

Management Philosophy

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

The Epson Management Philosophy has been translated into 14 languages,
and is shared by all members of the Epson Group worldwide.

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Cautionary Statement

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

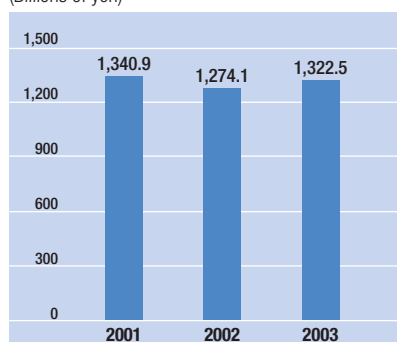
CONSOLIDATED FINANCIAL HIGHLIGHTS

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars
	Year ended March 31, 2002	2003	Year ended March 31, 2003
Statement of income data:			
Net sales	¥1,274,109	¥1,322,453	\$11,002,105
Gross profit.....	336,108	362,588	3,016,539
Selling, general and administrative expenses	309,912	313,228	2,605,890
Operating income	26,196	49,360	410,649
Income (loss) before income taxes and minority interest	(18,382)	31,629	263,136
Net income (loss)	(18,432)	12,510	104,077
Per share data (yen and U.S. dollars):			
Net income (loss)	¥(121.37)	¥81.08	\$0.67
Cash dividends	18.00	18.00	0.15
Balance sheet data:			
Current assets	¥ 622,415	¥ 645,310	\$ 5,368,636
Property, plant and equipment (net of depreciation).....	502,251	442,769	3,683,602
Total assets	1,241,161	1,196,080	9,950,749
Current liabilities	600,891	493,087	4,102,221
Long-term liabilities	357,549	419,069	3,486,431
Shareholders' equity	280,349	281,316	2,340,400

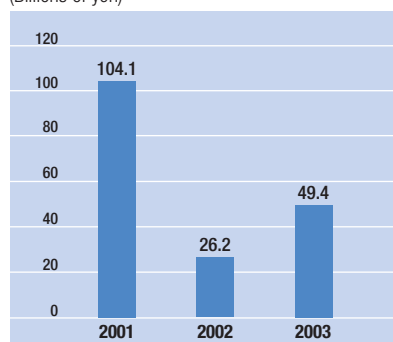
Net Sales

Years ended March 31
(Billions of yen)



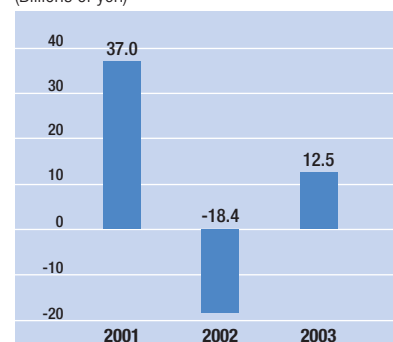
Operating Income

Years ended March 31
(Billions of yen)



Net Income (Loss)

Years ended March 31
(Billions of yen)



To Our Shareholders



Hideaki Yasukawa, Chairman

Saburo Kusama, President

With the recent listing of our shares as a launch pad, we at Epson have renewed our commitment to further expanding our strategic business initiatives and, based on our slogan “Creativity and Challenge,” enhancing our corporate value by utilizing the full capabilities of the Epson Group.

Listing of Epson Shares

First and foremost, we take considerable pride in reporting that the shares of Seiko Epson Corporation (Epson) were listed on the First Section of the Tokyo Stock Exchange on June 24, 2003. This listing is clearly a major milestone in our corporate history and has the objective of strengthening the foundations of our business initiatives. With this listing as a critical step forward, we intend to further develop the scope of our business activities and aim to become a corporation earning the trust of shareholders and other stakeholders worldwide.

Performance for the Fiscal Year

Looking back over the fiscal year ended March 31, 2003, the slump in the IT sector, which began in the previous year, bottomed out at the beginning of the fiscal year and the economy as a whole began to show a gradual recovery trend. However, these developments were insufficient to produce a full-scale recovery, and slack economic momentum persisted as stock prices continued to slump and personal consumption remained relatively lackluster. Moreover, toward the end of the fiscal year rising tensions in international relations, instability in employment conditions, and other factors resulted in downward

pressure on consumer confidence and growing uncertainty about the world economy. In addition, domestic economic conditions became more severe and less predictable, as exports—which had been the driving force for the economy—decelerated beginning in the fall of 2002, stock prices slipped to lower levels, and weakness in personal consumption continued.

Turning to conditions in Epson’s principal markets, in the Information-Related Equipment segment, demand for PCs slowed as personal consumption remained sluggish, and the major markets for printers—Japan, the United States, and Europe—showed little growth while product prices continued on a down trend. In contrast, in the Electronic Devices segment, adjustments in inventories of mobile phone handsets and other related products were completed early in the year, leading to recovery in market demand. At the same time, due to intensified competition, the recovery in demand was unable to stem the decrease in prices, and challenging conditions continued. In the Precision Products segment also, market conditions remained dull as personal consumption continued to be generally stagnant.

In response to such challenging market conditions, Epson worked to expand sales by proactively introducing lines of high-value-added products to meet market requirements. In the printer market, we successfully boosted sales of photo-quality inkjet printers and related supplies along with the growth in the photo printing area, which has been stimulated especially by the expanding ownership of digital cameras. Also, in the electronic devices market, we were able to grow sales by introducing products drawing on our low power-consumption technologies, which are one of our key competitive strengths. At the same time, we moved forward with comprehensive measures to improve our operating and financial positions with the objectives of achieving recovery in performance at an early date and an improvement in profitability. First, we united our efforts on a company wide basis to transform a broad range of our business activities. These included adopting strong measures to reduce cost of sales, shrink inventories, and focus our capital investments to maximize their contribution to performance. Other initiatives included applying and receiving permission for the transfer to the government of the substitutional portion of pension liabilities that we formerly managed, taking steps to limit the risks of fluctuations in economic conditions, implementing structural reforms, principally in our semiconductor business, taking a one-time write-down of expenses related to intellectual property, and the dissolution of a manufacturing facility.

