



**EPSON**  
EXCEED YOUR VISION



SEIKO EPSON CORPORATION  
**ANNUAL REPORT 2014**

April 2013 - March 2014

**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 quickly introduce new products and services, consumption trends, competition, technology trends, and exchange rate fluctuations.

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

## Table of Contents

Consolidated Financial Highlights.....	3
Information on the Company .....	5
1. Overview of the business group.....	5
2. Major equipment and facilities.....	8
3. Overview of capital expenditures .....	11
4. Plans for new additions or disposals.....	12
5. Major management contracts .....	13
Risks Related to Epson's Business Operations.....	14
Business Conditions.....	20
1. Overview of business results.....	20
2. Manufacturing, orders received and sales .....	23
3. Analysis of financial condition and results of operations .....	24
4. Research and development activities .....	27
5. Issues for Fiscal 2014.....	29
6. Dividend policy .....	31
Corporate Governance.....	32
1. Approach to corporate governance .....	32
2. Details of audit remuneration.....	41
3. Basic policy regarding company control.....	42
Management .....	44
Index to Consolidated Financial Statements .....	46
Consolidated Balance Sheets.....	47
Consolidated Statements of Operations.....	49
Consolidated Statements of Comprehensive Income .....	50
Consolidated Statements of Changes in Net Assets.....	51
Consolidated Statements of Cash Flows .....	53
Notes to Consolidated Financial Statements.....	54
Report of Independent Auditors .....	89
Additional Information .....	90
1. Principal subsidiaries and affiliates.....	90
2. Distribution of ownership among shareholders .....	93
3. Major shareholders.....	94
4. Epson stock price .....	96
5. Corporate data and investor information.....	97

# SEIKO EPSON CORPORATION

## Consolidated Financial Highlights

Seiko Epson Corporation and Subsidiaries

For the years ended March 31

	Millions of yen						Thousands of U.S. dollars	
	2009	2010	2011	2012	2013	<b>2014</b>	<b>2014</b>	
<b>Statements of income data</b>								
Net sales	¥1,122,497	¥985,363	¥973,663	¥877,997	¥851,297	<b>¥1,003,606</b>	<b>\$9,751,321</b>	
Information-related equipment	769,850	712,692	702,918	—	—	—	—	
Electronic devices	311,626	248,001	231,235	—	—	—	—	
Precision products	72,697	57,746	68,276	—	—	—	—	
Other	31,828	19,714	1,279	—	—	—	—	
Eliminations and corporate	(63,506)	(52,791)	(30,046)	—	—	—	—	
Information-related equipment business segment	—	—	713,936	691,801	688,029	—	—	
Devices and precision products business segment	—	—	212,670	174,811	156,872	—	—	
Other	—	—	61,446	17,316	1,273	—	—	
Eliminations and corporate	—	—	(14,390)	(5,932)	5,122	—	—	
Information-related equipment business segment	—	—	—	—	685,862	<b>836,436</b>	<b>8,127,050</b>	
Devices and precision products business segment	—	—	—	—	140,790	<b>148,956</b>	<b>1,447,298</b>	
Sensing and industrial solutions business segment	—	—	—	—	11,413	<b>16,181</b>	<b>157,219</b>	
Other	—	—	—	—	1,273	<b>1,334</b>	<b>12,962</b>	
Eliminations and corporate	—	—	—	—	11,957	<b>699</b>	<b>6,792</b>	
Gross profit	289,443	259,469	262,963	248,846	234,439	<b>322,976</b>	<b>3,138,126</b>	
Selling, general and administrative expenses	291,031	241,241	230,253	224,219	213,184	<b>238,007</b>	<b>2,312,553</b>	
Operating income (loss)	(1,588)	18,227	32,709	24,626	21,255	<b>84,968</b>	<b>825,573</b>	
Ordinary income	5,301	13,875	31,174	27,022	17,629	<b>78,121</b>	<b>759,045</b>	
Income (loss) before income taxes and minority interests	(89,559)	(799)	15,381	15,622	(3,479)	<b>71,916</b>	<b>698,756</b>	
Net income (loss)	(111,322)	(19,791)	10,239	5,032	(10,091)	<b>83,698</b>	<b>813,233</b>	
Research and development costs	82,058	68,849	54,377	52,106	49,923	<b>50,531</b>	<b>490,973</b>	
Capital expenditures	55,624	25,937	31,813	38,908	43,155	<b>37,825</b>	<b>367,518</b>	
Depreciation and amortization	78,406	47,395	41,159	37,651	39,320	<b>38,725</b>	<b>376,263</b>	
Net cash provided by (used in) operating activities	44,253	56,542	32,395	26,678	42,992	<b>111,253</b>	<b>1,080,965</b>	
Net cash provided by (used in) investing activities	(61,002)	(43,203)	(23,615)	(31,528)	(39,511)	(39,519)	(383,977)	
Free cash flow	(16,748)	13,338	8,780	(4,849)	3,480	<b>71,733</b>	<b>696,978</b>	
Net cash provided by (used in) financing activities	(9,558)	(41,087)	(42,691)	(57,406)	21,298	(56,567)	(549,621)	

# SEIKO EPSON CORPORATION

Thousands of  
U.S. dollars

Millions of yen

	2009	2010	2011	2012	2013	2014	2014
<b>Balance sheet data</b>							
Current assets	¥617,677	¥596,210	¥543,530	¥487,190	¥519,457	¥602,452	\$5,853,595
Property, plant and equipment (net of accumulated depreciation)	253,712	225,354	213,623	213,086	217,388	216,170	2,100,369
Total assets	917,342	870,090	798,229	740,769	778,547	865,872	8,413,058
Current liabilities	283,848	328,652	315,422	313,314	326,688	313,636	3,047,387
Noncurrent liabilities	314,862	258,574	211,999	179,314	193,052	200,505	1,948,163
Net assets	318,631	282,864	270,808	248,140	258,806	351,730	3,417,508

<b>Number of employees</b>							
Information-related equipment	41,748	45,863	44,711	—	—	—	
Electronic devices	19,818	22,439	20,659	—	—	—	
Precision products	6,038	5,839	5,985	—	—	—	
Information-related equipment business segment	—	—	—	55,841	50,823	55,104	
Devices and precision products business segment	—	—	—	16,101	13,859	13,723	
Sensing and industrial solutions business segment	—	—	—	—	—	1,197	
Other	2,151	590	245	249	241	252	
Corporate	2,571	3,206	2,951	3,112	3,838	2,895	
Total	72,326	77,936	74,551	75,303	68,761	73,171	

<b>Per share data (yen and U.S. dollars)</b>							
Net income (loss)	(¥566.92)	(¥99.34)	¥51.25	¥26.22	(¥56.41)	¥467.87	\$4.54
Cash dividends	35.00	7.00	20.00	26.00	20.00	50.00	0.48
Shareholders' equity	1,541.16	1,407.92	1,347.71	1,377.60	1,435.20	1,952.83	18.97

<b>Financial ratios (%)</b>							
Shareholders' equity ratio	33.0	32.3	33.7	33.3	33.0	40.3	
ROE (net income (loss)/average shareholders' equity at beginning and end of year)	(29.7)	(6.8)	3.7	2.0	(4.0)	27.6	
ROA (ordinary income/average total assets at beginning and end of year)	0.5	1.6	3.7	3.5	2.3	9.5	
ROS (operating income (loss)/net sales)	(0.1)	1.8	3.4	2.8	2.5	8.5	

## Notes

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥102.92 =U.S.\$1 as of March 31, 2014.
2. Ordinary income is a common item on financial statements in Japan, which is calculated by adding to or subtracting from operating income items such as interest income, rent income, interest expenses and foreign exchange gains or losses.
3. In this table, cash dividends per share refers to the amount paid for each share in each fiscal year.
4. Shareholders' equity is net assets excluding minority interests.

## Information on the Company

### 1. Overview of the business group

Epson is primarily engaged in developing, manufacturing, selling, and providing services for products in four business segments: information-related equipment, devices and precision products, sensing and industrial solutions, and other.

Epson is organized into operations divisions that come under consolidated management. The majority of advanced R&D and product development is conducted in Japan (by Corporate R&D and R&D organizations in the various operations divisions), while manufacturing and sales activities are conducted around the world by Epson Group manufacturing and sales companies, both in Japan and abroad.

A brief description of Epson's businesses is provided below along with a list of the main Epson Group companies involved in each segment.

#### (1) Information-related equipment business segment

This segment comprises the printing systems business, visual communications business, and others. The businesses in this segment leverage Epson's unique Micro Piezo, a micro-display, and other technologies to develop, manufacture, and sell products.

The main activities of these businesses are described below.

#### Printing systems business

This business is primarily responsible for home and office inkjet printers, page printers, and color image scanners, as well as commercial inkjet printers, serial impact dot matrix (SIDM) printers, POS system products, inkjet label printers, and related consumables.

#### Visual communications business

This business is primarily responsible for 3LCD projectors for business, education, and the home; high-temperature polysilicon TFT panels for 3LCD projectors; and label printers and head-mounted displays.

#### Others

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

The major Epson Group companies involved in each segment are listed in the table below.

Business area	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Printing Systems	Inkjet printers, page printers, color image scanners, commercial inkjet printers, serial impact dot matrix printers, printers for use in POS systems, inkjet label printers, related consumables and others	Tohoku Epson Corporation Akita Epson Corporation Epson Portland Inc. Tianjin Epson Co., Ltd. Epson Engineering (Shenzhen) Ltd. Singapore Epson Industrial Pte. Ltd. P.T. Indonesia Epson Industry Epson Precision (Philippines), Inc.	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.
Visual Communications	3LCD projectors, high-temperature polysilicon TFT panels for 3LCD projectors, label printers, head mounted displays and	Epson Engineering (Shenzhen) Ltd. Epson Precision (Philippines), Inc.	
Others	Personal computers and others	—	Epson Sales Japan Corporation Epson Direct Corporation

**(2) Devices and precision products business segment**

This segment comprises the micro-devices business and precision products business. These businesses leverage Epson’s traditional strengths in areas such as micromachining, low-power design, and high-density assembly to develop, manufacture and sell a variety of products.

The main activities of these businesses are described below.

**Micro-devices business**

This business is primarily responsible for offering small electronic devices that are highly accurate and energy efficient. It also develops and manufactures devices to meet the needs of other businesses within the Epson Group.

**Quartz device business**

The business mainly provides crystal units, crystal oscillators, and quartz sensors for consumer, automotive, and industrial equipment applications.

**Semiconductor business**

This business provides CMOS LSIs and other chips mainly for consumer electronics and automotive applications.

**Precision products business**

Based on ultra-fine and ultra-precision processing technologies, and high-density mounting technologies, this business develops and manufactures watches, and provides metal powders and surface finishing.

**Watch business**

This business develops and manufactures Seiko brand watches and develops, manufactures and sells watch movements.

**Others**

**Metal powder business**

This business develops, manufactures and sells a variety of high-performance metal powders for use as raw materials in the production of electronic components, etc.

**Surface finishing business**

This business provides high-value-added surface finishing in a wide variety of industrial fields.

The major Epson Group companies involved in each segment are listed in the table below.

Business area	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Micro-devices	[Quartz device business] Crystal units, crystal oscillators, quartz sensors and others	Miyazaki Epson Corporation Akita Epson Corporation Epson Precision Malaysia Sdn. Bhd.	Epson Electronics America, Inc. Epson Europe Electronics GmbH Epson Hong Kong Ltd. Epson Taiwan Technology & Trading Ltd. Epson Singapore Pte. Ltd.
	[Semiconductor business] CMOS LSIs and others	Tohoku Epson Corporation Singapore Epson Industrial Pte. Ltd.	Epson Singapore Pte. Ltd.
Precision products	[Watch business] Watches, watch movements and others	Orient Watch Co., Ltd. Epson Precision (Shenzhen) Ltd. Singapore Epson Industrial Pte. Ltd.	Orient Watch Co., Ltd. Time Module (Hong Kong) Ltd.
	[Others] Metal powders, surface finishing	Epson Atmix Corporation Singapore Epson Industrial Pte. Ltd.	—

**(3) Sensing and industrial solutions business segment**

This segment uses advanced precision mechatronics and other technologies to provide industrial robots and other production systems that dramatically increase productivity. In the fields of personal healthcare and sports, these businesses combine sensing systems that have extremely accurate built-in sensors with cloud-based services to provide products and services that improve quality of life.

Business area	Main products	Main subsidiaries and affiliates	
		Manufacturing companies	Sales companies
Sensing and industrial solutions	Industrial robots, IC handlers, industrial inkjet printing systems, sensing systems and others	Akita Epson Corporation Epson Engineering (Shenzhen) Ltd.	Epson Sales Japan Corporation Epson America, Inc. Epson Deutschland GmbH Epson (China) Co., Ltd.

**(4) Other**

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



## 2. Major equipment and facilities

Epson's major equipment and facilities are as follows.

### (1) Seiko Epson Corporation

As of March 31, 2014

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 <sup>2</sup> )	Other	Total	
Head Office (Suwa-shi, Nagano)	Overall administration and other	Other facilities	1,334	68	1,301 (43,888) [3,171]	51	2,755	625
Tokyo Office (Shinjuku-ku, Tokyo)	Overall administration and other	Other facilities	27	—	— (—)	3	30	38
Hirooka Office (Shiojiri-shi, Nagano)	Information-related equipment Other	Printer development and design and component manufacturing facilities Research and development facilities	16,167	7,917	5,560 (189,347) [22,989]	1,692	31,338	4,506
Matsumoto Minami Plant (Matsumoto-shi, Nagano)	Information-related equipment	Printer development and design facilities	1,112	615	3,637 (179,759) [1,758]	215	5,580	718
Toyoshina Plant (Azumino-shi, Nagano)	Information-related equipment Sensing and industrial solutions Other	3LCD projector and head-mounted display development and design facilities Factory automation manufacturing facilities Other facilities	1,622	731	— (—) [108,004]	998	3,353	1,619
Suwa Minami Plant (Fujimi-machi, Suwa-gun, Nagano)	Information-related equipment Other	Printer components and liquid crystal panel manufacturing facilities Other facilities	5,194	8,437	1,443 (113,082) [28,909]	437	15,512	1,010
Chitose Plant (Chitose-shi, Hokkaido)	Information-related equipment	Liquid crystal panel manufacturing facilities	2,426	1,006	1,375 (160,528)	87	4,896	186
Ina Plant (Minowa-machi, Kamiina-gun, Nagano)	Devices and precision products	Crystal device manufacturing facilities	2,178	1,144	125 (39,943) [1,502]	84	3,532	584
Fujimi Plant (Fujimi-machi, Suwa-gun, Nagano)	Devices and precision products Sensing and industrial solutions Other	Semiconductor and sensing systems development and design facilities Research and development facilities	8,339	1,284	1,996 (247,143)	349	11,970	1,062
Sakata Plant (Sakata-shi, Yamagata)	Devices and precision products	Semiconductor manufacturing facilities Other	6,284	2,169	2,104 (538,828)	396	10,954	78

# SEIKO EPSON CORPORATION

Hino Office (Hino-shi, Tokyo)	Devices and precision products	Sales facilities	3,035	0	8,303 (40,725)	18	11,358	213
Shiojiri Plant (Shiojiri-shi, Nagano)	Devices and precision products	Watch manufacturing facilities	1,340	1,279	1,019 (41,836) (5,764)	251	3,891	622

## (2) Domestic subsidiaries

As of March 31, 2014

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 <sup>2</sup> )	Other	Total	
Tohoku Epson Corporation (Sakata-shi, Yamagata)	Information-related equipment Devices and precision products	Printer component and semiconductor manufacturing facilities	2	4	— (—)	405	412	2,051
Akita Epson Corporation (Yuzawa-shi, Akita)	Information-related equipment Devices and precision products	Printer component and crystal device manufacturing facilities	1,485	150	677 (68,992)	211	2,524	846
Epson Atmix Corporation (Hachinohe-shi, Aomori)	Devices and precision products	Manufacturing facilities for metal powders, etc.	2,474	1,808	307 (20,495) (34,208)	102	4,692	178

## (3) Overseas subsidiaries

As of March 31, 2014

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 <sup>2</sup> )	Other	Total	
Epson Precision (Hong Kong) Ltd. (Hong Kong, China)	Information-related equipment Devices and precision products Sensing and industrial solutions	Printer, 3LCD projector, liquid crystal panel, watches and factory automation manufacturing facilities	2,125	4,031	— (—) [64,104]	3,592	9,749	12,512
Singapore Epson Industrial Pte. Ltd. (Singapore)	Information-related equipment Devices and precision products	Printer consumables, semiconductor, and watch manufacturing facilities and surface finishing facilities	3,378	5,678	65 (41,065) [43,534]	793	9,916	5,529
P.T. Indonesia Epson Industry (Bekasi, Indonesia)	Information-related equipment	Printer manufacturing facilities	2,996	2,188	— (—) [201,753]	2,140	7,325	7,886
Epson Precision (Philippines), Inc. (Lipa, Philippines)	Information-related equipment	Printer and 3LCD projector manufacturing facilities	7,106	2,831	592 (117,489) [130,000]	2,671	13,202	12,402
Epson Precision Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)	Devices and precision products	Crystal device manufacturing facilities	564	3,460	369 (32,437)	30	4,425	2,308

**Notes**

1. The above figures do not include consumption tax.
2. “Other” under the book value column 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. The size of each area of rented land is indicated in parenthesis [ ].
4. Tohoku Epson Corporation uses a portion of the facilities of the Sakata Plant.
5. Figures for Epson Precision (Hong Kong) Ltd., Singapore Epson Industrial Pte. Ltd., and Epson Precision (Philippines), Inc., are included in consolidated business results.
6. 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 new products and rationalizing, upgrading and maintaining equipment and facilities to help foster the development of new businesses and prepare for future growth. In addition, Epson took steps 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 ¥37,825 million.

No equipment with a significant impact on production capacity was sold or removed.

Capital expenditures in each business segment are discussed below.

#### **Information-related equipment segment**

Investment used for commercializing new products such as printers and 3LCD projectors, etc., and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥26,897 million in the fiscal year under review.

#### **Devices and precision products segment**

Investment used for commercializing new products such as crystal devices and watches, etc., and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥8,008 million in the fiscal year under review.

#### **Sensing and industrial solutions segment**

Investment used for commercializing new products such as factory automation systems and sensing systems and for rationalizing, upgrading and maintaining equipment and facilities amounted to ¥832 million in the fiscal year under review.

#### **Other businesses and Companywide**

Investment in R&D and other activities amounted to ¥2,087 million in the fiscal year under review.

**4. Plans for new additions or disposals**

Epson plans to allocate ¥55.0 billion to capital expenditures for the consolidated fiscal year ending March 31, 2015.

