.0	Manufacture and sales of LCDs, Rental of assets
U.S. Epson, Inc. *	Long Beach, U.S.A.	111,941 (thousand USD)	Regional headquarters	100.0	Regional headquarters in Americas, Interlocking directors
Epson America, Inc. *	Long Beach, U.S.A.	40,000 (thousand USD)	Sales of information-related equipment and precision products	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Interlocking directors
Epson Electronics America, Inc.	San Jose, U.S.A.	10,000 (thousand USD)	Sales of electronic devices	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc. *	Portland, U.S.A.	31,150 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson El Paso, Inc. *	El Paso, U.S.A.	51,000 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables, Interlocking directors
Epson Europe B.V. *	Amsterdam, Netherlands	95,000 (thousand EUR)	Regional headquarters, Sales of information-related equipment and precision products	100.0	Regional headquarters in Europe, Sales of printers and other PC peripherals, Guaranty of liabilities, Interlocking directors
Epson (U.K.) Ltd.	Hemel Hempstead, UK	1,600 (thousand GBP)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals Guaranty of liabilities, Interlocking directors

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Sales of information-related equipment and precision products	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Guaranty of liabilities, Interlocking directors
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Sales of electronic devices	100.0 (100.0)	Sales of electronic devices, Guaranty of liabilities
Epson France S.A.	Levallois-Perret, France	4,000 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals, Interlocking directors
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, Interlocking directors
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, Interlocking directors
Epson (China) Co., Ltd. *	Beijing, China	1,211 (million CNY)	Regional headquarters, sales of information-related equipment	100.0	Regional headquarters in China, Sales of printers and other PC peripheral, 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 and electronic devices	100.0	Sales of printers and other PC peripherals, and sales of electronic devices
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	25,000 (thousand TWD)	Sales of information-related equipment and electronic devices	100.0	Sales of printers and other PC peripherals, and sales of electronic devices, Guaranty of liabilities
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, sales of information-related equipment and electronic devices	100.0	Regional headquarters in South-east Asia, Sales of printers and other PC peripherals, and sales of electronic devices, Guaranty of liabilities
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (thousand AUD)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals, Guaranty of liabilities, Interlocking directors
Suzhou Epson Co., Ltd. *	Suzhou, China	1,043 (million CNY)	Manufacture of electronic devices	100.0 (80.6)	Manufacture of LCDs

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)	Manufacture of precision products	100.0	Manufacture of watches, etc., Interlocking directors
Epson Engineering (Shenzhen) Ltd.	Shenzhen, China	56,641 (thousand USD)	Manufacture of information-related equipment and electronic devices	100.0 (100.0)	Manufacture of printers, 3LCD projectors and liquid crystal panels, etc., Interlocking directors
Singapore Epson Industrial Pte. Ltd. *	Singapore	71,700 (thousand SGD)	Manufacture of information-related equipment, electronic devices and precision products	100.0	Manufacture of printer consumables, semiconductors, and watches, etc., Guaranty of liabilities, Interlocking directors
P.T. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD	Manufacture of information-related equipment	100.0	Manufacture of printers, Guaranty of liabilities, Interlocking directors
Epson Precision (Philippines), Inc. *	Cabuyao, Philippines	57,533 (thousand USD)	Manufacture of information-related equipment and electronic devices	100.0	Manufacture of printers and 3LCD projectors, Interlocking directors
Epson Toyocom Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Manufacture of electronic devices	100.0 (100.0)	Manufacture of crystal devices, Interlocking directors
60 other companies	–	–	–	–	–

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

Notes

1. Ownership percentage of voting rights indicated inside parenthesis refers to indirect ownership percentage.
2. * indicates a specified subsidiary (“tokutei-kogaisha”).
3. 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	204,577	1,926	1,241	11,640	60,402
Epson America, Inc.	180,994	4,564	2,956	23,531	74,738
Epson Europe B.V.	187,079	3,473	954	42,091	94,102