As a result of these various factors, we were able to record progress toward recovery in performance, following the challenging conditions in the previous fiscal year. We realize we must rededicate ourselves to achieve further gains, but we believe we have been able to confirm that we are without question moving solidly in the right direction.

Net sales for the fiscal year ended March 31, 2003, rose to ¥1,322.5 billion, 3.8% higher than for the previous fiscal year. The increase was attributable to an increase in sales by the Electronic Devices segment and Information-Related Equipment segment.

Cost of sales amounted to ¥959.9 billion, up 2.3% from the previous fiscal year. This increase primarily reflects the increase in net sales during the same period. Cost of sales did

not increase to the same extent as net sales primarily because of manufacturing cost reduction efforts related mainly to inkjet printers and image scanners and the depreciation of the yen against the euro.

Gross profit rose 7.9%, to ¥362.6 billion, and the gross margin rose one percentage point, from 26.4% to 27.4%.

Selling, general and administrative expenses edged up 1.1%, to ¥313.2 billion.

As a consequence, operating income for the year under review jumped 88.4%, from ¥26.2 billion in the previous fiscal year to ¥49.4 billion. The operating margin increased 1.6 percentage points, from 2.1% to 3.7%. Of particular note was the increase in the operating income of the Information-Related Equipment segment from ¥58.8 billion in the previous fiscal year to ¥80.4 billion, representing a gain of 36.8%. The operating margin in this segment increased 2.3 percentage points, from 6.5%, to 8.8%. The increase was due mainly to the effect of manufacturing cost reduction efforts, increases in unit sales, and the depreciation of the yen. These effects were offset in part by the adverse impact of decreases in market prices. On the other hand, the Electronic Devices segment posted an operating loss of ¥28.0 billion. Despite a general recovery in demand for mobile phone handset components leading to increased unit sales, Epson's operating loss worsened as its cost reduction efforts were outpaced by the effects of declines in market prices of its products and increased depreciation and amortization costs. The Electronic Devices segment reported an operating loss of ¥22.4 billion in the previous fiscal year; despite which, even with the operating loss of ¥28.0 billion for the year under review, we believe a recovery trend is in progress for the operating income in this segment after reaching bottom in the second half of the previous fiscal year (an operating loss of ¥29.7 billion), as evidenced by a decline in the operating loss from ¥22.2 billion in the first half of the fiscal year under review to a substantially lower ¥5.8 billion in the second half of the year.

Other income rose 221.9%, to ¥29.8 billion. The increase was due to a gain on the transfer to the government of the substitutional portion of pension liabilities of ¥17.6 billion and a reversal of warranty costs related to a defective electronic device component of ¥3.0 billion. Other expenses declined 11.7%, from ¥53.8 billion to ¥47.5 billion. The decrease was due to the absence of a one-time incurrence of warranty costs of ¥21.8 billion in the previous fiscal year, which involved a transfer to the reserve for future warranty payment in connection with a defective electronic device component. On the other hand, reorganization costs of ¥24.0 billion were incurred primarily because of the dissolution of a semiconductor product manufacturing facility in Japan (Epson Hatogaya) that was closed in October 2002 and the one-time write-down of expenses related to intellectual property in connection with a joint venture in the semiconductor business.

As a result of these factors, net income for the fiscal year under review amounted to ¥12.5 billion.

Medium-to-Long-Term Plans

Looking ahead, uncertainty regarding the world economy may increase, and, as progress toward economic recovery remains slow, stagnant personal consumption and deflationary trends are likely to continue. Prudently speaking, we anticipate generally that early recoveries in our principal markets are unlikely and competition may in fact become significantly more intense.

Even as these difficult conditions continue in the business environment, we are at the same time convinced that business opportunities will expand as the trends toward broadband telecommunications and digital broadcasting continue to bring an expanded volume of digital content and color images as well as demand for higher-quality images increases.

At Epson, we plan to focus on seizing these major growth opportunities and have set “Digital Image Innovation—Targeting the Convergence of Imaging Domains” as the

driving corporate direction for our medium-to-long term business strategy. With this strategy as the basis, we plan to focus our corporate resources on the imaging field, with still and moving images at the core. To smooth the progress of further advances forward in global markets, we will marshal the comprehensive capabilities we have developed in finished products and devices to create imaging solutions that support enriched communication among people everywhere and create lifestyles filled with color.

We also remain firmly committed to creating a company that can generate stable profit performance in virtually all market environments and continue to make well-timed introductions of attractive, high-value-added products, such as our all-color pigment ink printers, which have won market acclaim. What is more, we will continue to work to improve our business and financial positions by building steadily on the results of operational and procurement transformation projects conducted so far. Following up on these vital initiatives, we plan to accelerate our programs to make cost reductions and adopt strategies to generate additional cash. We will also place top priority on promoting comprehensive measures to ensure compliance with corporate ethical standards, implementing further measures to manage risk, working to enhance customer satisfaction, and taking further steps to protect the natural environment.