Business segment	Planned amount of capital expenditures (100 millions of yen)	Main type and purpose of equipment and facilities
Information-Related Equipment	380	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Devices & Precision Products	100	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Sensing & Industrial Solutions	20	Commercializing new products; rationalizing, upgrading and maintaining equipment and facilities, etc.
Other and overall	50	Investment in research and development, etc.
Total	550	—

**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 upkeep of equipment and facilities.
4. The above capital expenditure plan includes property, plant and equipment as well as software and lease rights that are included among intangible assets.

**5. Major management contracts**

**(1) Technology license agreements**

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

**(2) Reciprocal technical assistance agreements**

Name of contracting company	Name of other party	Country	Type of contract	Contract period
Seiko Epson Corporation	Hewlett-Packard Company	U.S.A.	License to use patents relating to information-related equipment	May 1, 2012 until the expiry of the patents
Seiko Epson Corporation	International Business Machines Corporation	U.S.A.	License to use patents relating to information-related equipment	April 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Microsoft Corporation	U.S.A.	License to use patents relating to information-related equipment and software used by such equipment	September 29, 2006 until the expiry of the patents
Seiko Epson Corporation	Eastman Kodak Company	U.S.A.	License to use patents relating to information-related equipment	October 1, 2006 until the expiry of the patents
Seiko Epson Corporation	Xerox Corporation	U.S.A.	License to use patents relating to electrophotography and inkjet printers	March 31, 2008 until the expiry of the patents
Seiko Epson Corporation	Texas Instruments Incorporated	U.S.A.	License to use patents relating to semiconductors and information-related equipment	April 1, 2008 until March 31, 2018
Seiko Epson Corporation	Canon Incorporated	Japan	License to use patents relating to information-related equipment	August 22, 2008 until the expiry of the patents

## **Risks Related to Epson's Business Operations**

At present, Epson has identified the following significant factors as risks that could have a material adverse effect on its future business, financial condition or operating results and that should thus be taken into account by investors. There may be other risk factors of which Epson is unaware at this time.

Epson strives to recognize, prevent, and control potential risks and to address risks that materialize.

Also, all forward-looking statements hereunder were made at Epson's discretion as of the date this Annual Report was submitted.

### **1. Epson relies to a significant degree on profits from its printer business.**

Epson's ¥836,436 million in sales from its information-related equipment business for the year ended March 2014 constituted more than 80% of Epson's consolidated sales, which were ¥1,003,606 million. Inkjet and other printers, including printer consumables, accounted for a large majority of the sales and profits of the same business. A decrease in sales of printers and printer consumables could have a material adverse effect on Epson's operating results.

### **2. Competition and other factors could put downward pressure on prices.**

Market prices for Epson's core printers and projectors and for certain electronic devices might continue to decline primarily due to intensified competition and a shift in demand toward lower-priced products.

Epson is striving to improve profitability by reducing production costs by using low-cost designs. At the same time, it is implementing measures to offset declining prices by, for example, developing and expanding sales of high-value-added products.

However, there is no assurance that these efforts will succeed, and if Epson is unable to respond effectively to counteract downward prices, its operating results might be adversely affected.

### **3. Epson's technologies compete with the technologies of other companies.**

Some of the products that Epson sells contain technology that place Epson in direct competition with other companies. For example:

- 1) The Micro Piezo<sup>1</sup> technology that Epson uses in its inkjet printers competes with the thermal<sup>2</sup> inkjet technologies of other companies;
- 2) The 3LCD<sup>3</sup> technology that we use in Epson projectors competes with digital light processing (DLP)<sup>4</sup> and other technologies used by other companies.

Epson believes the technology it uses in these types of products 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 its competitive edge which could adversely affect its operating results.

<sup>1</sup>Micro Piezo technology is an inkjet technology created by Epson that manipulates piezoelectric elements to fire small droplets of ink from nozzles.

<sup>2</sup>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.

<sup>3</sup>3LCD technology uses high-temperature polysilicon TFT panels as light valves. The light from the light source is divided into the three primary colors (red, blue and green) using special mirrors, the picture is created on separate LCDs for each color, and then the picture is recombined and projected onto the screen.

<sup>4</sup>DLP technology uses a digital micro-mirror device (DMD) as a display device. A DMD is a semiconductor on which a large number of micro mirrors are arranged, each mirror directing light onto its own individual pixel. An image is formed by the light from the light source being reflected from the mirrors onto the screen. DLP and DMD are registered trademarks of Texas Instruments Incorporated.

### **4. Other parties sell consumables for inkjet printers.**

Ink cartridges, the main consumables for inkjet printers, are an important source of revenue and profit for Epson. Non-genuine ink cartridges and other inkjet printer consumables that can be used with Epson printers are sold by other parties. These third-party products, which are typically sold for less than genuine Epson ink cartridges, are more commonly available in emerging markets than in economically advanced countries.

Epson's strategy to counter or neutralize sales of third-party inkjet printer consumables is to continue to create customer value by emphasizing the quality of its genuine products as well as by boosting user-friendliness with inkjet printers tailored to customer needs in each market, such as models equipped with high-capacity ink tanks. Epson will also take legal action if any of the patent rights or trademark rights it holds over its ink cartridges are infringed.

There is no assurance, however, that any of these efforts will be effective, and Epson's operating results could be adversely affected if Epson's ink cartridge revenue declines because, for example, sales of third-party ink cartridges expand or Epson must reduce the price of Epson-brand genuine products if genuine ink cartridges lose market share.

## **5. Sudden changes in the business environment could affect Epson.**

Epson is concentrating management resources on domains in which it can leverage its unique strengths—printing systems, visual communications, sensing systems, and industrial solutions—and on new areas that will support the Company's future growth as it seeks to strengthen its business foundation. However, because technological innovation is so rapid and product life cycles so short in markets where Epson is focusing its managerial resources, the Company may be unable to respond flexibly to such changes and develop and sell competitive products. In addition, demand and capital expenditure trends in Epson's main markets, which move in tandem with the global economy, have hurt demand for Epson's products in the past and may do so in the future.

If, for example, Epson cannot suitably respond to technological innovations in its main markets, or if economic downturns or other factors prevent a recovery in demand, or if Epson is unable to adequately meet sudden fluctuations in demand in a major market, Epson's operating results could be adversely affected.

## **6. Epson competes with other companies.**

Epson presently faces competition from powerful companies with abundant financial resources or strong financial positions and from companies around the world that have the ability to manufacture competitive products or compete on price in Epson's markets. This competition could adversely affect Epson's operating results.

In addition to such competition, there is also the possibility that powerful companies not currently competing with Epson may use their brand power, technological strengths, ability to procure funds, marketing power, sales skills or low-cost production capabilities to newly enter a business area of Epson's and compete with it.

## **7. Expanding businesses overseas entails risks for Epson.**

Epson is continuing to expand its businesses overseas; more than 70% of its consolidated sales for the business year ended March 2014 were overseas. Epson has production sites all over Asia, including China, Indonesia, Singapore, Malaysia and the Philippines, as well as in the United States, the United Kingdom, and other countries. It has also established many sales companies all over the world. As of March 2014, overseas employees account for more than 70% of Epson's total workforce.

Epson believes that its global presence provides many advantages. For example, it enables Epson to undertake marketing activities aligned with the market needs of individual regions and leads to greater cost-competitiveness by reducing manufacturing costs and lead times. There are, however, unavoidable risks associated with overseas manufacturing and sales operations. These include but are not limited to changes in national laws, ordinances, or regulations related to manufacturing and sales; social, political or economic changes; transport delays; damage to infrastructure (e.g., power supply); currency exchange restrictions; insufficient skilled labor; changes in regional labor environments; changes in taxes, regulations or the like protective of trade; and laws, ordinances, regulations, or the like related to the import and export of Epson products.

## **8. The intense technological innovation required of Epson entails risks.**

Epson is engaged in manufacturing and selling products that require advanced technologies, so technological superiority is a vital element of Epson's competitiveness. Epson's competitive strength is backed by compact, energy-saving and high-precision technologies that are the source of its core technologies and have produced advancements, including the Micro Piezo inkjet head, micro-display,



sensing, GPS, image processing, energy-saving, and precision mechatronic technologies. By evolving and fusing these technologies into platforms, Epson will continue to develop and manufacture products that meet customer needs.

The rapid rate of technological innovation required in most of the fields in which Epson is engaged, however, means that, in order to respond swiftly to customer needs based on changes in technology, Epson sometimes must undertake long-term investments or capital spending based on product and market predictions. Thus, while Epson is making every effort to gauge market and customer needs and will maneuver to respond with 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 with the required technological innovations, its operating results might be adversely affected.

## **9. Product life cycles and the transition to new products make Epson vulnerable to certain risks.**

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

## **10. Procuring products entails risks for Epson.**

Epson procures parts, semi-finished products and finished products from third parties, but it has generally conducted transactions without entering into any long-term purchase agreements. In principle, Epson strives to procure parts and the like from multiple suppliers. However, certain parts are procured from a single source due to difficulty in procuring alternative components from another company. Epson is developing reliable and efficient procurement processes by cooperating with suppliers to maintain product quality, improve products and reduce costs. However, if its ability to procure products was 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.

## **11. Epson faces risks concerning the hiring and retention of personnel.**

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

## **12. Fluctuations in foreign currency exchanges create risks for Epson.**

A significant portion of Epson's sales are denominated in U.S. dollars or the euro. Epson has moved forward on expanding its overseas procurement and transferring its production sites offshore, resulting in higher U.S. dollar-denominated expenses, and, although its U.S. dollar-denominated sales balance out its U.S. dollar-denominated expenses, its euro-denominated sales are still greater than its euro-denominated expenses. Also, although Epson has executed currency-forward contracts and so forth to hedge against the risks inherent in foreign currency exchanges, unfavorable movements in the exchange rates of foreign currencies, such as the U.S. dollar or euro against the yen, could adversely affect Epson's financial situation and financial results.

## **13. There are risks inherent in pension systems.**

Epson has established defined-benefit pension plans and a termination allowance plan. Effective April 2014, Epson revised its defined-benefit pension plan for employees in Japan in light of the pension fund's declining rate of returns and a growing number of recipients. The changes were made to enable the system to adapt to these conditions and to facilitate stable fund operations going forward.

However, if 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.

**14. Epson's intellectual property rights activities expose Epson to certain risks.**

Patent rights and other intellectual property rights are extremely important to Epson for maintaining its competitiveness. Epson has itself developed many of the technologies it needs, and it utilizes them as intellectual property in the form of products or technologies by acquiring patent rights, trademark rights and other intellectual property rights for them or entering into agreements with other companies for them. Epson carefully selects the personnel who manage its intellectual properties and is constantly working to strengthen its intellectual property portfolio.

However, if any of the following situations relating to intellectual properties occurs, Epson's operating results could 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 not originally imposed on it as a result of a merger with or acquisition of a third party, and it might be forced to spend money to find a solution to those restrictions.
- 4) Intellectual property rights that Epson holds might not give it a competitive advantage or Epson might not be able to use them effectively.
- 5) Epson or one of its customers might be subject to a third-party's claim of an infringement of intellectual property rights and have to spend a considerable amount of time and money to resolve the issue, or such a claim might interfere with Epson's ability to focus its management resources.
- 6) If a third-party's claim of infringement of intellectual property right is upheld, Epson might incur damages in the form of having to pay considerable compensation or royalties or stop using the applicable technology.
- 7) A suit might be brought against Epson for payment of remuneration to employees or the like for their inventions or the like, which would mean Epson might be forced to spend a considerable amount of time and money to resolve the issue and, as a result, might be required to pay a considerable amount of money in remuneration.

**15. Problems may arise relating to the quality of Epson's products.**

The existence of quality guarantees on Epson's products and the details of those guarantees differ from customer to customer, depending on the agreement it has entered into with them. If an Epson product is defective or does not conform to the required standard, it may have to be replaced or repaired or otherwise reworked at Epson's expense. Or, if the product causes personal injury or property damage, Epson could bear product liability or hold other liability.

Epson could also 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 customers' trust in its products, lose major customers or experience a drop in demand for those products, any of which might adversely affect Epson's operating results.

**16. Epson is vulnerable to risks of problems arising relating to the environment.**

Epson is subject, both in Japan and overseas, to various environmental regulations concerning industrial waste and emissions into the atmosphere that arise from manufacturing processes. Environmental conservation is one of Epson's most important management policies, and the Company is proactively engaged in environmental conservation on all fronts. For example, Epson has programs to develop and manufacture products with a lesser 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.

**17. Epson is vulnerable to proceedings relating to antitrust laws and regulations.**

With business operations that span the globe, Epson is subject in Japan and overseas to proceedings relating to antitrust laws and regulations, such as those prohibiting private monopolies and those protecting fair trade. Overseas authorities sometimes investigate or gather information on certain industries and as part of this, the industries Epson operates in and its sales methods may come under investigation. Such investigations and proceedings, or violations of applicable statutes could interfere with Epson's sales activities. They could also potentially damage Epson's social credibility or result in a large civil fine. Any of these could adversely affect Epson's operating results.

The Company and certain of its consolidated subsidiaries are currently under investigation by the European Commission and other anti-monopoly-related authorities regarding allegations of involvement in a liquid crystal display price-fixing cartel. It is difficult at this time to predict the outcome of these investigations and when these will be finalized.

**18. Epson is at risk of material legal actions being brought against it.**

Epson conducts business internationally. Its primary businesses are the development, manufacture and sale of information-related equipment, devices and precision products, and sensing and industrial solutions, as well as the provision of related services. Given the nature of its businesses, there is a possibility that an action could be brought or legal proceedings could be started against it regarding, for example, intellectual property rights, product liability, antitrust laws or environmental regulations.

As of the date it submitted its Annual Securities Report, Epson was contending the following material actions.

In Germany, the organization for collecting copyright fees on behalf of copyright holders, Verwertungsgesellschaft Wort ("VG Wort"), has brought a series of legal actions seeking payment of copyright fees against importers and vendors of PCs, printers and other digital equipment that is capable of reproducing copyrighted works.

In January 2004 VG Wort brought a civil action against Epson Deutschland GmbH ("EDG"), a consolidated subsidiary of the Company, to seek payment of copyright fees on single-function printers. The initial judgment determined that the aforementioned printer is subject to a copyright fee and decreed that EDG pay the fee at a rate of between 10 to 256.70 euros per printer depending on the printer's printable pages per minute. However, the claim was dismissed by the appeals court and the supreme court. The plaintiff, however, unsatisfied with this ruling, appealed to the Federal Constitutional Court of Germany. On December 21, 2010, the Federal Constitutional Court ruled that the August 2008 ruling of the supreme court violates rights set forth in Article 14 of the constitutional law of Germany. It thus dismissed the ruling of the supreme court and referred the case back to the supreme court for review. Then, in July 2011, the supreme court referred the case to the Court of Justice of the European Union, and an inquiry was begun in October 2012. In June 2013, the Court of Justice of the European Union ruled that EU member states can impose levies on printer and PC manufacturers in order to compensate copyrights holders for unauthorized reproduction of their work. In response to this ruling, a review was launched in German courts in October 2013.

Companies in general, including Epson, and industry organizations are showing a willingness to take a stance against the expansion of the scope of such copyright fees.

In June 2010, Epson Europe B.V. ("EEB"), a consolidated subsidiary of Seiko Epson, brought a civil suit against La SCRL Reprobel ("Reprobel"), a Belgium-based group that collects copyright royalties, seeking restitution for copyright royalties for multifunction printers. These two lawsuits were adjointed. EEB's claims were rejected at the first trial, but EEB, dissatisfied with the decision, intends to appeal.

Apart from this, civil actions have been brought against the Company and certain of its consolidated subsidiaries by multiple customers in multiple countries, including the United States, regarding allegations of involvement in a liquid crystal display price-fixing cartel.

It is difficult at this time to predict the outcome of these civil actions and when they may be settled, but Epson's operating results and future business could be affected, depending on the outcomes of suits and legal proceedings.

**19. Epson is vulnerable to certain risks in internal control over financial reporting.**

Epson has established and operates internal controls to ensure the reliability of financial reporting. With the establishment and operation of internal controls over financial reporting high on its list of important management issues, Epson has been pursuing a Groupwide effort to audit and improve corporate oversight of its subsidiaries and affiliates. However, since there is no assurance that Epson will be able to establish and operate an effective internal control system on a continuous basis, and since there are inherent limitations to internal control systems, if the internal controls that Epson implements fail to function effectively, or if there are deficiencies in internal controls over financial reporting or material weaknesses in the internal controls, it might adversely affect the reliability of Epson's financial reporting.

**20. Epson is vulnerable to risks inherent in its tie-ups with other companies.**

One of Epson's business strategy options is to enter business tie-ups with other companies. However, the parties may review the arrangements of tie-ups, and there is a possibility that tie-ups could be dissolved or be subject to changes. There is also no assurance that the business strategy through the tie-ups will succeed or contribute to Epson's operating results exactly as expected.

**21. Epson might be severely affected in the event of a natural or other disaster.**

Epson has research and development, procurement, manufacturing, logistics, sales and services sites around the globe. It is possible that the regions concerned could be affected by any number of unpredictable events, such as a natural disaster, computer virus, outbreak of an influenza pandemic, leak of customer data, failure of critical company information systems, supply chain disruption resulting from damage to parts suppliers, act of terrorism or war, and that these could adversely affect Epson's operating results.

The central region of Nagano Prefecture, where Epson's primary businesses are located, 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 Nagano Prefecture.

The areas classifiable as Areas Requiring Enhanced Measures to Respond to Disasters were revised in April 2002, so Epson had to revise its earthquake-response policy, look into strengthening numerous buildings that were not built to resist earthquakes, take measures to avoid losses of important parts and materials, and create plans to prevent damage from earthquakes. Epson is also conducting other countermeasures such as partially dispersing its manufacturing sites throughout other regions.

However, if a major earthquake occurs in the central Nagano Prefecture region, it is possible that, despite these countermeasures, the effect on Epson could be extreme.

Although Epson is insured against losses arising from earthquakes, the scope of indemnification is limited.

**22. Laws, regulations, or licenses and the like pose risks for Epson.**

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

## **Business Conditions**

### **1. Overview of business results**

#### **(1) Operating results**

Global economic recovery on the whole was still weak in the year under review, but there was also evidence of underlying strength. The U.S. economy, boosted by lower unemployment and higher personal spending, recovered at a gradual pace. The European economy remained weak but showed signs of picking up, as the unemployment rate leveled off and manufacturing activity was solid. In China the pace of economic expansion steadied, while the Indian economy showed signs of having bottomed out. Elsewhere in Asia, the ASEAN and Taiwanese economies showed indications of a rebound, while improvement was also seen in South Korea. Meanwhile, the Japanese economy gradually recovered, in part due to the effects of an improved export environment owing to the weakening of the yen and effects of economic and financial policies.