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, 2011

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)	–	71	42	341	347	21	35,134	35,956	–
Number of shares owned (Units)	–	591,491	31,612	566,436	334,582	108	472,603	1,996,832	134,189
Percentage of shares owned (%)	–	29.62	1.58	28.37	16.75	0.01	23.67	100.00	–

Notes

1. 23,924 shares of treasury stock are included as 239 units in “Japanese individuals and others” and 24 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, 2011

Name	Address	Number of shares held	Shareholding ratio (%)
Aoyama Kigyo Kabushiki Kaisha	5-8 Ginza 3-chome, Chuo-ku, Tokyo	20,718,934	10.36
Sanko Kigyo Kabushiki Kaisha	6-1 Ginza 5-chome, Chuo-ku, Tokyo	14,288,500	7.15
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	10,537,400	5.27
Japan Trustee Services Bank, Ltd. (Trustee Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	9,165,600	4.58
Seiko Holdings Corporation	5-11 Ginza 4-chome, Chuo-ku, Tokyo	7,948,800	3.97
Yasuo Hattori	Minato-ku, Tokyo	7,159,006	3.58
Seiko Epson Corporation Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	6,023,727	3.01
Noboru Hattori	Minato-ku, Tokyo	5,599,968	2.80
The Dai-ichi Mutual Life Insurance Company (Standing proxy: Trusut & Custody Services Bunk, 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 Bunk, Ltd.)	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	4,278,100	2.14
Total	—	90,088,035	45.08

Notes

1. Mitsubishi UFJ Financial Group, Inc., and its joint holders submitted a Major Shareholding Report as of February 1, 2010, claiming that they hold the Company's shares as follows as of January 25, 2010. 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	8,043,700	4.03
Mitsubishi UFJ Asset Management	4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo	377,200	0.19
Total	—	10,030,900	5.02

2. Mizuho Corporate Bank, Ltd., and its joint holders submitted a Report of Change as of March 7, 2011, claiming that they held the Company's shares as follows as of February 28, 2011. 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	5,539,900	2.77
Mizuho Securities Co., Ltd.	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	3,646,153	1.82
Mizuho Trust & Banking Co., Ltd.	2-1, Yaesu 1-chome, Chuo-ku, Tokyo	1,906,200	0.95
Total	—	15,370,353	7.69

4. Epson stock price

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

Year	65th year	66th year	67th year	68th year	69th year
Fiscal year	March 2007	March 2008	March 2009	March 2010	March 2011
High (¥)	3,610	4,320	3,300	1,715	1,700
Low (¥)	2,660	1,997	1,001	1,216	1,032

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 2010	November	December	January 2011	February	March
High (¥)	1,362	1,493	1,523	1,555	1,423	1,457
Low (¥)	1,240	1,283	1,363	1,354	1,309	1,032

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

5. Corporate data and investor information

(1) Company name	Seiko Epson Corporation
(2) Founded	May 1942
(3) Head office	3-5 Owa 3-chome, Suwa, Nagano 392-8502, Japan Tel: -81-266-52-3131(main)
(4) Tokyo office	Shinjuku NS Building, 4-1 Nishishinjuku 2-chome, Shinjuku-ku Tokyo 163-0811, Japan Tel: +81-3-3348-8531
(5) Investor information	
Closing of accounts	March 31
Regular general shareholders' meeting	June
Date for confirmation to shareholders of the cash dividend payment date	March 31
Date for confirmation to shareholders of the interim cash dividend payment date	September 30
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo
Agent's Business Address:	Head Office of Stock Transfer Agency Department Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo Tel: +81-3-5213-5213 http://www.mizuho-tb.co.jp/english/
Intermediary Offices:	Branches of Mizuho Trust & Banking Co., Ltd Head Office and Branches of Mizuho Investors Securities Co., Ltd.
Posting of Public Notices	Public notices will be posted electronically. In the event of accidents or other circumstances preventing the electronic posting of information, such information will be made available through the *Nihon Keizai Shimbun* newspaper (Japanese)
Web Address	http://www.aspir.co.jp/koukoku/6724/6724.html (Japanese)

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Better products that use fewer resources help ensure a better future for us all.