Fiscal 2003, ending March 31, 2004, marks the first year of our medium-to-long-term fundamental concept, “SE07.” While we expect challenging conditions to prevail in the operating environment, we are committed to driving toward the goals of “Creativity and Challenge,” because we believe the spirit embodied in this slogan provides the very basis for our business success. We are uniting all our resources and capabilities to reach these goals and continue to raise our corporate value.

June 2003

Hideaki Yasukawa, Chairman



Saburo Kusama, President



How will Epson create new growth opportunities?

Epson is concentrating its corporate resources in three business domains (3i) that are expected to show high rates of growth in the years ahead: imaging on paper (i1), imaging on screen (i2), and imaging on glass (i3). We will expand our positions in each of these areas while working hand in hand with our finished product and device businesses.



Epson's Future Direction

Epson offers imaging solutions and is squarely positioned as the leading company in the fields of color printers, LCD projectors as well as small and medium-sized LCDs. We will get the most out of our commanding position in these markets and, under our basic medium- to long-term fundamental concept "SE07," have established guidelines for steady expansion.

To sum up the main features of Epson's principal products—color printers, LCD projectors, and displays—these are all tools that make it possible for us to view "things," or, in other words, show us still and moving "images." Under our SE07 concept, through the fusion of "images," we provide customers advanced imaging solutions that are truly revolutionizing markets, while supporting enhanced communication among people and creating lifestyles enriched by both design and color. Under our SE07 concept, we are focusing clearly on the slogan "Digital Image Innovation."

To make Digital Image Innovation a reality, in each of our three current representative imaging businesses—color printers, LCD projectors, and small and medium-sized LCDs—we are focusing our corporate resources on three

high-growth business domains (3i): imaging on paper (i1), imaging on screen (i2), and imaging on glass (i3).

Maintaining close cooperation with our finished product and device businesses, we are hard at work to expand our positions in each of these areas. At the same time, we are actually creating new market opportunities and business models by emphasizing close teamwork and fusing the 3i business domains.

Business Opportunities for Epson

Even today, our 3i strategy has produced several key profit-making business opportunities at Epson.

For example, in the i1 business domain of color inkjet prints, demand for digital photos is on the rise. This is because the need for photo-quality color printing is growing along with the rapid increase in use of digital cameras. According to surveys conducted by International Data Corporation (IDC), worldwide shipments of photo-quality inkjet printers are expected to represent an average growth rate of 22% between 2002 and 2006. We have clearly recognized this opportunity and created a powerful brand equity by developing printers that boast unequivocally superior image quality and ease of use. We have in this way taken the lead in developing the home photo printing market and our accomplishments position us well for future growth.

Next, in the i2 business domain of LCD projectors, the home market is expected to enter a fast growth stage. LCD projectors for home use let us enjoy computer games and DVD entertainment on cinematic quality wide screens, so that demand for these units is naturally rising at a fast pace. In the latter half of 2002, major electronics manufacturers introduced



product lines for the home market one after the other. Epson took advantage of its leading share in LCD projectors for the office market and, by introducing an attractively priced lineup of LCD projectors, secured the leading position in terms of sales results.

In the i3 domain of small and medium-sized LCDs, Epson has been successful in introducing display systems optimized for popular mobile phone handsets equipped with digital camera functions. Our achievement has been the result of fusing our technologies related to high color image quality, compactness, and low power consumption with our comprehensive capabilities in developing and offering display units. Our modular displays units for mobile phone handsets have been highly evaluated for their LCD controller ICs, which are optimized for the processing of still images, and their low power consumption microcomputers are capable of processing moving images.

Along with the shift in the infrastructure to broadband communications and digital broadcasting, the quality and volume of digital content are expected to rapidly accelerate, as more color and high-quality images become available. Epson has superior technology for delivering high-quality color images. Backed by our capabilities in the integrated development of solutions, from key devices to finished products, we are positioned to take maximum advantage of a full range of growth opportunities.