Conditions among the main markets of the Epson Group (“Epson”) were as follows.

Inkjet printer demand contracted in North America and Japan but drifted sideways in Europe. Large-format printer sales were brisk for popularly priced models. Sales of high-end models were sluggish in the first half but gained momentum in the second half as corporate spending picked up. The market for serial-impact dot-matrix (SIDM) printers shrank in the U.S. and Europe but grew in China due to infrastructure investment. Demand for POS systems products from small and medium-sized retailers in the Americas was steady throughout the year and, in Europe, rebounded in the second half. Projector demand was steady in Japan, flat in the Americas and Asia, and slack in Europe due to ongoing cutbacks in investment budgets.

In mobile phones, the main application for Epson’s electronic devices, demand was firm for smartphones but continued to decelerate for conventional phones. In the PC market, sales of tablets were steady, but demand for notebook and desktop models continued to contract. In the digital camera market, compact camera sales remained sluggish and demand for SLR (single-lens reflex) and the MILC (mirrorless interchangeable-lens camera) model also slackened.

In the precision products market, demand for premium watches grew, especially in Japan. Industrial robot demand increased in the automotive and smartphone sectors, while IC handler demand trended upward as investment resumed in the semiconductor market.

At the start of the 2013 fiscal year Epson began working under an updated three-year plan called the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-2015). We have been closely adhering to the strategic course charted by the SE15 Long-Range Corporate Vision and, in line with the updated plan, are pursuing a basic strategy of managing our businesses so that they create steady profit while avoiding the single-minded pursuit of revenue growth. Our top priority will be steady income and cash flow. To achieve this in existing segments, we will readjust our product mixes and adopt new business models. Meanwhile, we will aggressively develop markets in new segments. We will move steadily forward to lay the foundation for a metamorphosis during which Epson will change from being primarily a company that provides consumer imaging products into a company that once again posts strong growth by creating and providing new information solutions and equipment for businesses and professionals, as well as consumers. The average exchange rate of the yen against the U.S. dollar and of the yen against the euro during the year under review was ¥100.23 and ¥134.37, respectively. This represents a 21% depreciation in the value of the yen against the dollar and a 25% depreciation in the value of the yen against the euro, year over year.

As a result of the foregoing factors, net sales for the fiscal year were ¥1,003,606 million (\$9,751,321 thousand), up 17.9% from the prior fiscal year. Operating income was ¥84,968 million (\$825,573 thousand), up 299.8% from the prior fiscal year. Ordinary income was ¥78,121 million (\$759,045 thousand), up 343.1% from the prior fiscal year, and net income was ¥83,698 million (\$813,233 thousand), compared to a net loss of ¥10,091 million in the previous fiscal year. In addition, after Epson analyzed potentially recoverable deferred tax assets and adjusted the amount, tax expenses decreased, and Epson recorded a ¥30,734 million income tax adjustment.

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

Please note that, effective from the first quarter of the 2013 fiscal year, some of the product categories within existing segments were spun off to create new segments. The main change is that factory automation equipment, industrial inkjet printing systems, and sensing systems equipment, which were formerly included in the information-related equipment segment, devices and precision products segment, and corporate segment, were spun off to create the new sensing and industrial solutions segment. The optical products business, which was included in the devices and precision products segment last fiscal year, was transferred and herein is included in the corporate segment.

### **Information-Related Equipment Business Segment**

Net sales in the printing systems business increased. All categories of products benefited from foreign exchange effects.

Net sales in the inkjet printer business as a whole were higher due to increased shipments of high-capacity ink tank models and to higher average selling prices, despite a decline in ink cartridge printer shipments. Net sales from consumables also rose, as unit shipments increased.

Large-format printer net sales increased due to a rise in average selling prices accompanying increased sales of high-end units and consumables. Page printer net sales decreased due to a decline in unit shipments, the result of Epson's focus on selling high-added-value models. SIDM printer net sales increased owing to steady demand in China, where these printers are used in tax collection systems. POS system printer net sales rose due to an increase in unit shipments in the Americas.

Net sales in the visual communications business increased. Foreign exchange effects were a positive factor here, as well.

Business projector net sales climbed. The increase was fueled by strong sales in the Americas and China, which brought about unit shipment growth. Home-theater projector net sales also grew, mainly on higher unit shipments in Japan and China.

Segment income in the information-related equipment segment increased due to foreign exchange effects and increased sales of core products.

As a result of the foregoing factors, net sales in the information-related equipment segment were ¥836,436 million (\$8,127,050 thousand), up 22.0% year over year, while segment income was ¥121,531 million (\$1,180,829 thousand), up 134.9% year over year.

### **Devices and Precision Products Business Segment**

Net sales in the micro-devices business declined.

Crystal device net sales declined as a whole despite foreign exchange effects, as tuning-fork crystal unit shipments shrank in conjunction with soft demand from the mobile phone market, crystal prices continued to erode, and opto-device sales to digital camera manufacturers decreased. Foreign exchange effects caused semiconductor net sales to increase despite negative factors such as plunging microcontroller unit prices.

Net sales in the precision products business increased owing to factors such as increased sales of premium watches, which lifted average selling prices, and foreign exchange effects.

Segment income in the devices and precision products segment increased. This increase was due not only to the effects of foreign exchange on the segment as a whole but also to the effect of cost reductions in the micro-devices business.

As a result of the foregoing factors, net sales in the devices and precision products segment were ¥148,956 million (\$1,447,298 thousand), up 5.8% year over year, while segment income was ¥9,733 million (\$94,568 thousand), up 12.7% year over year.

### **Sensing and Industrial Solutions Business Segment**

Net income in the sensing and industrial solutions segment increased.

In factory automation systems, industrial robot net sales grew on increased orders from Asia, while IC handler net sales grew on increased orders from manufacturers of semiconductors for smartphones.

Segment income in the sensing and industrial solutions segment was negative, as industrial robot and IC handler income growth was outstripped by widened losses in industrial inkjet printing systems and sensing systems.

As a result of the foregoing factors, net sales in the sensing and industrial solutions segment were ¥16,181 million (\$157,219 thousand), up 41.8% year over year, while segment loss was ¥10,183 million (\$98,940 thousand), compared to a loss of ¥9,614 million last year.

**Other**

Net sales in this segment in the year under review were ¥1,334 million (\$12,962 thousand), up 4.8% year over year. Segment loss was ¥258 million (\$2,517 million), compared to a ¥165 million segment loss last year.

**Adjustments**

Adjustments to total income of reporting segments amounted to -¥35,854 million (\$348,367 thousand), compared to -¥29,349 million in adjustments last year. The loss mainly comprises selling, general and administrative expenses for areas that do not correspond to the reporting segments, such as research and development expenses for new businesses and basic technology, and general corporate expenses.

**(2) Cash Flow Performance**

Net cash provided by operating activities during the year was ¥111,253 million (\$1,080,965 thousand), compared to ¥42,992 million in the previous fiscal year. Net income before taxes and minority interests was ¥71,916 million. It was boosted by factors such as the recording of ¥38,725 million in depreciation expenses and a ¥18,401 million increase in notes and accounts payable, which outweighed negative factors such as a ¥16,060 million increase in accounts receivable.

Net cash used in investing activities was ¥39,519 million (\$383,977 thousand) compared to ¥39,511 million in the previous fiscal year, as the Company used ¥40,379 million in the acquisition of property, plant and equipment, and intangible assets.

Net cash used in financing activities was ¥56,567 million (\$549,621 thousand), compared to ¥21,298 in net cash provided by financing activities in the previous fiscal year. Although the issuing of corporate bonds provided ¥20,000 million in income, the Company recorded a ¥72,496 million net decrease in short-term and long-term loans payable and ¥3,577 million in cash dividends paid.

As a result of the foregoing, cash and cash equivalents at the end of the period totaled ¥211,500 million (\$2,054,994 thousand) compared to ¥184,639 million at the end of the previous fiscal year.

\*Please refer to the following for Epson's financial results for previous years:

<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, 2014 (From April 1, 2013, to March 31, 2014) (Millions of yen)	Change compared to previous year (%)
Information-related equipment	845,168	131.3
Devices and precision products	138,238	103.6
Sensing and industrial solutions	15,316	134.7
Total for the reporting segments	998,723	126.7
Other	751	109.8
Total	999,474	126.7

**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, 2014 (From April 1, 2013, to March 31, 2014) (Millions of yen)	Change compared to previous fiscal year (%)
Information-related equipment	835,988	122.0
Devices and precision products	143,928	106.8
Sensing and industrial solutions	16,019	141.4
Total for the reporting segments	995,935	119.8
Other	892	104.2
Total	996,827	119.8

**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 were ¥1,003,606 million, a year-over-year increase of ¥152,309 million (17.9%). Sales in each reporting segment are discussed below.

The information-related equipment segment recorded net sales of ¥836,436 million, a year-over-year increase of ¥150,573 million (22.0%). Segment net sales benefited from foreign exchange effects as well as from the factors described below.

The inkjet printer business as a whole reported net sales growth overall despite a decline in ink cartridge printer shipments. Net sales grew on increased shipments of high-capacity ink tank models and higher average selling prices. Net sales from consumables also rose, as unit shipments increased. Large-format printer net sales increased due to a rise in average selling prices accompanying increased sales of high-end units and consumables. Page printer net sales decreased due to a decline in unit shipments, the result of Epson's focus on selling high-added-value models. SIDM printer net sales increased owing to steady, sustained demand in China, where these printers are used in tax collection systems. POS system printer net sales increased due to an increase in unit shipments in the Americas. Business projector net sales increased. The increase was fueled by strong sales in the Americas and China, as well as by unit shipment growth. Home-theater projector net sales also grew, mainly on higher unit shipments in Japan and China.

The devices and precision products segment recorded net sales of ¥148,956 million, a year-over-year increase of ¥8,165 million (5.8%). The factors that contributed most significantly to this change are described below.

Quartz device net sales declined despite positive foreign exchange effects. Net sales were hurt by plummeting prices and a decline in unit shipments of tuning-fork crystal units due to soft demand from mobile phone manufacturers. A decline in sales of opto-devices to the digital camera market also contributed to the decline in quartz device net sales. Despite a plunge in microcontroller unit prices, semiconductor net sales grew due to foreign exchange effects. Watch net sales increased due to foreign exchange effects and the effect of growth in sales of high-end products, which raised average selling prices.

The sensing and industrial solutions segment posted net sales of ¥16,181 million, a year-over-year increase of ¥4,767 million (41.8%). In factory automation systems, industrial robot net sales increased as a result of increased orders from Asia. Meanwhile, IC handler net sales increased as a result of increased orders from manufacturers of semiconductors for smartphones.

In the "Other" segment, net sales were ¥1,334 million, a year-over-year increase of ¥60 million (4.8%).

##### **Cost of sales and gross profit**

The cost of sales was ¥680,630 million, a year-over-year increase of ¥63,772 million (10.3%). In addition to foreign exchange effects, the increase in cost of sales is largely the result of higher material and processing costs associated with an increase in net sales.

As a result, gross profit was ¥322,976 million, up ¥88,536 million (37.8%) compared to the previous period.

##### **Selling, general and administrative expenses and operating income**

Selling, general and administrative (SG&A) expenses were ¥238,007 million, an increase of ¥24,823 million (11.6%). In addition to foreign exchange effects, the increase in SG&A expenses is largely a result of higher labor costs, primarily in the form of bonuses, associated with the Company's improved financial performance.

As a result, operating income was ¥84,968 million, an increase of ¥63,713 million (299.8%).

Segment income in each reporting segment was as follows.

Segment income in the information-related equipment segment was ¥121,531 million, up ¥69,784 million (134.9%) compared to the previous period. This increase is due to foreign exchange effects and the effect of increased revenue from the Company's main products.

Segment income in the devices and precision products segment was ¥9,733 million, up ¥1,094 million (12.7%) compared to the previous period. This increase was due not only to the effects of foreign exchange on the segment as a whole but also to the effect of cost reductions in the micro-devices business.

Segment loss in the sensing and industrial solutions segment was ¥10,183 million. This represents a ¥569 million increase to the ¥9,614 million loss reported in the previous period. Although Epson recorded income growth in industrial robots and IC handlers, this growth was outstripped by widened losses in industrial inkjet printing systems and sensing systems.

Other segment loss was ¥258 million, a ¥92 million increase in loss compared to the ¥165 million loss reported in the previous period.

As for adjustments, segment loss was ¥35,854 million, a ¥6,504 million increase in loss compared to the ¥29,349 million loss incurred in the previous period. Adjustments consisted primarily of patent royalties, R&D expenses for basic research and new businesses that do not belong to a reporting segment, and SG&A expenses, comprised of Head Office expenses.

#### **Non-operating income and expenses**

The net of non-operating income minus non-operating expenses was negative ¥6,847 million, a ¥3,221 million increase in loss from the ¥3,625 million loss recorded in the previous period. The main reason for this result is that, while items such as interest income increased compared to the previous period, the net loss on foreign exchange was ¥9,632 million in the year under review, compared to a loss of ¥2,944 million in the previous period.

#### **Ordinary income**

Ordinary income was ¥78,121 million, a ¥60,492 million (343.1%) increase compared to the previous period.

#### **Extraordinary income and losses**

The net of extraordinary income minus extraordinary losses was ¥6,204 million, a ¥14,903 million improvement from the ¥21,108 million loss recorded in the previous period. The main reason for the lower extraordinary loss was that litigation losses, which consisted primarily of payments to settle a lawsuit involving allegations of involvement in an LCD price-fixing cartel, decreased by ¥14,041 million.

#### **Income before income taxes and minority interests**

Epson recorded income before income taxes and minority interests of ¥71,916 million, an increase of ¥75,395 million from the previous period.

#### **Income taxes**

Income taxes were ¥12,025 million, an ¥18,468 million decrease compared to the previous period. This decrease is primarily the result of a ¥30,734 million income tax adjustment that the Company recorded after analyzing potentially recoverable deferred tax assets in light of the Company's FY2013 financial performance and financial outlook for the 2014 fiscal year, and concluding that tax expenses would decline.

#### **Minority interests in income**

Minority interests in income for the period under review were ¥243 million, an increase of ¥74 million (44.0%) compared to the previous period.

**Net income (loss)**

Epson posted ¥83,698 million in net income, a ¥93,789 million increase from the previous period.

**(2) Liquidity and capital resources****Cash flow**

Net cash provided by operating activities was ¥111,253 million, an increase of ¥68,260 million compared to the previous period. While negatively affected by an increase in trade accounts receivable (¥22,922 million effect) and an increase in inventory (¥22,892 million effect), cash flow from operating activities increased principally because of a ¥75,395 million increase in income before income taxes and minority interests and a ¥35,570 million effect from an increase in trade notes and accounts payable.

Net cash used in investing activities totaled ¥39,519 million, an increase of ¥7 million compared to the previous period. Although there was a ¥3,466 million decrease in outlays associated with the acquisition of property, plant and equipment and intangible assets, net cash used in investing activities increased principally because in the previous period Epson recorded ¥3,147 million in income associated with a business transfer and because of a ¥499 million increase in outlays to acquire investment securities.

Net cash used by financing activities totaled ¥56,567 million, as revenue from financing activities decreased by ¥77,866 million compared to the previous period. This was principally due to a ¥78,920 million net decrease in interest-bearing liabilities.

As a result of the foregoing factors, cash and cash equivalents at the end of the fiscal year stood at ¥211,500 million, an increase of ¥26,861 million compared to the end of the previous fiscal year, giving Epson sufficient liquidity.

The combined total of short-term loans payable, long-term loans payable, and bonds payable was ¥220,455 million, a decrease of ¥50,671 million compared to the previous period, owing to the repayment of general interest-bearing liabilities.

Long-term loans payable (excluding the current portion) as of the fiscal year-end were ¥50,500 million, at a weighted average interest rate of 0.73% and with a repayment deadline of November 2017. These borrowings were obtained as unsecured loans primarily from banks.

**Financial condition**

Total assets were ¥865,872 million, an increase of ¥87,325 million compared to the end of the previous fiscal year. This increase is primarily the result of a ¥23,893 million increase in deferred tax assets, a ¥20,098 million increase in product inventories, a ¥26,893 million increase in cash and deposits and short-term investment securities, and a ¥13,795 million increase in notes and accounts receivable.

Total liabilities were ¥514,141 million, a decrease of ¥5,599 million compared to the end of the previous fiscal year. Although notes and accounts payable—trade increased by ¥15,571 million, liabilities associated with retirement benefits increased by ¥14,917 million, and the provision for bonuses increased by ¥9,718 million, total liabilities decreased primarily as a result of a ¥50,671 million net decrease in short-term loans payable, long-term loans payable, and bonds payable.

Net assets were ¥351,730 million, an increase of ¥92,924 million compared to the end of the previous fiscal year. This was primarily due to an ¥80,120 million increase in retained earnings and a ¥19,394 million change in the foreign currency adjustment associated with the depreciation of the yen.

Working capital, defined as current assets less current liabilities, was ¥288,815 million, an increase of ¥96,046 million compared to the end of the previous fiscal year.

The ratio of interest-bearing liabilities to total assets declined to 25.5% from 34.9% 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 ¥50,531 million. This included ¥25,783 million in the information-related equipment segment, ¥4,800 million in the devices and precision products segment, ¥6,983 million in the sensing and industrial solutions segment, and ¥12,964 million in other and corporate. The main R&D accomplishments in each segment are described below.

##### **Information-related equipment**

In the printing systems business, Epson released a new flagship model in its consumer inkjet printer lineup. The new flagship model is a compact all-in-one unit that supports paper sizes up to A3. The small footprint of these products allows them to easily fit in space-constrained places where former A3 printers could not. While A4 paper is good enough for most print jobs, the ability to print on large A3 sheets when needed is a big advantage.

Epson also expanded its lineup of full-fledged all-in-one inkjet printers for business. These business all-in-ones, which employ Epson’s new high nozzle density PrecisionCore print heads, offer laser-like print speeds, durability, and paper feeding capacities. The new flagship models are Epson’s fastest business inkjet printers yet, delivering both color and monochrome prints at a blazing 24 ipm<sup>1</sup> compared to 8 ipm (color) and 15 ipm (monochrome) for the basic-spec PX-1700F (released in 2011). The 600-dpi default setting for print resolution on ordinary paper is also far above the 360 dpi delivered by the PX-1700F and means that these machines can print exceptionally crisp, sharp text and lines. These flagship models have the highest durability rating in Epson’s business inkjet printer lineup, a confidence-inspiring 300,000 pages (compared to 60,000 pages for the PX-1700F). Epson released its first dye-sublimation transfer<sup>2</sup> printers. These commercial inkjet printers support an extensive range of applications, including sportswear and soft signage. Equipped with UltraChrome DS ink, a four-color inkset with an extreme color gamut specifically developed for the new PrecisionCore print heads, these printers produce outstanding image quality and smooth gradations.