Perspective of Epson's Core Technologies

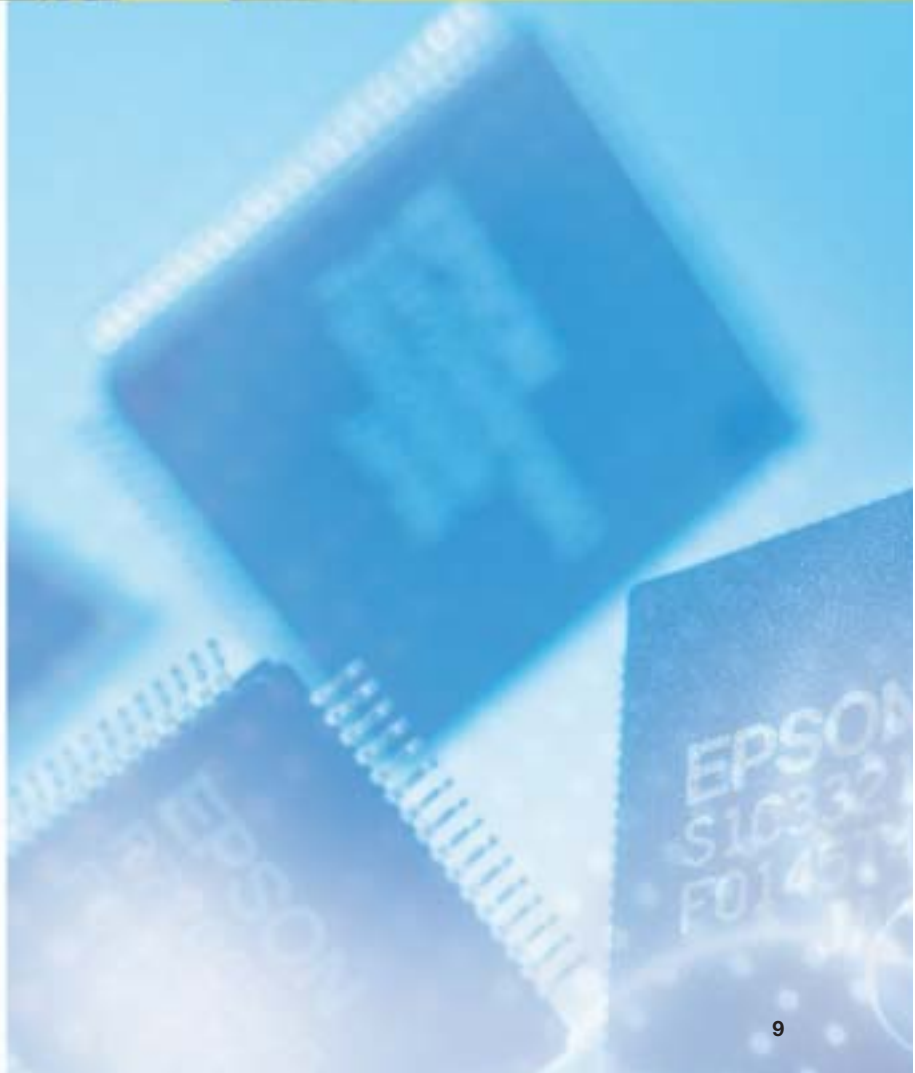
Appreciating the future directions of Epson's development vision requires a closer look at our technologies. First, Epson's superior technological position in inkjet printers is supported by its Micro-Piezo inkjet print head, color pigment-based ink, and color image processing technologies. Unlike other methods, our piezo method is capable of firing ink droplets of several sizes from the same nozzle. What is more, the size of the minutest droplets is smaller than that of other methods and the speed of droplet control is faster. Also, in contrast to the thermal inkjet method, which fires droplets after heating and boiling the ink, our piezo print head uses a voltage element to control the ink. This is the major difference accounting for the superiority of Epson's Micro-Piezo technology, because it removes constraints on the composition of inks. Under the Epson method, the features of the full range of color pigments

can be used in printing, making possible printing with a beautiful gloss and creating images highly resistant to fading. Similarly, in color image processing, to produce the most beautiful images possible, we work closely with many digital camera manufacturers and have developed technologies that take into account the features of the images that are input. Moreover, we apply the technologies that have enabled Epson to become number one in sales of inkjet printers in Japan in our large-format inkjet printers and the images produced by these units have won high acclaim in the professional and art reproduction markets.

Similarly, for mini-lab photo-processing applications that require higher quality than in the home printing market as well as quality comparable to or better than conventional chemical processes, Epson has entered into a tie-up with Noritsu Koki Co., Ltd. (Noritsu Koki), a manufacturer of mini-labs. Noritsu Koki has the largest number of such conventional units installed of any mini-lab manufacturer. Under the tie-up, Epson has supplied its technology to Noritsu Koki for the development of new mini-labs using inkjets in the printing process. These new units make the processing of waste liquids unnecessary, thus making it possible to install these units in a broader range of locations, including restaurants and convenience stores.

In the LCD projector field as well, where the technology trends are toward smaller units that produce brighter images, Epson has built a solid position, as evidenced by its holding the largest number of registered patents related to LCD projectors. Epson's light valves (LCD panels), which are the key devices in LCD projectors, are optimal for image projection. These devices, which produce bright, finely detailed images, were developed through Epson's own original R&D programs and, according to Epson's estimates for the fiscal year ended March 31, 2003, they accounted for more than 60% of the light valve market for LCD projectors.

For the small and medium-sized LCDs market, Epson supplies passive/transflective type displays optimized for mobile phone handsets. Especially with regard to active MD-TFD type units, our Crystal-Fine series has been acclaimed by customers for its ability to reproduce the same colors in dark or light conditions. Displays for mobile phones must be low power consuming, and we have succeeded in developing a technology that delivers ultrafine images with low power consumption through the



active application of image processing technology developed for printers. Our pursuit of improved photographic image quality in printing has given us a technology that contributes substantially to the performance of our LCDs.

Epson's road map for success in technology involves thoroughly leveraging its strong base of intellectual property and manufacturing know-how to create technologies that differentiate its products and cannot be easily imitated. In 2002 Epson ranked ninth in Japan in the number of patents granted, and 27th in the United States. Compared with the previous year, Epson rose in ranking in both countries, from 10th in Japan and from 31st in the United States. In the development of next-generation, core technologies, Epson implements a unique program of R&D aimed at realizing the full potential of anticipated future developments.

Medium-to-Long Term Growth Scenario Based on 3i

As a result of the increasing proliferation of broadband communications and digital broadcasting as well as other developments, the volume and quality of digital content will make dramatic advances in the coming years, including a growing availability of color and high-resolution images. To be ready to capitalize on this major period of transition in telecommunications and broadcasting, we are working to strengthen and expand our existing businesses and to offer state-of-the-art solutions in the fields of home imaging, the digital office, and ubiquitous imaging, where there are strong possibilities for the development of products merging our sophisticated capabilities and for the creation of new markets. We would like to talk next about the profitable opportunities that might be expected in these fields.

In the i1 area, we believe there is a movement away from the traditional concept that printers are just peripheral equipment for PCs toward the broader application of printers for creating the widest range of document types. For example, opportunities will increase for printing out data from non-PC digital information devices, such as mobile phone handsets and digital cameras. By this, we mean that printers will assume the tasks of imaging on paper thus far performed by analog photography, copying and publishing. Put another way, we are not moving into the business of printing but are working to accurately identify the needs for on-demand printing and to promote the expansion of printing volumes.

In much the same way, in the i2 field, along with the more widespread availability of high-quality image broadcasting and digital visual content, we will aim to boost our initiatives, beginning with our LCD projectors, which are our number one product in the office market and have unique features, and diversify into the home. Specifically, we plan to further strengthen our number one position in the data projector market for business use and work to enhance our business domain through entry into the rear-projection LCD TV and home entertainment markets.

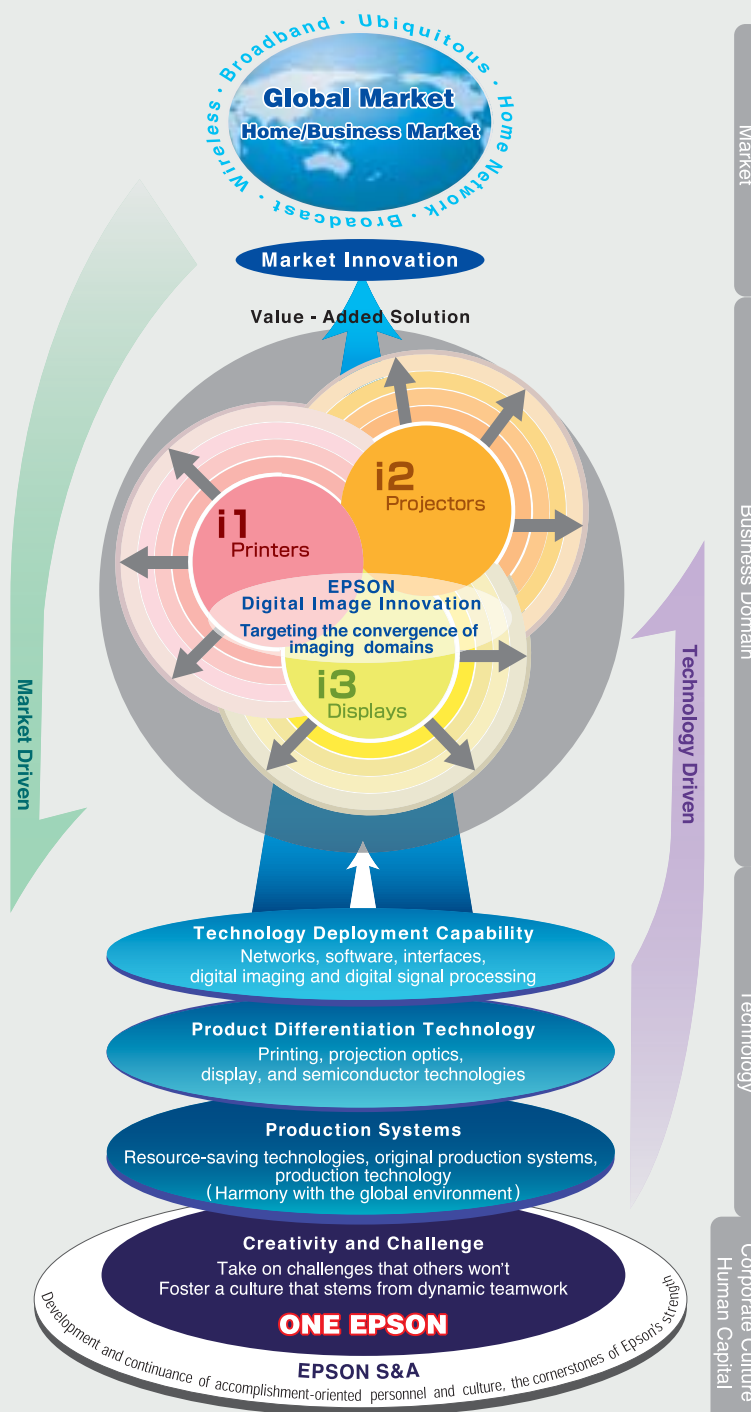
For the i3 area, our objectives are to develop original small and medium-sized LCDs and to go forward to create new applications using organic LED (OLED) and other leading-edge technologies. To create original products, we are bolstering and further developing our strengths by, for example, fusing our semiconductor, color imaging, and other technologies with the objective of developing new products and technologies that other companies cannot imitate.

The driving force for our 3i strategy is our Epson Imaging Architecture. This architecture is the common technological base supporting our overall 3i strategy. One example is our Photo Viewer, which displays stored photographic data. Another case in point is our Direct Print System, which directly prints data from input devices, such as digital cameras. Further illustrations include printing or projection on-screen of publicly-available content broadcast via digital TV. Our imaging technologies, spanning the full range from i1 through i3, and new products we offer based on these technologies, are powerfully augmenting our business initiatives, and, at the same time, the expansion in available content is pushing the frontiers of these business domains ever outward.

To Sum Up...

SE07 is the basis for the corporate culture that Epson wants to preserve and strengthen. Building on the foundation already established through our corporate creeds of "Creativity and Challenge" and "Epson S&A (Start Together & Achieve Together)," we want to draw fully on the sense of teamwork and wide range of capabilities of the Epson Group—"One Epson"—to realize our greatest potential.

Focusing on a revolutionary period in communications and broadcasting, Epson will provide advanced imaging solutions through the convergence of imaging domains, bringing color to everybody's life and to the way people communicate.