In the visual communications business, Epson developed a new generation of smart glasses, wearable electronic devices that deliver information and visual entertainment to users. The new product offers increased brightness and improved operability, with a headset unit that weighs only 88 grams, or about one-third as much as the first generation.

<sup>1</sup>Images per minute (ipm) is the number of single-sided prints a printer can produce in one minute using the default settings of the printer driver. Testing is performed using the Office Category Test of the International Organization for Standardization (ISO), which sets the standard for measuring the productivity of printers.

<sup>2</sup>In dye-sublimation transfer printing, an image printed on a sheet of transfer paper is transferred to a polyester substrate by using heat to turn the sublimation ink into a gas so it permeates and fuses with the substrate.

##### **Devices and precision products**

In the micro-devices business, Epson developed new real-time clock modules<sup>3</sup> that have built-in temperature-compensated crystal oscillators. In general, it becomes more difficult to maintain and improve the accuracy of real-time clock modules as their components become smaller and their assembly densities increase. Epson, however, successfully reduced the size of its modules without trading off either accuracy or current consumption (typically 0.70 microamperes) compared to products then on the market. It

achieved this by capitalizing on Epson's powerful QMEMS<sup>4</sup> fabrication technology to manufacture high-precision tuning-fork crystal units and its semiconductor technology for driving the crystal units under optimal conditions.

<sup>3</sup>Epson's real-time clock modules integrate a real-time clock IC, which offers clock, calendar, and other functions, and a 32.768 kHz crystal unit in a single package.

<sup>4</sup>QMEMS is a combination of "quartz," a crystalline material that has excellent stability and precision, and "MEMS," micro electro-mechanical systems engineered using micro-fabrication technology. QMEMS refers to compact, high-performance devices made from quartz material and is a registered trademark of Seiko Epson Corporation.

### **Sensing and industrial solutions**

Epson released new WristableGPS sports monitors, wristwatch-like products that use GPS to accurately track and record such things as distances run, pace, and routes taken. Equipped with a newly developed, low-power GPS receiver chip and antenna, these products are capable of operating continuously for 30 hours on a single charge while updating position data every second. They are compatible with the Quasi-Zenith Satellite System (QZSS), which is designed so that at least one of the satellites is always directly over Japan and thus delivers the most accurate distance and altitude data, even in urban canyons and narrow valleys, where interference is high and signals are easily lost. Epson's latest sports monitors also offer greater convenience. With high-speed GPS signal search and skip functions, for example, they can begin taking measurements even before a GPS satellite search is completed.

Epson developed the M-Tracer For Golf<sup>5</sup>, a golf swing sensor that golfers can use to accurately measure, analyze, and improve or correct their swing based on statistical comparisons against a theoretically ideal swing.

Epson also developed a "seeing, sensing, thinking, working" autonomous dual-arm robot that is capable of expanding the range of manufacturing tasks that can be automated. Able to recognize objects, adjust the force applied to them, and make decisions while executing tasks, this robot will significantly increase the scope of automation solutions that Epson recommends. Epson plans to commercialize a dual-arm robot within the 2015 fiscal year (ending March 2016).

<sup>5</sup>The M-Tracer is a wireless motion analysis system that uses a superbly stable and accurate Epson sensor to capture angular rate and acceleration data, which are then sent to a software application that analyzes the data, provides statistics, and produces 3D tracking images. M-Tracer<sup>TM</sup> is a registered U.S. and Japanese trademark of Seiko Epson Corporation.

## **5. Issues for Fiscal 2014**

At the start of the 2013 fiscal year Epson began working under an updated three-year plan called the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-2015). We have been closely adhering to the strategic course charted by the SE15 Long-Range Corporate Vision and, in line with the updated plan, are pursuing a basic strategy of managing our businesses so that they create steady profit while avoiding the single-minded pursuit of revenue growth. Our top priority will be steady income and cash flow. To achieve this in existing segments, we will readjust our product mixes and adopt new business models. Meanwhile, we will aggressively develop markets in new segments. We will move steadily forward to lay the foundation for a metamorphosis during which Epson will change from being primarily a company that provides consumer imaging products into a company that once again posts strong growth by creating and providing new information solutions and equipment for businesses and professionals, as well as consumers. Continued growth is forecast for the global economy. The advanced economies, led by the U.S.A., are expected to recover while the emerging economies continue to grow, albeit at a slower pace. Society is changing, shifting increasingly toward sustainable industry and sustainable economic activity. This trend will likely alter the kind of customer value that Epson will need to provide.

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

### **Basic Strategies in Each Business**

#### **Printing Systems Business**

In the printing systems business we will look to create an innovative printing environment by leveraging inkjet technology. In inkjet printers we will adjust the product mix and roll out a new business model by launching models tailored to the needs of the office market and emerging markets. We will also boost competitiveness by releasing a succession of inkjet printers that feature new Micro Piezo print heads. At the same time, we will further enhance services and support that include IT solutions. In the business systems business, we will achieve steady income growth by uncovering new demand while maintaining a grip on the top share in existing segments.

#### **Visual Communications Business**

In the visual communications business we will create new forms of visual communication using micro-display technology. In projectors, apart from continuing our efforts in existing market segments, we will look to expand our market footprint and improve earnings by enhancing our ability to recommend solutions and strengthening our sales network so as to elevate Epson's positioning in niches where we want to strengthen our presence, such as high-lumen projectors and short-throw lens projectors. Epson's smartglasses have the potential to change the way we live and work. Offering a see-through display and hands-free navigation, they give Epson an opportunity to create new applications and new value for both commercial and consumer markets.

#### **Micro-devices and Precision Products Businesses**

In these businesses we will use unique, boundary-breaking technologies to continue creating products that only Epson can. The micro-devices business has shored up its profit structure by revamping its product portfolio and cost structure. Going forward, we will secure steady income in this business by being a leader in miniaturization and performance and by creating products that provide customer value. The precision products business, underpinned by unique technology, will strive to improve profitability going forward by strengthening its lineup of high-added-value products such as GPS and high-end luxury watches and by growing its small yet highly profitable metal powder and surface finishing businesses.

**Industrial Solutions Business**

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

**Sensing Systems Business**

The sensing systems business will use high-precision sensors to create new value to improve people's lives. Over the past few years, we have been reaching into Epson's storehouse of component and sensing systems technologies to build new businesses around innovative sensing products, such as wristwatch-like GPS running monitors and pulse monitors. We will continue to develop these types of products as new growth drivers, integrating them with cloud-based systems to provide innovative solutions. Sensing solutions that convert raw sensor data into a practical, visual format have applications in areas such as sports, personal healthcare, and medicine, where they can be used to measure performance and monitor personal health, and in industry, where they can be used to monitor the health of facilities and infrastructure.

**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.

Both net sales and operating income significantly surpassed those of the previous year due to the positive impact of foreign exchange and successful shifts in Epson's business models, especially in the information-related equipment segment. As a result, Epson has set its total dividend payment for the fiscal year at ¥50 per share (an interim dividend of ¥13).

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

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

**Distribution of retained earnings for the fiscal year under review**

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 31, 2013, by resolution of the board of directors	2,325	13
June 24, 2014, by resolution of the general shareholders' meeting	6,618	37



## **Corporate Governance**

### **1. Approach to corporate governance**

#### **(1) Corporate governance system**

##### **Outline**

Epson's basic approach to corporate governance is geared toward

- continuously increasing corporate value; and
- reinforcing business checks and balances, practicing sound corporate ethics, and ensuring business transparency and health.

The Company has a board of directors and a board of statutory auditors. The board of directors had 10 members, including two outside directors, as of the date the Annual Securities Report was submitted. It meets once a month and convenes extraordinary meetings as needed. The board of directors makes decisions on basic management policies, key business operations, period-end closing, disclosure timeframes, and other important issues. Various management bodies have been created to advise the board of directors or president, deliberate issues to facilitate decision making, and oversee and enhance the execution of business. Epson's board of statutory auditors consists of five statutory auditors, including three outside statutory auditors. It strives to ensure greater independence and transparency of audits.

The names of the outside directors and outside auditors have been reported to the Tokyo Stock Exchange (TSE) as they are considered to be independent directors/auditors as defined by the TSE.

The main corporate management bodies and their aims are as follows:

#### **Corporate Strategy Council/ Corporate Management Meeting**

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

#### **Compliance Committee**

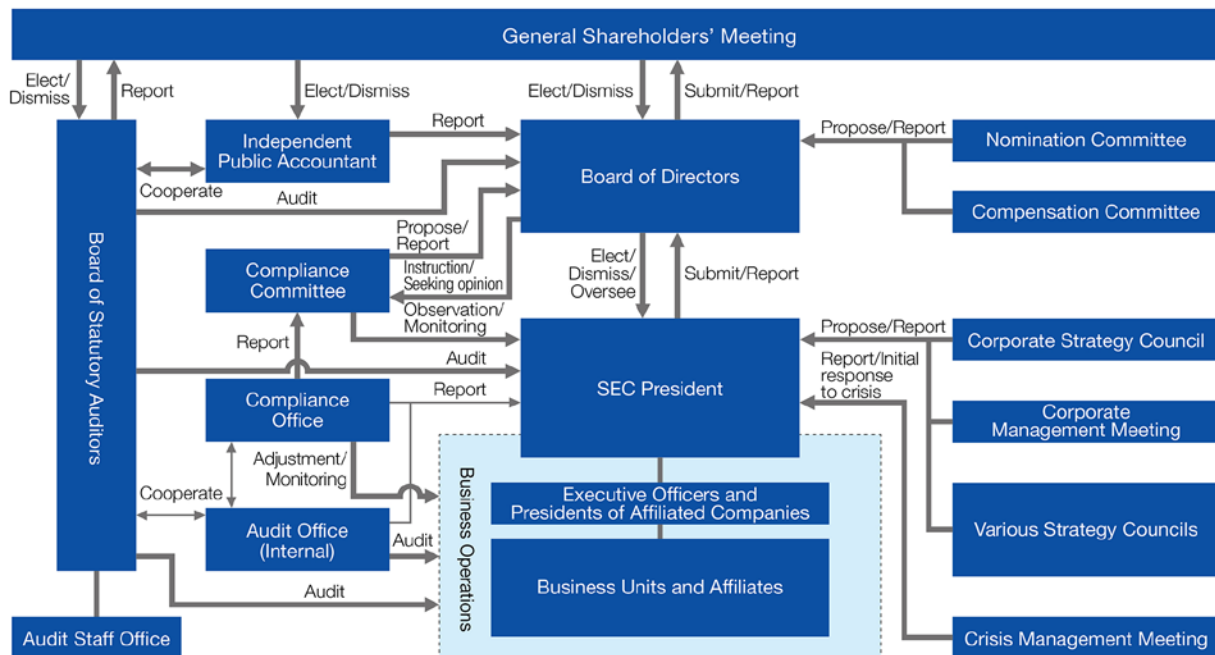
The Compliance Committee meets to hear and discuss important matters concerning Epson's compliance programs. It reports its findings and offers opinions to the board of directors.

#### **Nomination Committee/ Compensation Committee**

As advisory bodies to the board of directors, the Nomination Committee screens board of director candidates, and the Compensation Committee deliberates on director remuneration issues. The Company strives to ensure the transparency and objectivity of deliberations, with outside directors sitting on both of the committees and statutory auditors able to attend committee meetings as observers.

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

## Epson's System of Corporate Governance

**Reasons for adopting the current system of corporate governance**

Epson is looking to initiate fresh growth by developing and executing strategic measures based on the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-2015), which is aimed at achieving the goals set forth in Epson's SE15 Long-Range Corporate Vision.

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

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

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

**Internal control system**

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

**Compliance**

- (1) Epson established Principles of Corporate Behavior as a code for putting the Management Philosophy into practice. The Company also established regulations that provide details such as basic compliance requirements and the organizational framework.
- (2) The Company selected a chief compliance officer (CCO) to head an organization that oversees and monitors the execution of all compliance operations.
- (3) The Company also created a Compliance Committee to serve as an advisory body to the board of directors. The Compliance Committee is chaired by the CCO and has as members the outside directors, outside statutory auditors, and a director appointed by the board of directors. The Compliance Committee meets to hear and discuss important matters concerning Epson's compliance program. It reports its findings and offers opinions to the board of directors.

- (4) Compliance promotion and enforcement are supervised by the president of Seiko Epson. The chief operating officers of Epson's operations divisions promote compliance programs within their respective businesses and at subsidiaries consolidated under them. Groupwide compliance projects are carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions. A dedicated compliance department helps ensure the coverage and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.
- (5) The Corporate Strategy Council, an advisory body to the president comprised of Company directors, addresses important matters with respect to compliance promotion and enforcement. The Council strives to ensure the effectiveness of compliance by thoroughly discussing and analyzing the status of programs for assuring observance of statutes, internal regulations, business ethics and initiatives in key areas.
- (6) The Company strives to run an effective whistleblowing system by providing internal and external routes for reporting compliance concerns. Employees are encouraged and are able to easily and immediately report compliance violations via a variety of access platforms.
- (7) The Company strives to enhance legal consciousness by providing Epson Group employees with web-based training and other educational opportunities.
- (8) The president of Seiko Epson periodically reports important compliance-related matters to the board of directors and takes measures as needed to respond to issues.
- (9) Epson's Principles of Corporate Behavior states that the Company will have no association whatsoever with antisocial forces. The Company takes a firm stance in rejecting any and all contact with antisocial forces that threaten social order and security.

## **Business execution system**

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

## **Risk management**

- (1) Epson has established regulations that form the basis of its risk management system and has defined the organization, procedures, and other key elements of this system.
- (2) Overall responsibility for risk management resides with the president of Seiko Epson. The chief operating officers of operations divisions promote risk management within their respective businesses and at subsidiaries consolidated under them. Groupwide risk management projects are carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions. In addition, a department was set up to supervise risk management. This department strives to mitigate risk through monitoring and supervision of the overall risk management program.
- (3) The Management Strategy Council strives to ensure effective management of serious risks that could have an egregious effect on the Company by dynamically and exhaustively discussing and analyzing action to identify and control risks. Also, when major risks become apparent, the president leads the entire Company in mounting a swift initial response in line with Epson's prescribed crisis management program.
- (4) The president periodically reports to the board of directors on critical risk management issues and formulates appropriate measures to respond to these issues.

## **Ensuring proper business operations**

- (1) The Epson Group's management structure helps ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company is organized into product-based divisions. Each division is headed by a chief operating officer who assumes global

consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office assume global responsibility. Responsibility for providing the framework for business operations at subsidiaries is assigned to the head of each business. Groupwide corporate functions are the responsibility of the heads of Head Office supervisory departments.

- (2) The Company has business processes that enable business to be controlled on a Group level. This is accomplished by internal regulations that require subsidiaries to report or acquire pre-approval for certain business operations from the parent company, Seiko Epson, and by requiring issues that meet certain criteria to be submitted to Epson's board of directors for resolution.

#### **Management of work-related information**

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

#### **Audit system**

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

#### **(2) Internal audits**

Epson's internal compliance system guards against potential legal and internal regulatory violations in departmental operations, and the internal audit organization, with a staff of 18, directly reports to the president the results of routine internal audits, including those conducted at Epson subsidiaries. The audit organization evaluates the effectiveness of the governance process and requests improvements where needed.

#### **(3) Outside directors and outside statutory auditors**

##### **View on independence**

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

The criteria concerning the independence of outside directors are listed below.

##### **Outside director independence criteria**

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

- (1) A person who receives significant business<sup>1</sup> from Epson or a person who has within the last five years been employed as an executive officer<sup>2</sup> of a company that receives significant business from Epson
- (2) A person who is a major business partner<sup>3</sup> of Epson or a person who has within the last five years been employed as an executive officer of a company that is a major business partner of Epson

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

## Notes

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

<sup>2</sup>An "executive officer" is an employee in a senior executive management position, including executive, managing director, operating officer, or general manager or higher position.

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

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

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

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

## **Outside directors**

Epson's board has two outside directors. No special interests exist between the Company and the outside directors.

Outside Director Toshiharu Aoki was an executive at Nippon Telegraph and Telephone Corporation and at NTT Data Corporation. Epson has not had business transactions with Nippon Telegraph and Telephone Corporation over the last three years. Although Epson has an image data licensing agreement and other business transactions with NTT Data Corporation, NTT Data Corporation is not considered a major supplier under Epson's outside director independence criteria.

Outside Director Hideaki Omiya is Chairman of Mitsubishi Heavy Industries, Ltd. Although Epson and Mitsubishi Heavy Industries have bought and sold semiconductor fabrication equipment and had other business transactions within the past three years, Mitsubishi Heavy Industries is not considered a major supplier under Epson's outside director independence criteria.

## **Outside statutory auditors**

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

Outside statutory auditor Yoshiro Yamamoto is a former Fuji Bank, Ltd. (presently Mizuho Corporate Bank, Ltd.) executive who has been retired from the bank for more than 10 years. He was invited to become an auditor because he fit the needs of the Company and for no other reason, such as a recommendation by Fuji Bank, Ltd. Net interest-bearing liabilities account for only a small percentage of the Company's total assets,

and the Company's dependence on bank loans is low. Furthermore, the Company deals with multiple financial institutions and does not depend on Mizuho Corporate Bank, Ltd. for a high proportion of its borrowing. There is therefore no special relationship between the Company and Mizuho Corporate Bank, Ltd., and Mizuho Corporate Bank, Ltd. does not influence Epson's decision making.

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

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

There is no particular system of coordination between outside statutory auditors and audit functions in the Group; however, statutory auditors take the initiative to consult with the internal audit organization and independent public accountants. Each time an issue is identified by an audit, details are passed on to the outside statutory auditors to keep them informed as appropriate. Moreover, statutory auditors participate in the Compliance Committee, which supervises compliance programs, and they conduct inquiries at departments where a significant incident involving internal control has occurred. Statutory auditors are thus kept abreast of operational issues and the status of measures to address those issues.

#### (4) Director remuneration

##### Basic policy

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

The monthly salaries of directors are set according to their title, and in consideration of Epson's business performance. Director bonuses are paid only if the Company has achieved a level of profit that increases corporate value. The desired level of profit is predefined by the board of directors, and the board of directors submits to the general shareholders for approval a proposal for the total amount of director bonuses to be paid in a given period, the amount to be commensurate with the level of performance with respect to profit.

Furthermore, a portion of the monthly salaries of directors is paid as Epson stock so that remuneration is linked to share price, and to serve as an incentive for improving business performance in the long term.

##### Remuneration paid

Category	Total remuneration (millions of yen)	Remuneration breakdown (millions of yen)		Number of individuals
		Basic salary	Bonuses	
Directors (including total for outside directors)	442 (20)	360 (20)	81 (-)	11 (1)
Statutory auditors (including total for outside statutory auditors)	122 (60)	122 (60)	- (-)	6 (4)
Total	564	483	81	17

##### Notes

1. The number of individuals above includes two directors and one statutory auditor who retired at the closing of the general shareholders' meeting on June 24, 2013.
2. 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 the basic salary.
3. A resolution of the general shareholders' meeting held on June 26, 2001, established the maximum amount of remuneration at ¥70 million per month for directors and at ¥12 million per month for statutory auditors.
4. The remuneration paid includes ¥81 million in director bonuses (bonuses to be paid to the eight directors, excluding outside directors) approved at the June 24, 2014 regular general shareholders' meeting. There is no bonus system for statutory auditors.
5. A total of ¥80 million was paid to a director and an outside statutory auditor who retired at the closing of the general shareholders' meeting held on June 24, 2013, and who were thus eligible for retirement

benefits pursuant to the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of director retirement benefits.

6. A director who retired at the closing of the general shareholders' meeting held on June 24, 2014 was paid a retirement benefit of ¥41 million based on the resolution of the general shareholders' meeting held on June 23, 2006, on the payment of director retirement benefits.
7. Stock options are not granted.

**(5) Stock holdings**

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

25 companies      ¥13,830 million

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

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	3,805	Maintain and strengthen business ties
Mizuho Financial Group, Inc.	15,008,880	2,986	Maintain and strengthen business ties
Seiko Holdings Corporation	1,644,080	692	Maintain and strengthen business ties
The Hachijuni Bank, Ltd.	489,500	278	Maintain and strengthen business ties
Iwasaki Electric Co., Ltd.	1,000,000	193	Maintain and strengthen business ties
Hakuto Co., Ltd.	190,000	171	Maintain and strengthen business ties
King Jim Co., Ltd.	221,980	155	Maintain and strengthen business ties
Marubun Corporation	332,640	143	Maintain and strengthen business ties
Otsuka Corporation	10,000	102	Maintain and strengthen business ties
Joshin Denki Co., Ltd.	70,000	62	Maintain and strengthen business ties
Pixelworks, Inc.	100,000	20	Maintain and strengthen business ties

Current Fiscal year

Company	Shares (stock)	Balance sheet total (millions of yen)	Reason held
NGK Insulators, Ltd.	3,757,000	8,077	Maintain and strengthen business ties
Mizuho Financial Group, Inc.	15,008,880	3,061	Maintain and strengthen business ties
Seiko Holdings Corporation	1,644,080	675	Maintain and strengthen business ties
The Hachijuni Bank, Ltd.	489,500	287	Maintain and strengthen business ties
Iwasaki Electric Co., Ltd.	1,000,000	253	Maintain and strengthen business ties
Hakuto Co., Ltd.	190,000	183	Maintain and strengthen business ties
Marubun Corporation	332,640	178	Maintain and strengthen business ties
King Jim Co., Ltd.	221,980	158	Maintain and strengthen business ties
Otsuka Corporation	10,000	134	Maintain and strengthen business ties
Joshin Denki Co., Ltd.	70,000	57	Maintain and strengthen business ties
Pixelworks, Inc.	100,000	57	Maintain and strengthen business ties
Nippon BS Broadcasting Corporation	16,600	30	Maintain and strengthen business ties

Stocks held for pure investment

None



**(6) Accounting audits**

(a) Names and other details of corporate public accountants performing audits

Name of CPA		Audit company	No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Hidetoshi Watanabe	Ernst & Young ShinNihon LLC	1
Designated and Engagement Partner, Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	1
Designated and Engagement Partner, Certified Public Accountant	Takahiro Yamazaki	Ernst & Young ShinNihon LLC	3

(b) Composition of auditing team

The auditing team comprises 28 staff including seven certified public accountants, five junior accountants, and 16 other accounting staff.

**(7) Outline of contract limiting liability**

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

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

**(8) Number of directors**

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

**(9) Election and retirement of directors**

According to its Articles of Incorporation, directors of the Company can be elected by a majority vote by at least one third of shareholders with voting rights, and not through cumulative voting.

Provisions regarding the retirement of directors do not vary from the provisions of the Japanese Companies Act.

**(10) Items for approval at 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 task 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 the smooth operation of the general shareholders' meeting by relaxing the quorum requirements for special resolutions at 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	147	59	197	13
Consolidated subsidiaries	69	12	67	4
Total	217	71	264	17

**(2) Other important remuneration****Previous fiscal year**

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

**Fiscal year under review**

Total payments for audits carried out on behalf of 64 consolidated overseas subsidiaries by auditing certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2014, amounted to ¥564 million.

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

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

**Fiscal year under review**

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

**(4) Governing policy for auditor remuneration**

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

### **3. Basic policy regarding company control**

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

#### **(1) Overview**

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

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

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

#### **(2) Summary of measures in support of the basic policy**

##### **1) Specific actions in support of the basic policy**

Under the Updated SE15 Second-Half Mid-Range Business Plan (FY2013-2015), the Company remains firmly committed to the strategies outlined in the SE15 Long-Range Corporate Vision but has adopted new tactics and a different emphasis. Under the updated basic policy, Epson will pursue a basic strategy of managing its businesses so that they create steady profit while avoiding any over-emphasis on revenue growth. The top priority will be steady income and cash flow.

Going forward, Epson will transform itself into a company that once again posts strong growth by focusing its management resources in areas where it can capitalize on its unique strengths, by expanding its business segments, and by building stronger new businesses that will support Company growth in the future.

##### **2) Efforts to deter parties who are deemed inappropriate based on Epson's basic policy in gaining control over the Company's financial and business policy decision making**

Aiming to ensure and enhance corporate value and the common interests of its shareholders, Epson introduced a series of measures ("the Original Plan") to prevent large-scale acquisition of Epson shares after shareholders approved the Original Plan at their general meeting held on June 25, 2008. The Original Plan, which was approaching the end of its effective period, was subsequently revised in part, and the updated plan ("the Plan") was approved by shareholders at the June 20, 2011, general shareholders' meeting.

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

To prevent the Epson board of directors from making arbitrary decisions about using anti-takeover measures, the decision to invoke preventive measures is subject to the assessment of a special committee made up of highly independent external parties. Actions of the special committee shall include examination of stock acquisition details, requesting information from the Epson board of

directors regarding alternative proposals, disclosing information to shareholders, and negotiating with parties intending to make acquisitions. The special committee shall advise the Epson board of directors regarding the necessity of anti-takeover measures, and the Epson board of directors shall promptly accept or reject a resolution to invoke preventive measures, paying the utmost consideration to that advice.

Since the Plan was to be in force until the close of the June 24, 2014 general shareholders' meeting, the Company decided to renew the Plan, subject to shareholder approval at the general shareholders' meeting.

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

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

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

**Management**

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

Name	Position	Current function
Minoru Usui	President (Representative Director)	
Noriyuki Hama	Senior Managing Director (Representative Director)	General Administrative Manager, Management Control Division, and General Administrative Manager, Compliance Office
Shigeki Inoue	Managing Director	General Administrative Manager, Business Infrastructure Development Division, and General Administrative Manager, Intellectual Property Division
Yoneharu Fukushima	Director	General Administrative Manager, Corporate Research & Development Division
Koichi Kubota	Director	Chief Operating Officer, Printer Operations Division
Motonori Okumura	Director	General Administrative Manager, Imaging Products Key Component Research & Engineering Division
Junichi Watanabe	Director	Chief Operating Officer, Visual Products Operations Division
Masayuki Kawana	Director	General Administrative Manager, Human Resources Division
Toshiharu Aoki	Outside Director	
Hideaki Omiya	Outside Director	
Kenji Kubota	Standing Statutory Auditor	
Seiichi Hirano	Standing Statutory Auditor	
Yoshiro Yamamoto	Outside Statutory Auditor	
Kenji Miyahara	Outside Statutory Auditor	

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**SEIKO EPSON CORPORATION**

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Michihiro Nara	Outside Statutory Auditor	
John Lang	Managing Executive Officer	President and Chief Executive Officer, Epson America, Inc.
Tadaaki Hagata	Managing Executive Officer	Vice President, Epson America, Inc.
Kiyofumi Koike	Executive Officer	Chairman, Epson (China) Co., Ltd.
Koichi Endo	Executive Officer	Managing Director, Epson Singapore Pte. Ltd
Yasukazu Kitamatsu	Executive Officer	Chief Operating Officer, Commercial Printer Operations Division
Hideki Shimada	Executive Officer	Deputy Chief Operating Officer, Printer Operations Division
Masayuki Kitamura	Executive Officer	Chief Operating Officer, Microdevices Operations Division
Akihiro Fukaiishi	Executive Officer	Chief Operating Officer, Business System Operations Division
Sunao Murata	Executive Officer	General Administrative Manager, IT Division, and General Manager, C project
Yoshiyuki Moriyama	Executive Officer	Chief Operating Officer, Sensing Systems Operations Division
Toshiya Takahata	Executive Officer	Deputy Chief Operating Officer, Printer Operations Division, and General Manager, BIJ Planning & Design Project
Tsuyoshi Kitahara	Executive Officer	Chief Operating Officer, Industrial Solutions Operations Division
Naoyuki Saeki	Executive Officer	President, Epson Sales Japan Corporation

**Index to Consolidated Financial Statements  
Seiko Epson Corporation and Subsidiaries**

<b>Consolidated Balance Sheets .....</b>	<b>47</b>
<b>Consolidated Statements of Operations .....</b>	<b>49</b>
<b>Consolidated Statements of Comprehensive Income .....</b>	<b>50</b>
<b>Consolidated Statements of Changes in Net Assets .....</b>	<b>51</b>
<b>Consolidated Statements of Cash Flows.....</b>	<b>53</b>
<b>Notes to Consolidated Financial Statements.....</b>	<b>54</b>

# SEIKO EPSON CORPORATION

## Consolidated Balance Sheets

As of March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2014	March 31, 2014
<b>Assets</b>			
Current assets			
Cash and deposits	¥106,678	¥118,570	\$1,152,059
Notes and accounts receivable - trade	132,289	146,085	1,419,403
Short-term investment securities	70,012	85,013	826,010
Merchandise and finished goods	95,853	114,369	1,111,241
Work in process	45,677	44,423	431,626
Raw materials and supplies	21,998	24,835	241,303
Deferred tax assets	14,765	38,951	378,458
Other	33,582	31,305	304,202
Allowance for doubtful accounts	(1,399)	(1,102)	(10,707)
<b>Total current assets</b>	<b>519,457</b>	<b>602,452</b>	<b>5,853,595</b>
Non-current assets			
Property, plant and equipment			
Buildings and structures	395,133	396,485	3,852,361
Machinery, equipment and vehicles	420,835	420,981	4,090,371
Tools, furniture and fixtures	162,368	168,237	1,634,638
Land	51,878	50,263	488,369
Construction in progress	4,451	5,189	50,417
Other	120	143	1,401
Accumulated depreciation	(817,398)	(825,129)	(8,017,188)
<b>Total property, plant and equipment</b>	<b>217,388</b>	<b>216,170</b>	<b>2,100,369</b>
Intangible assets			
Goodwill	887	70	680
Other	12,481	14,661	142,470
<b>Total intangible assets</b>	<b>13,368</b>	<b>14,732</b>	<b>143,150</b>
Investments and other assets			
Investment securities	13,440	19,030	184,900
Long-term loans receivable	38	24	233
Deferred tax assets	5,307	5,014	48,717
Other	9,594	8,710	84,639
Allowance for doubtful accounts	(47)	(262)	(2,545)
<b>Total investments and other assets</b>	<b>28,332</b>	<b>32,517</b>	<b>315,944</b>
<b>Total non-current assets</b>	<b>259,089</b>	<b>263,420</b>	<b>2,559,463</b>
<b>Total assets</b>	<b>¥778,547</b>	<b>¥865,872</b>	<b>\$8,413,058</b>

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



# SEIKO EPSON CORPORATION

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2014	March 31, 2014
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable - trade	¥57,249	¥72,821	\$707,549
Short-term loans payable	53,626	57,955	563,107
Current portion of bonds	—	20,000	194,325
Current portion of long-term loans payable	75,000	2,000	19,432
Accounts payable - other	51,782	50,642	492,052
Income taxes payable	7,338	13,689	133,006
Deferred tax liabilities	1	9	87
Provision for bonuses	13,035	22,754	221,084
Provision for directors' bonuses	—	81	787
Provision for product warranties	7,624	9,597	93,247
Other	61,030	64,085	622,711
<b>Total current liabilities</b>	<b>326,688</b>	<b>313,636</b>	<b>3,047,387</b>
<b>Non-current liabilities</b>			
Bonds payable	90,000	90,000	874,465
Long-term loans payable	52,500	50,500	490,672
Deferred tax liabilities	10,786	4,611	44,801
Provision for retirement benefits	29,304	—	—
Provision for loss on litigation	2,159	2,533	24,611
Provision for product warranties	652	502	4,877
Provision for recycle costs	577	654	6,354
Net defined benefit liability	—	44,221	429,663
Other	7,072	7,481	72,720
<b>Total non-current liabilities</b>	<b>193,052</b>	<b>200,505</b>	<b>1,948,163</b>
<b>Total liabilities</b>	<b>519,740</b>	<b>514,141</b>	<b>4,995,550</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
<b>Capital stock</b>			
Authorized - 607,458,368 shares			
Issued - 199,817,389 shares	53,204	53,204	516,945
Capital surplus	84,321	84,321	819,286
Retained earnings	179,305	259,426	2,520,656
<b>Treasury shares</b>			
March 31, 2014 - 20,927,083 shares			
March 31, 2013 - 20,925,261 shares	(20,453)	(20,457)	(198,774)
<b>Total shareholders' equity</b>	<b>296,376</b>	<b>376,493</b>	<b>3,658,113</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	2,621	5,782	56,179
Deferred gains or losses on hedges	(1,911)	(1,034)	(10,046)
Foreign currency translation adjustment	(40,342)	(20,947)	(203,527)
Remeasurements of defined benefit plans	—	(10,951)	(106,412)
<b>Total accumulated other comprehensive income</b>	<b>(39,631)</b>	<b>(27,151)</b>	<b>(263,806)</b>
Minority interests	2,061	2,388	23,201
<b>Total net assets</b>	<b>258,806</b>	<b>351,730</b>	<b>3,417,508</b>
<b>Total liabilities and net assets</b>	<b>¥778,547</b>	<b>¥865,872</b>	<b>\$8,413,058</b>

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

# SEIKO EPSON CORPORATION

## Consolidated Statements of Operations

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2014	March 31, 2014
Net sales	¥851,297	¥1,003,606	\$9,751,321
Cost of sales	616,857	680,630	6,613,195
Gross profit	234,439	322,976	3,138,126
Selling, general and administrative expenses	213,184	238,007	2,312,553
Operating income	21,255	84,968	825,573
Non-operating income:			
Interest income	805	2,079	20,200
Rent income	1,200	1,112	10,804
Other	2,321	3,886	37,776
Total non-operating income	4,327	7,078	68,780
Non-operating expenses:			
Interest expenses	3,041	2,549	24,766
Foreign exchange losses	2,944	9,632	93,587
Other	1,967	1,744	16,955
Total non-operating expenses	7,953	13,926	135,308
Ordinary income	17,629	78,121	759,045
Extraordinary income:			
Gain on sales of non-current assets	215	313	3,041
Compensation income	—	741	7,199
Insurance income	4,463	340	3,303
Other	5	71	701
Total extraordinary income	4,684	1,466	14,244
Extraordinary loss:			
Impairment loss	4,605	4,315	41,925
Loss on litigation	16,268	2,227	21,638
Other	4,919	1,127	10,970
Total extraordinary losses	25,792	7,670	74,533
Income (loss) before income taxes and minority interests	(3,479)	71,916	698,756
Income taxes - current	7,964	18,709	181,781
Income taxes - deferred	(1,521)	(30,734)	(298,619)
Total income taxes	6,443	(12,025)	(116,838)
Income (loss) before minority interests	(9,922)	83,941	815,594
Minority interests in income	168	243	2,361
Net income (loss)	(¥10,091)	¥83,698	\$813,233

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

# SEIKO EPSON CORPORATION

## Consolidated Statements of Comprehensive Income

For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2014	March 31, 2014
Income (loss) before minority interests	(¥9,922)	¥83,941	\$815,594
Other comprehensive income			
Valuation difference on available-for-sale securities	777	3,081	29,935
Deferred gains or losses on hedges	(897)	877	8,521
Foreign currency translation adjustment	25,353	19,523	189,712
Share of other comprehensive income of entities accounted for using equity method	102	142	1,379
<b>Total other comprehensive income</b>	<b>25,335</b>	<b>23,625</b>	<b>229,547</b>
<b>Comprehensive income</b>	<b>¥15,413</b>	<b>¥107,566</b>	<b>\$1,045,141</b>
Comprehensive income attributable to;			
Comprehensive income attributable to owners of parent	¥14,954	¥107,130	\$1,040,905
Comprehensive income attributable to minority interests	¥458	¥436	\$4,236

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

## Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2013 and 2014

	Millions of yen											
	Shareholders' equity				Accumulated other comprehensive income						Minority interests	Total net assets
Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at March 31, 2012	¥53,204	¥84,321	¥194,047	(¥20,453)	¥311,119	¥1,838	(¥1,013)	(¥65,502)	-	(¥64,676)	¥1,697	¥248,140
Changes of items during period												
Dividends of surplus	-	-	(4,651)	-	(4,651)	-	-	-	-	-	-	(4,651)
Net income (loss)	-	-	(10,091)	-	(10,091)	-	-	-	-	-	-	(10,091)
Purchase of treasury shares	-	-	-	(0)	(0)	-	-	-	-	-	-	(0)
Net changes of items other than shareholders' equity	-	-	-	-	-	783	(897)	25,160	-	25,045	363	25,409
Total changes of items during period	-	-	(14,742)	(0)	(14,742)	783	(897)	25,160	-	25,045	363	10,666
Balance at March 31, 2013	¥53,204	¥84,321	¥179,305	(¥20,453)	¥296,376	¥2,621	(¥1,911)	(¥40,342)	-	(¥39,631)	¥2,061	¥258,806

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

Millions of yen

	Shareholders' equity				Accumulated other comprehensive income						Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at March 31, 2013	¥53,204	¥84,321	¥179,305	(¥20,453)	¥296,376	¥2,621	(¥1,911)	(¥40,342)	-	(¥39,631)	¥2,061	¥258,806
Changes of items during period												
Dividends of surplus	-	-	(3,577)	-	(3,577)	-	-	-	-	-	-	(3,577)
Net income (loss)	-	-	83,698	-	83,698	-	-	-	-	-	-	83,698
Purchase of treasury shares	-	-	-	(4)	(4)	-	-	-	-	-	-	(4)
Net changes of items other than shareholders' equity	-	-	-	-	-	3,160	877	19,394	(10,951)	12,480	327	12,807
Total changes of items during period	-	-	80,120	(4)	80,116	3,160	877	19,394	(10,951)	12,480	327	92,924
Balance at March 31, 2014	¥53,204	¥84,321	¥259,426	(¥20,457)	¥376,493	¥5,782	(¥1,034)	(¥20,947)	(¥10,951)	(¥27,151)	¥2,388	¥351,730