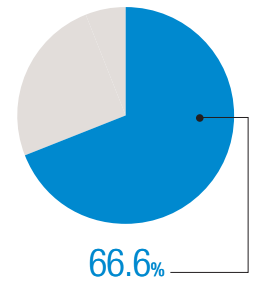


Business Segments at a Glance

Information-Related Equipment Segment



SALES COMPOSITION



PRODUCT LINEUP

Imaging & Information Products

- Inkjet printers
- Laser printers
- Multi-function printers
- Dot matrix printers
- Image scanners

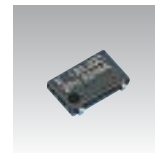
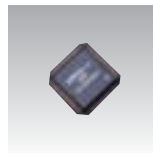
Visual Instruments

- LCD projectors
- LCD color monitors

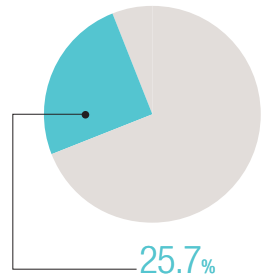
System Devices and PCs

- POS system-related products
- PCs

Electronic Devices Segment



SALES COMPOSITION



PRODUCT LINEUP

Displays

- Small and medium-sized monochrome and color STN LCD modules
- MD-TFD LCD modules
- Light valves for LCD projectors

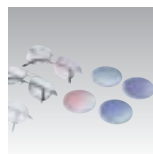
Semiconductors

- CMOS LSIs

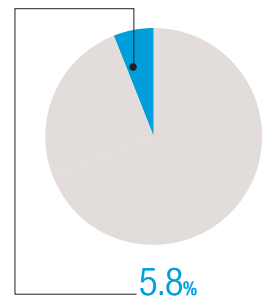
Quartz Devices

- Crystal units
- Crystal oscillators

Precision Products Segment



SALES COMPOSITION



PRODUCT LINEUP

Watches

- Quartz watches
- Watch movements

Optical Products

- Plastic corrective lenses
- Optical devices

Factory Automation Systems

- Precision industrial robots
- IC handlers

Business Overview

- Based on its color imaging concept, Epson draws on its digital control and digital image processing technologies to offer products that provide total solutions from color digital data input through output.
- In the printer business, along with activities aimed at reducing costs, especially regarding low-end printers, Epson is placing emphasis on marketing relatively higher-priced units that draw on its strengths in photo-quality printing while expanding its lineup of pigment-based inks.
- Along with the growing use worldwide of LCD projectors as a presentation tool, sales for the office market are continuing to expand. In addition, Epson has entered the home projector market.

Strategies

Epson has formulated strategies within the printer business tailored for the digital photo, home, and office markets. These strategies are focused on expanding the opportunities for printing and aimed at achieving continued, stable growth in earnings.

Epson will direct its resources to providing LCD projectors for the business market and for the home. In the home market, Epson will introduce well-designed and attractively priced units ahead of its competitors and implement marketing activities to increase awareness of the Epson brand.



Business Overview

- Based on its energy-saving concept, Epson offers a wide range of electronic devices that are small, thin, and feature low power consumption, drawing on its micro-precision processing, energy-conserving, and high-density assembly technologies. This segment undertakes the development and manufacturing of devices to meet the needs of other segments within the Group.

Strategies

Epson will continue to provide electronic devices differentiated by their high image quality, compactness, and low power consumption that anticipate the needs of the mobile communication equipment market. Epson will also direct its efforts to maintaining and strengthening its leading position in LCDs for mobile phone handsets.

Epson's light valves for LCD projectors are based on its original technologies, which makes possible smaller size, lower costs, and a higher aperture ratio for increased brightness. Compared with other light valves, Epson's HT Poly-Si TFT LCDs have captured a high market share. Looking forward, Epson will make further improvements in its technologies, lower costs, and create a supply system to sustain its high market share while also maintaining and strengthening its wide-ranging presence in the light valve market.



Business Overview

- Sales of watches and watch movements, including Seiko-brand watches sold to Seiko Corporation, account for a large portion of the sales of this business segment. Epson manufactures most of Seiko Corporation's watch as its main supplier.

Strategies

Epson has incorporated its superior micro-precision processing and high-density assembly technologies, which it developed in manufacturing mechanical watches, into its MicroArtist concept. Going forward, Epson will actively develop these business operations, positioning them as the wellspring of its micro mechatronics technologies.



Review of Operations

INFORMATION-RELATED EQUIPMENT SEGMENT



Inkjet printers and related supplies are the most important products within this segment in terms of sales. From the year ended March 31, 2001 through the year ended March 31, 2003, market prices for inkjet printers decreased significantly together with those of personal computers and other personal computer-related equipment as competition intensified and as the practice of bundling lower-priced printers with personal computers became more widespread, particularly in the U.S. market. In addition, the size of the global market for inkjet printers was affected by the downturn in the global economy, although the size of the global market for photo-quality inkjet printers and multi-function printers continued to grow during those years.

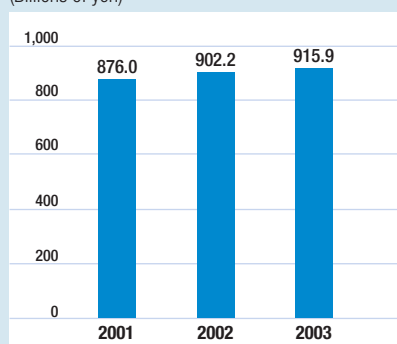
In response to the decrease in market prices, Epson lowered its manufacturing costs, particularly with respect to its lower-priced products, strengthened its marketing of higher-end products and added inkjet printers capable of using pigment-based ink to its product line to capitalize on Epson's strong photo-quality printing technology. As a result, Epson's global unit sales of inkjet printers increased in the year ended March 31, 2003, and its global market share for calendar year 2002 also increased. In addition, demand for supplies has risen with the accumulated growth in the installed base of Epson printers worldwide and the rapid increase in the printing of content rich in color such as photos.