Thousands of U.S. dollars

	Shareholders' equity				Accumulated other comprehensive income						Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at March 31, 2013	\$516,945	\$819,286	\$1,742,188	(\$198,728)	\$2,879,691	\$25,476	(\$18,567)	(\$391,964)	-	(\$385,055)	\$20,025	\$2,514,661
Changes of items during period												
Dividends of surplus	-	-	(34,765)	-	(34,765)	-	-	-	-	-	-	(34,765)
Net income (loss)	-	-	813,233	-	813,233	-	-	-	-	-	-	813,233
Purchase of treasury shares	-	-	-	(46)	(46)	-	-	-	-	-	-	(46)
Net changes of items other than shareholders' equity	-	-	-	-	-	30,703	8,521	188,437	(106,412)	121,249	3,176	124,425
Total changes of items during period	-	-	778,468	(46)	778,422	30,703	8,521	188,437	(106,412)	121,249	3,176	902,847
Balance at March 31, 2014	\$516,945	\$819,286	\$2,520,656	(\$198,774)	\$3,658,113	\$56,179	(\$10,046)	(\$203,527)	(\$106,412)	(\$263,806)	\$23,201	\$3,417,508

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

**Consolidated Statements of Cash Flows**  
For the years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	March 31, 2013	March 31, 2014	March 31, 2014
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	(¥3,479)	¥71,916	\$698,756
Depreciation	39,320	38,725	376,263
Impairment loss	4,605	4,315	41,925
Share of (profit) loss of entities accounted for using equity method	(132)	(167)	(1,622)
Amortization of goodwill	871	816	7,928
Increase (decrease) in allowance for doubtful accounts	(265)	(252)	(2,448)
Increase (decrease) in provision for bonuses	4,411	9,540	92,693
Increase (decrease) in provision for product warranties	(715)	1,172	11,387
Increase (decrease) in provision for retirement benefits	5,136	-	-
Increase (decrease) in net defined benefit liability	-	3,459	33,608
Interest and dividend income	(1,018)	(2,305)	(22,396)
Interest expenses	3,041	2,549	24,766
Foreign exchange losses (gains)	(4,570)	(4,397)	(42,722)
Loss (gain) on sales of non-current assets	13	(396)	(3,847)
Loss on retirement of non-current assets	936	730	7,092
Loss on litigation	16,268	2,227	21,638
Loss (gain) on sales of investment securities	(5)	-	-
Decrease (increase) in notes and accounts receivable - trade	6,862	(16,060)	(156,043)
Decrease (increase) in inventories	18,588	(4,304)	(41,818)
Increase (decrease) in accrued consumption taxes	577	(2,160)	(20,987)
Increase (decrease) in notes and accounts payable - trade	(17,169)	18,401	178,789
Other, net	(4,230)	2,905	28,246
<b>Subtotal</b>	<b>69,047</b>	<b>126,716</b>	<b>1,231,208</b>
Interest and dividend income received	1,833	2,099	20,394
Interest expenses paid	(3,099)	(2,693)	(26,165)
Payments for loss on litigation	(14,095)	(4,068)	(39,525)
Income taxes paid	(10,692)	(10,799)	(104,947)
<b>Net cash provided by (used in) operating activities</b>	<b>42,992</b>	<b>111,253</b>	<b>1,080,965</b>
Cash flows from investing activities			
Purchase of investment securities	(0)	(500)	(4,858)
Proceeds from sales of investment securities	6	14	136
Purchase of property, plant and equipment	(39,816)	(33,627)	(326,729)
Proceeds from sales of property, plant and equipment	1,105	840	8,161
Purchase of intangible assets	(4,030)	(6,752)	(65,604)
Proceeds from transfer of business	3,147	-	-
Other, net	75	506	4,917
<b>Net cash provided by (used in) investing activities</b>	<b>(39,511)</b>	<b>(39,519)</b>	<b>(383,977)</b>
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	16,962	2,503	24,319
Proceeds from long-term loans payable	50,000	-	-
Repayments of long-term loans payable	(30,500)	(75,000)	(728,721)
Proceeds from issuance of bonds	30,000	20,000	194,325
Redemption of bonds	(40,000)	-	-
Repayments of lease obligations	(417)	(379)	(3,682)
Purchase of treasury shares	(0)	(4)	(38)
Cash dividends paid	(4,651)	(3,577)	(34,755)
Cash dividends paid to minority shareholders	(94)	(110)	(1,069)
<b>Net cash provided by (used in) financing activities</b>	<b>21,298</b>	<b>(56,567)</b>	<b>(549,621)</b>
Effect of exchange rate change on cash and cash equivalents	9,830	11,695	113,622
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>34,609</b>	<b>26,861</b>	<b>260,989</b>
Cash and cash equivalents at beginning of period	150,029	184,639	1,794,005
<b>Cash and cash equivalents at end of period</b>	<b>¥184,639</b>	<b>¥211,500</b>	<b>\$2,054,994</b>

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

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**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 (“IFRS”) or the generally accepted accounting principles in the United States. In addition, some items required by Japanese standards should be adjusted in the consolidation process so that net income is accurately accounted for, unless they are not material.

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

**2. Number of group companies**

As of March 31, 2014, the Company had 86 consolidated subsidiaries. It has applied the equity method in respect to one unconsolidated subsidiary and six affiliates.

**3. Changes in Accounting Policies, Changes in Accounting Estimates, and Corrections of Prior Period Errors**

- Changes in accounting policies that are inseparable from changes in accounting estimates

**Change in depreciation method for property, plant and equipment**

The Company and its Japanese subsidiaries formerly used the declining-balance method (and the straight-line method for buildings acquired on or after April 1, 1998 [excluding equipments attached to buildings]) as the depreciation method for property, plant and equipment (excluding leased assets) but adopted the straight-line method from the beginning of this fiscal year.

The Company and its Japanese subsidiaries took the formulation of the Updated SE15 Second-Half Mid-Range Business Plan as an opportunity to review the depreciation method used for property, plant and equipment. Given that production equipment going forward will have broader utilization due to the deployment of Micro Piezo inkjet technology in a variety of printing systems and the widespread deployment of a compact printer platform to realize enhanced competitiveness, the Company and its Japanese subsidiaries expect the operation of production equipment to be consistent. The Company and its

Japanese subsidiaries also have strengthened its structure by integrating the functions of its quartz business and semiconductor business in the devices and precision products segment and have improved productivity by optimizing the size of the businesses in this segment. As a result, it is expected the operation and loading of production equipment to be consistent. With the changes in the composition of these businesses and in the equipment usage plans, the Company and its Japanese subsidiaries expects production equipment to be used steadily over a long period of time. The Company and its Japanese subsidiaries have therefore adopted the straight-line method, concluding that recognizing expenses consistently would better reflect the characteristics of the businesses.

The change in the depreciation method did not have a material impact on consolidated financial statements.

- Change in estimates

- Change in useful lives for property, plant and equipment

- The Company and its Japanese subsidiaries have changed the useful lives of a part of property, plant and equipment, effective from the beginning of this fiscal year. With the change in the depreciation method, the Company and its Japanese subsidiaries revised the useful lives of production plant and equipment based on the current production, following a comprehensive review of factors such as years of service and payout time.

- The change of the useful lives did not have a material impact on consolidated financial statements.

- Changes in accounting policies

- Adoption of Accounting Standard for Retirement Benefits

- Effective from the year ended March 31, 2014, the Company adopted the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26 issued on May 17, 2012), and its Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 issued on May 17, 2012). (Except for article 35 of ASBJ Statement No. 26 and article 67 of ASBJ Guidance No. 25). Under the new Accounting Standard, pension assets are deducted from retirement benefit obligations and the net amount is recognized as liability for retirement benefits, and unrecognized actuarial gains and losses and unrecognized prior services costs are recorded as “Net defined benefit liability.”

- With regard to adoption of the Accounting Standard for Retirement Benefits, in accordance with transitional accounting as stipulated in Article 37 of the Accounting Standard for Retirement Benefits, the effect of the changes in accounting policies arising from initial application is recognized as “Remeasurements of defined benefit plans” in “Accumulated other comprehensive income” as of March 31, 2014.

- As a result, “Net defined benefit liability” on the consolidated balance sheet has recorded by ¥44,221 million (\$429,663 thousand) as of March 31, 2014. Besides, “Accumulated other comprehensive income” on the consolidated balance sheet has decreased by ¥10,951 million (\$106,412 thousand).



#### 4. Summary of significant accounting policies

##### (1) Consolidation and investments in affiliates

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

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

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

##### (2) Foreign currency translation and transactions

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

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

##### (3) Cash and cash equivalents

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

#### (4) Financial instruments

##### (a) Investments in debt and equity securities

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

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair values in the consolidated balance sheets. Changes in unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost computed based on the straight-line method in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of 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.

##### (b) Derivative instruments

Derivative instruments (i.e., forward exchange contracts and Non-Deliverable Forward) 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.

##### (c) Allowance for doubtful accounts

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

#### (5) Inventories

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

#### (6) Property, plant and equipment

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to expenses as incurred. Depreciation of property, plant and equipment is mainly computed based on the straight-line method for the Company, its Japanese subsidiaries and foreign subsidiaries at rates based on

estimated useful lives.

The estimated useful lives of significant depreciable assets principally range from 10 to 35 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) Accounting method for retirement benefits

Projected benefit obligations are attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Recognized 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 on Consolidated Statements of Operations. Recognized 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 on Consolidated Statements of Operations.

The unrecognized actuarial gains and losses and the unrecognized prior services costs have been recorded as “Remeasurements of defined benefit plans” in “Accumulated other comprehensive income” after the effect of income taxes in Net assets.

(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.

## 5. Accounting Standards Issued but Not Yet Effective

### Accounting Standard for Retirement Benefits

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

#### (1) Outline

The accounting standard and the guidance have been issued mainly for the amendment of the accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service cost, the calculation method for projected benefit obligation and service cost, and the enhancement of disclosure.

#### (2) Application schedule of accounting standards

Epson is not planning to adopt the accounting standard and the guidance because it will voluntarily adopt IFRS from the fiscal year ending March 31, 2015.

## 6. 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 ¥102.92 = U.S.\$1, the exchange rate prevailing as of March 31, 2014, has been used.

## 7. Inventories

Losses recognized and charged to cost of sales as a result of valuations as of March 31, 2013 and 2014, were ¥31,594 million and ¥31,783 million (\$308,812 thousand), respectively.

## 8. Investments in debt and equity securities

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

The market value (carrying value) of held-to-maturity debt securities, which was recognized at amortized cost and included in the short-term investments and investment securities accounts at March 31, 2013 and 2014, comprised the following:

## Held-to-maturity debt securities

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2013	2014	March 31, 2014
National government bonds	¥104	¥103	\$1,000
Total	¥104	¥103	\$1,000

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, 2013 and 2014, were as follows:

## Other securities

	Millions of yen			
	March 31, 2013			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	¥6,189	¥2,883	(¥12)	¥9,059
Certificate of deposit	70,000	-	(-)	70,000
Total	¥76,189	¥2,883	(¥12)	¥79,059
	Millions of yen			
	March 31, 2014			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	¥6,684	¥7,497	(¥3)	¥14,178
Certificate of deposit	85,000	-	(-)	85,000
Total	¥91,684	¥7,497	(¥3)	¥99,178

	Thousands of U.S. dollars			
	March 31, 2013			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	\$64,943	\$72,843	(\$29)	\$137,757
Certificate of deposit	825,884	-	(-)	825,884
Total	<u>\$890,827</u>	<u>\$72,843</u>	<u>(\$29)</u>	<u>\$963,641</u>

For the years ended March 31, 2013 and 2014, 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.

Unlisted securities, which were carried at costs of ¥897 million and ¥884 million (\$8,589 thousand) at March 31, 2013 and 2014, respectively, are not included in this table because market quotations are unavailable, and it is therefore extremely difficult to estimate their market value.

The amounts of investments in unconsolidated subsidiaries and affiliates, which were included in the investment securities account as of March 31, 2013 and 2014, were ¥3,390 million and ¥3,877 million (\$37,670 thousand), respectively.

9. Short-term and long-term loans payable

Short-term loans payable and long-term loans payable at March 31, 2013 and 2014, comprised the following:

	Millions of yen				Thousands of U.S. dollars
	March 31				March 31,
	2013	2014			2014
	Amount	Amount	Average interest rate	Last due	Amount
Short-term loans payable	¥53,626	¥57,955	0.73%	-	\$563,107
Current portion of long-term loans payable	75,000	2,000	0.81	-	19,432
Current portion of lease obligations	374	232	-	-	2,254
Long-term loans payable from financial institutions	52,500	50,500	0.73	2017	490,672
Lease obligations	301	108	-	2019	1,062
Unsecured bonds issued by the Company	20,000	20,000	0.58	2015	194,325
Unsecured bonds issued by the Company	20,000	20,000	0.49	2014	194,325
Unsecured bonds issued by the Company	20,000	20,000	0.72	2016	194,325
Unsecured bonds issued by the Company	20,000	20,000	0.55	2015	194,325
Unsecured bonds issued by the Company	10,000	10,000	0.67	2017	97,163
Unsecured bonds issued by the Company	-	10,000	0.33	2016	97,163
Unsecured bonds issued by the Company	-	10,000	0.57	2018	97,163
Total	<u>¥271,802</u>	<u>¥220,796</u>			<u>\$2,145,316</u>

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, 2014.

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, 2013 and 2014, were as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2013	2014	2014
2014	¥75,000	-	-
2015	2,000	¥2,000	\$19,432
2017	500	500	4,858
2018	50,000	50,000	485,814
Total	¥127,500	¥52,500	\$510,104

The maturities of lease obligations outstanding as of March 31, 2013 and 2014, were as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2013	2014	2014
2014	¥374	-	-
2015	223	¥232	\$2,254
2016	47	56	577
2017	24	33	320
2018	5	14	136
2019	-	3	29
Total	¥675	¥341	\$3,316

The maturities of bonds outstanding as of March 31, 2013 and 2014, were as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2013	2014	2014
2015	¥20,000	¥20,000	\$194,325
2016	40,000	40,000	388,650
2017	20,000	30,000	291,488
2018	10,000	10,000	97,163
2019	-	10,000	97,163
Total	¥90,000	110,000	\$1,068,789

10. Retirement benefits

(The fiscal year ending March 31, 2013.)

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, 2013, was as follows:

	Millions of yen
Projected benefit obligations	¥276,540
Plan assets at fair value	217,702
Unfunded status	58,837
Unrecognized items:	
Actuarial gains (losses)	(31,087)
Prior service cost reduction from plan amendment	215
Provision for retirement benefits - net	27,964
Prepaid pension cost	1,339
Provision for retirement benefits	¥29,304

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

	Millions of yen
Service cost	¥7,166
Interest cost	6,332
Expected return on plan assets	(5,293)
Amortization and expenses:	
Actuarial losses	8,867
Prior service costs	(71)
Net pension and severance costs	17,001
Contribution to defined contribution pension plan	4,151
	¥21,152

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

Discount rate	1.7%
Long-term rate of return on plan assets	2.5

(The fiscal year ending March 31, 2014.)

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.

(1) Defined benefit pension plans

(a) Reconciliation of beginning and ending balances of the projected benefit obligations was as follows:

	Thousands of	
	Millions of yen	U.S. dollars
Projected benefit obligations at beginning of year	¥276,540	\$2,686,941
Service cost	8,888	86,358
Interest cost	5,499	53,429
Actuarial loss(gain)	(1,783)	(17,324)
Benefits paid	(13,252)	(128,760)
Others	4,929	47,882
Projected benefit obligations at end of year	¥280,821	\$2,728,526

(b) Reconciliation of beginning and ending balances of plan assets at fair value was as follows:

	Thousands of	
	Millions of yen	U.S. dollars
Plan assets at fair value at beginning of year	¥217,702	\$2,115,254
Expected return on plan assets	5,717	55,547
Actuarial gain(loss)	9,047	87,903
Employer contributions	11,906	115,682
Benefits paid	(11,203)	(108,851)
Others	3,894	37,846
Plan assets at fair value at end of year	¥237,064	\$2,303,381

(c) Reconciliation of amounts recognized in the consolidated balance sheets as of March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations (funded plans)	¥277,559	\$2,696,832
Plan assets at fair value	(237,064)	(2,303,381)
	40,494	393,451
Projected benefit obligations (unfunded plans)	3,262	31,694
Net defined benefit liability	¥43,756	\$425,145
Gross defined benefit liability	¥44,221	\$429,663
Gross defined benefit asset	(465)	(4,518)
Net defined benefit liability	¥43,756	\$425,145

(d) The composition of net pension and severance costs for the year ended March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥8,888	\$86,358
Interest cost	5,499	53,429
Expected return on plan assets	(5,717)	(55,547)
Amortization and expenses:		
Actuarial loss	9,352	90,866
Prior service cost	(154)	(1,496)
Others	57	564
Net pension and severance costs	¥17,926	\$174,174

(e) The amounts recognized in accumulated other comprehensive income (loss) before the effect of income taxes as of March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service cost	(¥97)	(\$942)
Unrecognized actuarial loss	11,575	112,465
Total	¥11,478	\$111,523

(f) The significant components of plan assets as of March 31, 2014, by asset category, was as follows:

	Millions of yen	Thousands of U.S. dollars
Debt securities	¥66,408	\$645,239
Equity securities	46,162	448,523
Cash and deposits	2,687	26,107
Life insurance company general accounts	82,716	803,692
Alternative investments	31,768	308,666
Others	7,320	71,154
Total	¥237,064	\$2,303,381

(g) The expected long-term rate of return on plan assets is determined based on the current and expected future distribution of plan assets and the current and expected future long-term rate of return of various assets of which plan assets are composed.

(h) The weighted-average assumptions used for the actuarial computation of the retirement benefit obligations for the year ended March 31, 2014 was primarily as follows:

Discount rate	1.7%
Expected long-term rate of return on plan assets	2.5

## (2) Defined contribution pension plans

The amounts of contribution to defined contribution pension plan of the Company and certain of its subsidiaries were ¥5,237million (\$50,884thousand) for the year ended March 31, 2014.

## 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, 2013 and 2014:

	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,
	2013	2014	2014	2013	2014	2014
Year-end	¥13.00	¥7.00	\$0.06	¥2,325	¥1,252	\$12,164
Interim	¥13.00	¥13.00	\$0.13	¥2,325	¥2,325	\$22,601
Total	¥26.00	¥20.00	\$0.19	¥4,651	¥3,577	\$34,765

The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2013, were June 21, 2012, and December 7, 2012, respectively. The effective dates of the distribution for year-end and interim cash dividends, which were paid during the year ended March 31, 2014, were June 25, 2013, and December 6, 2013, respectively.

The proposed cash dividends of retained earnings of the Company for the year ended March 31, 2014, approved at the general shareholders' meeting, which was held on June 24, 2014, were as follows:

Cash dividends per share		Cash dividends	
Yen	U.S. dollars	Millions of yen	Thousands of U.S. dollars
¥37.00	\$0.35	¥6,618	\$64,302

The effective date of the distribution was June 25, 2014.

The number of treasury stocks of the Company was increased by an amount equal to the number of 1,822 for the year ended March 31, 2014. It was comprised as follows.

	Number of shares
Purchase of the shares less than one unit	1,822

12. Net income (loss) per share

The calculation of net income (loss) per share for the years ended March 31, 2013 and 2014, is as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2013	2014	2014
Net income (loss) attributable to common shares	(¥10,091)	¥83,698	\$813,233
	Thousands of shares		
Weighted-average number of common shares outstanding	178,893	178,891	
	Yen		U.S. dollars
Net income (loss) per share	(¥56.41)	¥467.87	\$4.54

Diluted net income per share is not calculated herein since a net loss was incurred and Epson had no dilutive potential common shares outstanding during the year ended March 31, 2013. Diluted net income per share is not calculated herein since Epson had no dilutive potential common shares outstanding during the year ended March 31, 2014

13. Income taxes

The significant components of deferred tax assets and liabilities as of March 31, 2013 and 2014, were as follows:

	Millions of yen		Thousands of
	March 31, 2013	March 31, 2014	U.S. dollars March 31, 2014
Deferred tax assets:			
Net operating tax loss carry-forwards	¥90,826	¥73,625	\$715,361
Inter-company profits on inventories and write downs	18,925	23,153	224,961
Property, plant and equipment and intangible assets (Impairment loss and excess of depreciation)	14,811	18,914	183,773
Provision for retirement benefits	8,981	-	-
Net defined benefit liability	-	14,331	139,244
Provision for bonuses	3,963	7,073	68,723
Provision for product warranties	2,229	2,972	28,876
Devaluation of investment securities	2,512	2,491	24,203
One-time depreciation for assets	2,315	826	8,025
Others	14,386	14,446	140,403
Gross deferred tax assets	158,953	157,835	1,533,569
Less: valuation allowance	(135,886)	(102,291)	(993,888)
Total deferred tax assets	23,067	55,544	539,681
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries and affiliates	(11,203)	(12,615)	(122,570)
Valuation difference on available-for-sale securities	(341)	(1,889)	(18,354)
Net unrealized gains on land held by a subsidiary	(1,236)	(800)	(7,773)
Others	(1,001)	(892)	(8,697)
Gross deferred tax liabilities	(13,782)	(16,198)	(157,394)
Net deferred tax assets	¥9,284	¥39,345	\$382,287

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	
	2013	2014
Statutory income tax rate	37.80%	37.80%
Reconciliation:		
Changes in valuation allowance	(304.2)	(52.5)
Tax rate differences in overseas subsidiaries	60.7	(5.0)
Entertainment expenses, etc. permanently non-tax deductible	52.2	(1.8)
Other	(31.6)	4.7
Income tax rate per statements of income	(185.2%)	(16.7%)



The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In line with these revisions, the Company changed the effective statutory tax rate used to calculate deferred tax assets and liabilities from 37.8% to 35.4% for temporary differences which are expected to be realized or settled in the fiscal year beginning on April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥2,244 million (\$21,803 thousand), income taxes-deferred and deferred gains or losses on hedges increased by ¥2,246 million (\$21,822 thousand) and ¥2 million (\$19 thousand), respectively.

#### 14. Selling, general and administrative expenses

The significant components of selling, general and administrative expenses for the years ended March 31, 2013 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31		Year ended March 31,
	2013	2014	2014
Salaries and wages	¥66,783	¥80,469	\$781,859
Retirement benefit expenses	7,262	6,623	64,350
Advertising	14,956	16,214	157,539
Sales promotion	18,128	20,743	201,544
Shipping costs	12,647	14,646	142,304
Research and development costs	18,992	18,832	182,977
Allowance for doubtful accounts	(5)	407	3,954
Other	74,420	80,070	778,026
Total	¥213,184	¥238,007	\$2,312,553

#### 15. Research and development costs

Research and development costs, which are included in the cost of sales and selling, general and administrative expenses, totaled ¥49,923 million and ¥50,531 million (\$490,973 thousand) for the years ended March 31, 2013 and 2014, respectively.

#### 16. Compensation income

Compensation income for the year ended March 31, 2014 comprised the compensation receipts based on the statement of mutual agreement with Tokyo Electric Power Company due to losses caused by accidents at Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company.

17. Loss on litigation

Loss on litigation for the years ended March 31, 2013 and 2014, mainly comprised the settlement of the lawsuits concerning the allegations of a LCD price-fixing cartel.

18. Leases

As of March 31, 2014, 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, 2013 and 2014, were as follows:

Future lease payments	Millions of yen		Thousands of
	March 31		U.S. dollars
	2013	2014	March 31, 2014
Due within one year	¥2,307	¥3,083	\$29,955
Due after one year	7,575	8,348	81,121
Total	¥9,883	¥11,432	\$111,076

19. Cash flow information

Cash and cash equivalents as of March 31, 2013 and 2014, were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2013	2014	March 31, 2014
Cash and deposits	¥106,678	¥118,570	\$1,152,059
Short-term investment securities	70,012	85,013	826,010
Short-term loans receivables	8,000	8,000	77,730
Less:			
Time deposits due over three months	(39)	(69)	(679)
Short-term investment securities due over three months	(12)	(13)	(126)
Cash and cash equivalents	¥184,639	¥211,500	\$2,054,994

The Company obtained marketable securities, the fair value of which was ¥7,997 million and ¥7,999 million (\$77,720 thousand) as of March 31, 2013 and 2014, 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, 2013 and 2014, by transaction and type of instrument, excluding derivatives qualifying for hedge accounting.

## Currency-related transactions

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

Instruments	Millions of yen		
	March 31, 2014		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sell -			
U.S. dollar (buy Japanese yen)	¥16,923	(¥72)	(¥72)
Euro (buy Japanese yen)	18,523	(935)	(935)
Australian dollar (buy Japanese yen)	1,487	(69)	(69)
Euro (buy Singapore dollar)	174	0	0
Australian dollar (buy Singapore dollar)	6	(0)	(0)
Thai baht (buy U.S. dollar)	242	(3)	(3)
Buy -			
U.S. dollar (sell Japanese yen)	27	0	0
Euro (sell Japanese yen)	4	(0)	(0)
Indonesia rupiah (sell U.S. dollar)	2,539	72	72
Non-deliverable forwards (NDF):			
Sell -			
Taiwan dollar (buy U.S. dollar)	1,504	40	40
Indian rupee (buy U.S. dollar)	715	(65)	(65)
South Korean won (buy U.S. dollar)	1,077	(23)	(23)
Total	¥43,226	(¥1,055)	(¥1,055)

Instruments	Thousands of U.S. dollars		
	March 31, 2014		
	Notional amounts	Fair value	Unrealized gains (losses)
Forward exchange contracts:			
Sell -			
U.S. dollar (buy Japanese yen)	\$164,428	(\$699)	(\$699)
Euro (buy Japanese yen)	180,028	(9,095)	(9,095)
Australian dollar (buy Japanese yen)	14,448	(670)	(670)
Euro (buy Singapore dollar)	1,690	0	0
Australian dollar (buy Singapore dollar)	58	(0)	(0)
Thai baht (buy U.S. dollar)	2,351	(29)	(29)
Buy -			
U.S. dollar (sell Japanese yen)	262	0	0
Euro (sell Japanese yen)	38	(0)	(0)
Indonesia rupiah (sell U.S. dollar)	24,669	699	699
Non-deliverable forwards (NDF):			
Sell -			
Taiwan dollar (buy U.S. dollar)	14,613	388	388
Indian rupee (buy U.S. dollar)	6,947	(631)	(631)
South Korean won (buy U.S. dollar)	10,464	(223)	(223)
Total	\$419,996	(\$10,260)	(\$10,260)

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, 2013 and 2014, by transaction and type of instrument, qualifying for hedge accounting.

#### Currency-related transactions

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

		Millions of yen	
		March 31, 2014	
Instruments	Hedged items	Notional amounts	Fair value
Forward exchange contracts:			
Sell -			
Euro (buy Japanese yen)		¥33,455	(¥506)
Australian dollar (buy Japanese yen)	Forecasted transactions in foreign currency sales	2,997	(92)
Swiss franc (buy Japanese yen)		3,648	(300)
Non-deliverable forwards (NDF):			
Sell -			
Taiwan dollar (buy U.S. dollar)		2,424	31
Indian rupee (buy U.S. dollar)	Forecasted transactions in foreign currency sales	2,047	(116)
South Korean won (buy U.S. dollar)		2,142	(20)
Total		¥46,716	(¥1,004)

		Thousands of U.S. dollars	
		March 31, 2014	
Instruments	Hedged items	Notional amounts	Fair value
Forward exchange contracts:			
Sell -			
Euro (buy Japanese yen)		\$325,088	(\$4,928)
Australian dollar (buy Japanese yen)	Forecasted transactions in foreign currency sales	29,119	(893)
Swiss franc (buy Japanese yen)		35,445	(2,914)
Non-deliverable forwards(NDF):			
Sell -			
Taiwan dollar (buy U.S. dollar)		23,552	301
Indian rupee(buy U.S. dollar)	Forecasted transactions in foreign currency sales	19,889	(1,127)
South Korean won (buy U.S. dollar)		20,812	(194)
Total		\$453,905	(\$9,755)

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

## 21. Comprehensive income

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

	Millions of yen		Thousands of
	March 31, 2013	March 31, 2014	U.S. dollars March 31, 2014
Valuation difference on available-for-sale securities			
Gains/(losses) arising during the year	¥913	¥4,624	\$44,928
Reclassification adjustments to profit or loss	(14)	5	47
Amount before income tax effect	899	4,630	44,975
Income tax effect	(122)	(1,548)	(15,040)
Total	777	3,081	29,935
Deferred gains or losses on hedges			
Gains/(losses) arising during the year	(4,374)	(6,096)	(59,230)
Reclassification adjustments to profit or loss	3,636	6,799	66,061
Amount before income tax effect	(737)	702	6,831
Income tax effect	(160)	174	1,690
Total	(897)	877	8,521
Foreign currency translation adjustment			
Gains/(losses) arising during the year	25,353	19,531	189,768
Reclassification adjustments to profit or loss	-	(7)	(56)
Total	25,353	19,523	189,712
Share of other comprehensive income of associates accounted for using equity method			
Gains/(losses) arising during the year	102	142	1,379
Total other comprehensive income	¥25,335	¥23,625	\$229,547

## 22. 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 and non-deliverable forwards (NDF) 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.

Derivative instruments are mainly comprised of forward exchange contracts and non-deliverable forwards (NDF).

### **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 forward exchange contracts and non-deliverable forwards (NDF) for foreign currency-based operating receivables and payables that it expects to occur as a result of forecasted transactions. Forward exchange contracts and non-deliverable forwards (NDF) are executed in accordance with internal rules and policies based on management rules and policies of them.

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, 2013 and 2014, were as follows:

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

Derivative instruments in the table above represent a net amount.

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

Instruments	Millions of yen		
	March 31, 2014		
	Carrying value	Fair value	Unrealized gains (losses)
Cash and deposits	¥118,570	¥118,570	-
Notes and accounts receivable-trade	146,085	146,085	-
Short-term investment securities	85,013	85,013	-
Investment securities	14,268	14,268	-
<b>Total</b>	<b>¥363,937</b>	<b>¥363,937</b>	<b>-</b>
Notes and accounts payable-trade	72,821	72,821	-
Short-term loans payable	57,955	57,955	-
Accounts payable-other	50,642	50,642	-
Bonds payable (including current portion)	110,000	110,588	¥588
Long-term loans payable (including current portion)	52,500	52,676	176
<b>Total</b>	<b>¥343,918</b>	<b>¥344,683</b>	<b>¥764</b>
Derivative instruments	(¥2,060)	(¥2,060)	-



Instruments	Thousands of U.S. dollars		
	March 31, 2014		
	Carrying value	Fair value	Unrealized gains (losses)
Cash and deposits	\$1,152,059	\$1,152,059	-
Notes and accounts receivable-trade	1,419,403	1,419,403	-
Short-term investment securities	826,010	826,010	-
Investment securities	138,641	138,641	-
<b>Total</b>	<b>\$3,536,113</b>	<b>\$3,536,113</b>	<b>-</b>
Notes and accounts payable-trade	707,549	707,549	-
Short-term loans payable	563,107	563,107	-
Accounts payable-other	492,052	492,052	-
Bonds payable (including current portion)	1,068,790	1,074,504	\$5,714
Long-term loans payable (including current portion)	510,104	511,814	1,710
<b>Total</b>	<b>\$3,341,602</b>	<b>\$3,349,026</b>	<b>\$7,424</b>
Derivative instruments	(\$20,015)	(\$20,015)	-

Derivative instruments in the table above represent a net amount.

Unlisted securities of ¥884 million (\$8,589 thousand) at March 31, 2014 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 mainly 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. 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.

23. Contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks and others were ¥391 million and ¥270 million (\$2,623 thousand) as of March 31, 2013 and 2014, respectively.

24. Subsequent events**Revision to defined benefit corporate pension plans**

As of April 1, 2014, the company and its Japanese subsidiaries have revised its defined benefit corporate pension plans for domestic employees for the purposes to absorb future changes of the environment surrounding the company and to operate the fund stably over the future periods.

Epson plans to adopt IFRS from the fiscal year ending March 2015. According to IFRS, Epson will recognize a decline in expenses of ¥30,071 million (\$292 thousand) due to the recognition of prior service cost for the year ending March 31, 2015, under the revised plan.

**Issue of straight bonds by the Company**

The Company issued straight bonds, as outlined below, under the following conditions established on June 6, 2014, pursuant to the comprehensive resolution approved by the Company's board of directors held on April 30, 2014.

The 12th Series unsecured straight bonds (with inter-bond pari passu clause)

Total amount of issuance: ¥10,000 million (\$97,162 thousand)

Issue price: ¥100 purchase value of ¥100

Interest rate: 0.354% per annum

Payment date: June 13, 2014

Maturity date: June 13, 2019

Purpose for funds: Repayment of redemption of bonds

## 25. Segment information

### (a) Summary of reporting segments

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

Epson has consolidated these business segments into three reporting segments based on the type and characteristics of products and services, and on manufacturing and sales methods. Epson reviewed management systems and has changed reporting segments from two segments, the information-related equipment segment and the devices and precision products segment, to three segments by adding the sensing and industrial solutions segment from the beginning of this fiscal year.

Segment information for the three months and twelve months ended 31, 2013 has been recalculated based on new reporting segments.

The Company and its Japanese subsidiaries changed their depreciation method for property, plant and equipment (excluding leased assets) to apply the straight-line method from the beginning of this fiscal year instead of the declining-balance method. The change in the depreciation method did not have a material impact on segment information.

The Company and its Japanese subsidiaries have changed the useful lives of a part of property, plant and equipment, effective from the beginning of this fiscal year. The change of the useful lives did not have a material impact on segment information.

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

The information-related equipment segment mainly includes inkjet printers, page printers, color image scanners, commercial inkjet printers, serial impact dot matrix printers, printers for use in POS systems, inkjet label printers and related supplies, 3LCD projectors, HTPS-TFT panels for 3LCD projectors, label printers, Personal computers and others.

The devices & precision products segment mainly includes Crystal units, crystal oscillators, quartz sensors, CMOS LSIs, Watches, watch movements, Metal powders, surface finishing and others.

The sensing & industrial solutions segment mainly includes Industrial robots, IC handlers, industrial inkjet printing systems, sensing systems and others.

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

The accounting policies of the reporting segments are the same as “Basis of presenting consolidated financial statements”.

Segment income (loss) is based on operating income (loss).

Transfer prices between operating segments are on an arm’s length basis.

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

The following table summarizes the reporting segment information of Epson for the year ended March 31, 2013 and 2014:

Millions of yen								
Year ended March 31, 2013								
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information- related equipment	Devices & precision products	Sensing & industrial solutions	Total				
Net sales:								
Customers	¥685,427	¥134,748	¥11,328	¥831,504	¥856	¥832,361	¥18,936	¥851,297
Inter-segment	435	6,041	84	6,561	416	6,978	(6,978)	-
Total	685,862	140,790	11,413	838,066	1,273	839,339	11,957	851,297
Segment income (loss) (Operating income)	51,746	8,638	(9,614)	50,770	(165)	50,604	(29,349)	21,255
Segment assets	367,600	110,729	13,206	491,536	735	492,271	286,276	778,547
Other								
Depreciation and amortization	26,229	8,068	586	34,884	96	34,981	4,198	39,179
Increase in property, plant, equipment and intangible assets	33,447	6,723	578	40,749	9	40,758	2,655	43,413
Amortization of goodwill	¥-	¥883	¥-	¥883	¥-	¥883	¥36	¥919

Millions of yen								
Year ended March 31, 2014								
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information- related equipment	Devices & precision products	Sensing & industrial solutions	Total				
Net sales:								
Customers	¥835,988	¥143,928	¥16,019	¥995,935	¥892	¥996,827	¥6,778	¥1,003,606
Inter-segment	447	5,028	161	5,638	441	6,079	(6,079)	-
Total	836,436	148,956	16,181	1,001,573	1,334	1,002,907	699	1,003,606
Segment income (loss) (Operating income)	121,531	9,733	(10,183)	121,081	(258)	120,822	(35,854)	84,968
Segment assets	415,971	109,804	11,210	536,987	733	537,721	328,151	865,872
Other								
Depreciation and amortization	25,503	7,795	715	34,014	20	34,034	4,510	38,545
Increase in property, plant, equipment and intangible assets	26,897	8,008	815	35,721	11	35,732	3,732	39,465
Amortization of goodwill	¥-	¥828	¥-	¥828	¥-	¥828	¥14	¥842

Thousands of U.S. dollars								
Year ended March 31, 2014								
	Reporting segments				Other [Note 1]	Total	Adjustments [Note 2]	Consolidated
	Information- related equipment	Devices & precision products	Sensing & industrial solutions	Total				
Net sales:								
Customers	\$8,122,697	\$1,398,445	\$155,645	\$9,676,787	\$8,667	\$9,685,454	\$65,867	\$9,751,321
Inter-segment	4,353	48,853	1,574	54,780	4,295	59,075	(59,075)	-
Total	8,127,050	1,447,298	157,219	9,731,567	12,962	9,744,529	6,792	9,751,321
Segment income (loss) (Operating income)	1,180,829	94,568	(98,940)	1,176,457	(2,517)	1,173,940	(348,367)	825,573
Segment assets	4,041,713	1,066,886	108,919	5,217,518	7,132	5,224,650	3,188,408	8,413,058
Other								
Depreciation and amortization	247,804	75,738	6,947	330,489	195	330,684	43,830	374,514
Increase in property, plant, equipment and intangible assets	261,349	77,808	7,918	347,075	107	347,182	36,271	383,453
Amortization of goodwill	\$-	\$8,045	\$-	\$8,045	\$-	\$8,045	\$136	\$8,181

Notes;

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

Net sales	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Corporate expenses *1	¥18,978	¥6,824	\$66,304
Eliminations	(7,020)	(6,125)	(59,512)
Total	¥11,957	¥699	\$6,792

Segment income (loss)  
(Operating income)

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Corporate expenses *1	(¥29,626)	(¥35,999)	(\$349,775)
Eliminations	277	145	1,408
Total	(¥29,349)	(¥35,854)	(\$348,367)

## Segment assets

	Year ended March 31		
	Millions of yen		Thousands of U.S. dollars
	2013	2014	2014
Corporate expenses *1	¥294,025	¥334,529	\$3,250,368
Eliminations	(7,749)	(6,377)	(61,960)
Total	¥286,276	¥328,151	\$3,188,408

## 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
	2013	2014	2014
Corporate expenses *1	¥2,396	¥2,076	\$20,181
Intangible assets *2	259	1,656	16,090
Total	¥2,655	¥3,732	\$36,271

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

\*1. "Corporate expenses" 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. Epson transferred the optical products business, which was categorized under "Devices & precision products" in the prior fiscal year, to "Corporate expenses".