LCD projectors are an important product within this segment. As the use of data projectors as presentation tools has become more widespread worldwide, business market-related sales of Epson's LCD projectors have expanded. In addition, Epson entered into the home projector market in the year ended March 31, 2002.

Laser printers and dot matrix printers are also important products within this segment. Sales of Epson's laser printers, including related supplies, have been gradually increasing while overall demand for dot matrix printers has been gradually declining in recent years. Supplies such as toner cartridges are a significant component of Epson's laser printer-related profits and sales.

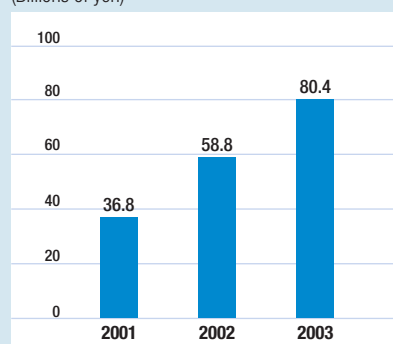
Segment Net Sales

Years ended March 31
(Billions of yen)



Segment Operating Income

Years ended March 31
(Billions of yen)



Millions of yen			Thousands of U.S. dollars
Year ended March 31,			Year ended March 31,
2001	2002	2003	2003

Statement of income data:

Net sales				
Customers.....	¥866,938	¥899,043	¥911,459	\$7,582,854
Inter-segment.....	9,046	3,205	4,398	36,589
Total	875,984	902,248	915,857	7,619,443
Operating expenses	839,182	843,445	835,431	6,950,342
Operating income	¥ 36,802	¥ 58,803	¥ 80,426	\$ 669,101

Balance sheet data:

Identifiable assets	¥474,046	¥425,668	¥384,968	\$3,202,729
Depreciation and amortization.....	¥ 37,075	¥ 40,672	¥ 34,042	\$ 283,211
Capital expenditure	¥ 46,189	¥ 32,683	¥ 27,656	\$ 230,083



Performance of the Information-Related Equipment Segment

In the imaging and information products business, sales of inkjet and multi-function printers, including related supplies, as well as laser printers expanded, but sales of dot matrix printers declined. Sales of inkjet and multi-function printers increased primarily due to the effects of increased unit sales, particularly of multi-function printers, higher sales of ink cartridges and other related supplies as a result of higher ink usage related to accumulated growth in the installed base of Epson printers, increases in demand for the printing of digital photos and other graphic-intensive documents and the depreciation of the yen against the euro. These effects were offset in part by decreases in market prices, particularly of inkjet printers and, to a lesser extent, ink cartridges. Sales of laser printers, including related supplies, increased due mainly to increased unit sales of toner cartridges offset in part by the effect of decreases in market prices of laser printers. Sales of dot matrix printers decreased due to a general shift in consumer preference to other types of printers and decreases in market prices. As a consequence of these factors, total sales of the imaging and information products business increased from the previous fiscal year.

In the visual instruments business, sales of LCD color monitors and LCD projectors increased. Sales of LCD color monitors expanded along with growth in internal sales to other business segments. Although sales of LCD projectors were affected by declining prices, the number of units sold increased, especially in the educational market in Asia. Also in Europe, Epson expanded unit sales by stepping up promotional activities, including cultivation of new marketing channels. As a result of these developments, overall sales in the visual instruments business rose.

In the systems devices and PC businesses, sales of systems devices dropped as another company moved ahead in applying thermal technology in the mini printer mechanism field, leading to a decline in unit sales and a decline in prices. As a consequence, the systems devices and PC businesses reported lower sales than for the previous year.

The segment's operating income rose substantially, despite the adverse impact of lower prices for most products. Factors accounting for this were Epson's success in reducing manufacturing costs for its inkjet printers, image scanners, and LCD projectors and higher unit sales, along with the depreciation of the yen against the euro.

As a result of the previously mentioned factors, Information-Related Equipment segment sales for the fiscal year ended March 31, 2003, rose 1.5%, to ¥915.9 billion, and operating income climbed 36.8%, to ¥80.4 billion.



Strategies for the Printer Business

Epson has tailored strategies for its printer business to focus on the digital photo, home-use and office-use markets. Epson's goal is to increase its share of the printing opportunities in these markets with its printers and increase sales of printer-related supplies.

Epson's digital photo strategy is to provide home users, professionals and mini-labs with digital photo printing solutions that suit their respective needs and attract users of silver halide film to use Epson's inkjet printers.

In the home-use market, Epson will not only continue to develop inkjet printers based on Micro-Piezo inkjet technology capable of higher quality printing, but will also strengthen its lineup of printers that use Epson's proprietary pigment-based color ink which enables high-quality printing on regular paper. Epson will also promote the inkjet printer as a PC-less printing solution by strengthening its lineup of printers capable of printing without use of a personal computer in response to the growing printing needs arising from the increasing amounts of digital image content available from sources such as digital cameras and digital broadcasting.

With respect to mini-labs, Epson has entered into a business alliance with Noritsu Koki, a leading mini-lab manufacturer, and currently provides that company with inkjet printheads and

printer-related supplies on an OEM basis. Epson will also seek to expand its target markets for its large-format inkjet printers to the graphics and poster industries as well as to commercial printing and fine arts users through the introduction of new models capable of using pigment-based color ink. Through these efforts, Epson believes it will be able to maintain and strengthen its strong position in the digital photo market.