\*2. Intangible assets are non-subject to regular review as capital expenditure.

(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, 2013 and 2014:

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

Millions of yen					
Year ended March 31, 2014					
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	¥278,718	¥175,868	¥124,692	¥424,327	¥1,003,606

Thousands of U.S. dollars					
Year ended March 31, 2014					
	Japan	The United States	China (including Hong Kong)	Other	Total
Net sales	\$2,708,103	\$1,708,783	\$1,211,542	\$4,122,893	\$9,751,321

[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, 2013 and 2014:

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

Millions of yen		
Year ended March 31, 2014		
	Japan	Other
Property, plant and equipment	¥149,784	¥66,386
		Total
		¥216,170

Thousands of U.S. dollars		
Year ended March 31, 2014		
	Japan	Other
Property, plant and equipment	\$1,455,343	\$645,026
		Total
		\$2,100,369

### (e) Information of impairment loss

The following table summarizes information of impairment loss in each reporting segment for the year ended March 31, 2013 and 2014:

Millions of yen						
Year ended March 31, 2013						
	Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses [Note]	Total
Impairment loss	¥551	¥14	¥-	¥-	¥4,039	¥4,605

[Note] "Corporate expenses" 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. Epson transferred the optical products business, which was categorized under "Devices & precision products" in the prior fiscal year, to "Corporate expenses".

Millions of yen

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses [Note]	Total
Impairment loss	¥222	¥1	¥438	¥-	¥4,315

Thousands of U.S. dollars

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses [Note]	Total
Impairment loss	\$2,157	\$9	\$4,255	\$-	\$41,925

[Note] Corporate expenses 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.

(f) Information of goodwill

The following table summarizes information of goodwill in each reporting segments for the year ended March 31, 2013 and 2014:

Millions of yen

Year ended March 31, 2013					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses	Total
Goodwill	¥-	¥898	¥-	¥14	¥912

Millions of yen

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses	Total
Goodwill	¥-	¥70	¥-	¥-	¥70

Thousands of U.S. dollars

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses	Total
Goodwill	\$-	\$680	\$-	\$-	\$680



The following table summarizes information of amortization of negative goodwill and balance of negative goodwill from the subsidiary's acquisitions before April 1, 2010 for the year ended March 31, 2013 and 2014:

Millions of yen

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

Millions of yen

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses	Total
Amortization of negative goodwill	¥-	¥25	¥-	¥-	¥25
Negative goodwill	¥-	¥-	¥-	¥-	¥-

Thousands of U.S. dollars

Year ended March 31, 2014					
Information-related equipment	Devices & precision products	Sensing & industrial solutions	Other	Corporate expenses	Total
Amortization of negative goodwill	\$-	\$242	\$-	\$-	\$242
Negative goodwill	\$-	\$-	\$-	\$-	\$-

(g) Information of gain on negative goodwill

Gain on negative goodwill did not occur during the year ended March 31, 2013 and 2014.

## Report of Independent Auditors



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## Independent Auditor's Report

The Board of Directors  
 Seiko Epson Corporation

We have audited the accompanying consolidated financial statements of Seiko Epson Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seiko Epson Corporation and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 6.

*Ernst & Young Shin Nihon LLC.*

June 25, 2014  
 Tokyo, Japan

A member firm of Ernst & Young Global Limited

## 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 and sensing and industrial solutions	100.0	Sales of the Company's products, Interlocking directors, Rental of assets
Epson Direct Corporation	Matsumoto-shi, Nagano	150 (million JPY)	Sales of information-related equipment	100.0 (100.0)	Sales of PCs, etc., Rental of assets
Orient Watch Co., Ltd.	Chiyoda-ku, Tokyo	1,937 (million JPY)	Manufacture and sales of devices and precision products	100.0	Manufacture and sales of watches
Miyazaki Epson Corporation	Miyazaki-shi, Miyazaki	100 (million JPY)	Manufacture of devices and precision products	100.0	Manufacture of crystal devices
Tohoku Epson Corporation	Sakata-shi, Yamagata	100 (million JPY)	Manufacture of information-related equipment, devices and precision products	100.0	Manufacture of printer components and semiconductors,
Akita Epson Corporation	Yuzawa-shi, Akita	80 (million JPY)	Manufacture of information-related equipment, devices and precision products, and sensing and industrial solutions	100.0	Manufacture of printer components, crystal devices, and sensing systems, Financial assistance, Leasing of assets
Epson Atmix Corporation	Hachinohe-shi, Aomori	450 (million JPY)	Manufacture of devices and precision products	100.0	Manufacture of metal powders, etc., Financial assistance
U.S. Epson, Inc. *	Long Beach, U.S.A.	111,941 (thousand USD)	Holding company	100.0	Holding company in Americas, Interlocking directors
Epson America, Inc. *	Long Beach, U.S.A.	40,000 (thousand USD)	Regional headquarters, Sales of information-related equipment and sensing and industrial solutions	100.0 (100.0)	Regional headquarters in Americas, Sales of printers and other PC peripherals and sales of factory automation products, Interlocking directors
Epson Electronics America, Inc.	San Jose, U.S.A.	10,000 (thousand USD)	Sales of devices and precision products	100.0 (100.0)	Sales of electronic devices
Epson Portland Inc.	Portland, U.S.A.	31,150 (thousand USD)	Manufacture of information-related equipment	100.0 (100.0)	Manufacture of printer consumables
Epson El Paso, Inc. *	El Paso, U.S.A.	51,000 (thousand USD)	Distribution of information-related equipment	100.0 (100.0)	Distribution of printer consumables

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
Epson Europe B.V. *	Amsterdam, the Netherlands	95,000 (thousand EUR)	Regional headquarters, Sales of information-related equipment	100.0	Regional headquarters in Europe, Sales of printers and other PC peripherals, Interlocking directors, Guaranty of liabilities
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, Interlocking directors, Guaranty of liabilities
Epson Deutschland GmbH	Dusseldorf, Germany	5,200 (thousand EUR)	Sales of information-related equipment and sensing and industrial solutions	100.0 (100.0)	Sales of printers and other PC peripherals, and sales of factory automation products, Guaranty of liabilities
Epson Europe Electronics GmbH	Munich, Germany	2,000 (thousand EUR)	Sales of devices and precision products	100.0 (100.0)	Sales of electronic devices, Interlocking directors, Guaranty of liabilities
Epson France S.A.	Levallois- Perret, France	4,000 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals
Epson Italia s.p.a.	Milan, Italy	3,000 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities
Epson Iberica, S.A.	Cerdanyola, Spain	1,900 (thousand EUR)	Sales of information-related equipment	100.0 (100.0)	Sales of printers and other PC peripherals, Guaranty of liabilities,
Epson (China) Co., Ltd. *	Beijing, China	1,211 (million CNY)	Regional headquarters, Sales of information-related equipment and sensing and industrial solutions	100.0	Regional headquarters in China, Sales of printers and other PC peripherals and factory automation products, Interlocking directors, Guaranty of liabilities
Epson Korea Co., Ltd.	Seoul, Korea	1,466 (million KRW)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals
Epson Hong Kong Ltd.	Hong Kong, China	2,000 (thousand HKD)	Sales of information-related equipment, devices and precision products	100.0	Sales of printers and other PC peripherals, and sales of electronic devices
Epson Taiwan Technology & Trading Ltd.	Taipei, Taiwan	25,000 (thousand TWD)	Sales of information-related equipment, devices and precision products	100.0	Sales of printers and other PC peripherals, and sales of electronic devices, Guaranty of liabilities
Epson Singapore Pte. Ltd.	Singapore	200 (thousand SGD)	Regional headquarters, Sales of information-related equipment, devices	100.0	Regional headquarters in Asia-Pacific, Sales of printers and other PC peripherals, and

Company name	Location	Paid-in capital or amount invested	Main business	Ownership percentage of voting rights (%)	Relationship between parent company and subsidiary
			and precision products		sales of electronic devices, Interlocking directors, Guaranty of liabilities
Epson Australia Pty. Ltd.	North Ryde, Australia	1,000 (thousand AUD)	Sales of information-related equipment	100.0	Sales of printers and other PC peripherals, Guaranty of liabilities
Tianjin Epson Co., Ltd.	Tianjin, China	172 (million CNY)	Manufacture of information-related equipment	80.0 (80.0)	Manufacture of printer consumables, etc., Interlocking directors
Epson Precision (Hong Kong), Ltd. *	Hong Kong, China	81,602 (thousand USD)	Procurement of information-related equipment components	100.0	Procurement of printer and 3LCD projector components, Interlocking directors
Epson Engineering (Shenzhen) Ltd. *	Shenzhen, China	56,641 (thousand USD)	Manufacture of information-related equipment and sensing and industrial solutions	100.0 (100.0)	Manufacture of printers, 3LCD projectors, liquid crystal panels and factory automation products, etc., Interlocking directors
Epson Precision (Shenzhen) Ltd.	Shenzhen, China	25,000 (thousand USD)	Manufacture of devices and precision products	100.0 (100.0)	Manufacture of watches, etc., Interlocking directors
Singapore Epson Industrial Pte. Ltd. *	Singapore	71,700 (thousand SGD)	Manufacture of information-related equipment, devices and precision products	100.0	Manufacture of printer consumables, semiconductors, and watches, etc., and surface finishing, Interlocking directors, Guaranty of liabilities
P.T. Indonesia Epson Industry *	Bekasi, Indonesia	23,000 (thousand USD)	Manufacture of information-related equipment	100.0	Manufacture of printers, Interlocking directors, Guaranty of liabilities
Epson Precision (Philippines), Inc. *	Lipa, Philippines	57,533 (thousand USD)	Manufacture of information-related equipment	100.0	Manufacture of printers and 3LCD projectors, Interlocking directors, Guaranty of liabilities
Epson Precision Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	16,000 (thousand MYR)	Manufacture of devices and precision products	100.0	Manufacture of crystal devices, Interlocking directors, Guaranty of liabilities
53 other companies	—	—	—	—	—

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

**Notes**

- Ownership percentage of voting rights indicated inside parentheses refers to indirect ownership percentage.
- \* indicates a specified subsidiary (*tokutei-kogaisha*).
- In addition to the above, the Company has one unconsolidated equity method subsidiary.
- 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	206,549	4,026	2,107	13,087	65,567
Epson America, Inc.	250,226	5,027	4,647	25,369	114,017
Epson Europe B.V.	210,728	4,142	2,332	16,073	77,277

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

**2. Distribution of ownership among shareholders**

As of March 31, 2014

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)	—	55	38	281	423	14	29,299	30,110	—
Number of shares owned (Units)	—	500,895	28,097	359,004	512,514	88	569,471	1,997,069	110,489
Percentage of shares owned (%)	—	25.08	1.41	17.98	25.66	0.00	29.87	100.00	—

**Notes**

- 20,927,083 shares of treasury stock are included as 209,270 units in “Japanese individuals and others” and 83 shares in “Shares less than one unit.”
- Three units in the name of Japan Securities Depository Center, Inc. are included under “Other Japanese corporations.”

## 3. Major shareholders

As of March 31, 2014

Name	Address	Number of shares held	Shareholding ratio (%)
Sanko Kigyo Kabushiki Kaisha	6-1 Ginza 5-chome, Chuo-ku, Tokyo	15,447,200	7.73
Japan Trustee Services Bank, Ltd. (Trustee Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	10,684,100	5.34
The Master Trust Bank of Japan, Ltd. (Trust account)	11-3 Hamamatsu-cho 2-chome, Minato-ku, Tokyo	8,729,800	4.36
Seiko Holdings Corporation	5-11 Ginza 4-chome, Chuo-ku, Tokyo	7,948,800	3.97
Yasuo Hattori	Minato-ku, Tokyo	5,966,306	2.98
Seiko Epson Corporation Employees' Shareholding Association	3-5, Owa 3-chome, Suwa-shi, Nagano	5,824,991	2.91
Noboru Hattori	Minato-ku, Tokyo	5,599,968	2.80
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo (8-12, Harumi 1-chome, Chuo-ku, Tokyo)	4,368,000	2.18
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the retrust, Trust & Custody Services Bank, Ltd.	Harumi Island Triton Square Office Tower Z, 8-12, Harumi 1-chome, Chuo-ku, Tokyo	4,076,900	2.04
NGK INSULATORS, LTD.	2-56, Suda-cho, Mizuho-ku, Nagoya-shi, Aichi	3,450,000	1.72
Total	—	72,096,065	36.08

**Notes:**

1. Although the Company holds 20,927,083 shares of treasury stock, the Company is excluded from the above list of major shareholders. (The ratio of the treasury shares held by the Company to the total number of shares issued is 10.47%.)
2. The shares held by Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account, Beneficiary of the retrust, Trust & Custody Services Bank, Ltd., were contributed by Mizuho Bank, Ltd. to the trust assets of the Retirement benefit trust.
3. Sumitomo Mitsui Trust Bank, Limited and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of June 20, 2013, claiming that they hold the Company's shares as follows as of June 14, 2013. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
Sumitomo Mitsui Trust Bank, Limited	4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo	8,635,000	4.32
Sumitomo Mitsui Trust Asset Management Co., Ltd.	33-1, Shiba 3-chome, Minato-ku, Tokyo	251,600	0.13
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo	402,400	0.20
Total	—	9,289,000	4.65

4. JP Morgan Asset Management (Japan) Limited and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of December 6, 2013, claiming that they hold the Company's shares as follows as of November 29, 2013. However, we have not been able to confirm the number of shares they held at the end of the fiscal year under review. Therefore, they are not included in the above major shareholders.

Name	Address	Number of shares held	Shareholding ratio (%)
JP Morgan Asset Management (Japan) Limited	Tokyo Building, 7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo	5,133,500	2.57
JPMorgan Chase Bank, National Association	1111 Polaris Pkwy., Columbus, OH 43240, USA	248,923	0.12
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London, E14 5JP, UK	780,569	0.39
Total	—	6,162,992	3.08

5. Mizuho Corporate Bank, Ltd. and its joint holders submitted a Report of Change to the Director of the Kanto Local Finance Bureau as of April 7, 2014, claiming that they hold the Company's shares as follows as of March 31, 2014. 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 Bank, Ltd.	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo	6,947,000	3.48
Mizuho Trust & Banking Co., Ltd.	2-1, Yaesu 1-chome, Chuo-ku, Tokyo	2,729,400	1.37
Mizuho Asset Management Co., Ltd.	5-27, Mita 3-chome, Minato-ku, Tokyo	674,200	0.34
Total	—	10,350,600	5.18



#### 4. Epson stock price

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

Year	68th year	69th year	70th year	71st year	72nd year
Fiscal year	March 2010	March 2011	March 2012	March 2013	March 2014
High (¥)	1,715	1,700	1,499	1,183	3,390
Low (¥)	1,216	1,032	881	431	795

**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 2013	November	December	January 2014	February	March
High (¥)	1,869	2,528	2,825	3,080	3,180	3,390
Low (¥)	1,594	1,996	2,432	2,654	2,751	2,890

**Note**

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

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**5. Corporate data and investor information**

<b>(1) Company name</b>	Seiko Epson Corporation
<b>(2) Founded</b>	May 1942
<b>(3) Head office</b>	3-5 Owa 3-chome, Suwa, Nagano 392-8502, Japan Tel: +81-266-52-3131(main)
<b>(4) Tokyo office</b>	Shinjuku NS Building, 4-1 Nishi-shinjuku 2-chome, Shinjuku-ku, Tokyo 163-0811, Japan Tel: +81-3-3348-8531
<b>(5) Investor information</b>	
<b>Closing of accounts</b>	March 31
<b>Regular general shareholders' meeting</b>	June
<b>Date for confirmation to shareholders of the cash dividend payment date</b>	March 31
<b>Date for confirmation to shareholders of the interim cash dividend payment date</b>	September 30
<b>Transfer agent</b>	Mitsubishi UFJ Trust and Banking Corporation 4-5, Maruouchi 1-chome, Chiyoda-ku, Tokyo
<b>Agent's business address</b>	Stock Transfer Agency Department Mitsubishi UFJ Trust and Banking Corporation 10-11, Higashisuna 7-chome, Koto-ku, Tokyo Tel: +81-3-6701-5000 <a href="http://www.tr.mufg.jp/english/">http://www.tr.mufg.jp/english/</a>
<b>Intermediary offices</b>	Head Office and Branches of Mitsubishi UFJ Trust and Banking Corporation
<b>Posting of public notices</b>	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 <i>Nihon Keizai Shimbun</i> newspaper (Japanese)
<b>Web address</b>	<a href="http://www.pronexus.co.jp/koukoku/6724/6724.html">http://www.pronexus.co.jp/koukoku/6724/6724.html</a> (Japanese)

## Better Products for a Better Future

At Epson, we know that planning for the future requires a strong commitment to the environment. That is why we strive to create innovative products that are reliable, recyclable, and energy efficient. Better products that use fewer resources help ensure a better future for us all.

## SEIKO EPSON CORPORATION

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