Epson's home-use strategy also aims to continue improvement of the performance of its lower-end inkjet printers, as well as strengthen its lineup of multi-function printers that meet the demand for home photocopying capabilities, by introducing models that, for example, use pigment-based color ink and are capable of photo-quality printing.

Epson's office-use strategy centers on Epson's strength in color imaging technology. Specifically, Epson aims to replace the low-end monochrome laser printers currently used by businesses with Epson's color laser printers and high-speed color pigment-based color ink-compatible inkjet printers optimized for business use and will expand its lineup of such products.

Through these strategies, Epson aims to increase sales of printer-related supplies and achieve a steady and continuous increase in profits.

Strategies for the LCD Projector Business

Epson will focus on providing data projectors for business use and LCD projectors for home use. Epson aims to improve the price competitiveness of its data projectors by shifting manufacturing overseas and through other cost-reduction measures. Epson will also improve customer satisfaction by introducing data projectors that are brighter, more compact and easier to use. Through these efforts, Epson seeks to expand its leading position in the data projector market by

capturing market share in newly emerging markets such as those in developing countries, particularly in Asia, and the home office and educational markets.

For the home-use market, Epson plans to develop optical engines for LCD projectors with high contrast ratios and low noise levels and will aim to introduce ahead of its competitors products that are attractively designed and priced. Epson will also strengthen its marketing efforts to increase consumer awareness of the Epson brand in the home projector market.

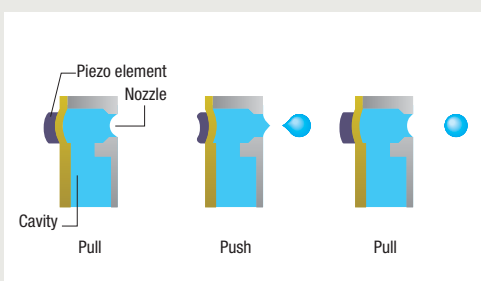
■ What Accounts for the Superiority of Epson's Technology?

Micro-Piezo Print Heads

There are extremely small ink extrusion nozzles on one side of the printer head. These nozzles have a diameter of $25\mu\text{m}$, about one-fourth the diameter of a single strand of a human hair. Behind each nozzle is a tiny ink reservoir. A piezo device, which changes its shape when an electric current is passed through it, is used to force the ink from the cavity through the nozzle. As this mechanism is not only capable of extruding the ink but also drawing it back into the reservoir, it can create precisely rounded dots of ink. Moreover, the piezo device can oscillate a maximum of 45,000 times per second.

By using this high-performance print head in combination with pigment-based ink that contains extremely fine particles of about $0.1\mu\text{m}$, the head can print images with a density of 2,880dpi (2,880 dots per square inch (2.54cm^2)).

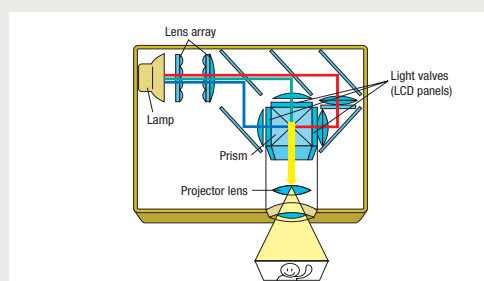
μm = micrometer (1/1,000 mm)



Largest Number of Patents in the LCD Projector Field

The three-image LCD panel projection system developed by Epson, breaks white light into the three basic optical colors—red, green, and blue—using a specially-designed mirror and projects the color images onto three light valves (LCD panels). These three images are fused into one using a prism and then enlarged and projected through the projector lens.

By being the first company in the world to introduce this three-image LCD panel projector, Epson was able to build its strengths in the LCD projector field. Today, the three-image projection method is the global standard technology. Epson holds a large number of core patents for this system, including those for compact, high-luminescence optics technology, giving it a strong competitive position.



ELECTRONIC DEVICES SEGMENT

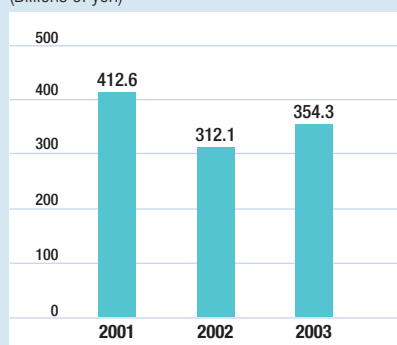


The energy-saving characteristics of Epson's electronic devices make them particularly well suited for use in mobile phone handsets, PDAs and other portable products. Sales of Epson's electronic devices in the year ended March 31, 2001, increased as the number of mobile phone handsets manufactured globally increased considerably, and mobile phone-related sales accounted for a significant portion of Epson's net sales of electronic devices. Sales of electronic devices in the year ended March 31, 2002 decreased from the prior year due mainly to a slowdown in the growth of the global mobile phone handset market and the lower demand from handset manufacturers for components as they significantly reduced the manufacturing of new handsets to clear excess inventory. In the year ended March 31, 2003, demand for components for mobile phone handsets with color LCDs grew as global production of such handsets increased. As a result, Epson's sales of mobile phone handset-related components generally increased compared with the prior year. However, an increase in the supply of certain components, including monochrome LCD driver ICs and active color LCD modules, caused significant price erosion with respect to these products.

Important products in this segment, in terms of sales, include monochrome and color STN LCD modules, MD-TFD LCD modules, light valves for LCD projectors and logic ICs, including LCD driver ICs. Eliminations due to intersegment sales are higher in this segment compared to the other two principal segments as many of the components manufactured in this segment are used for products in Epson's other segments.

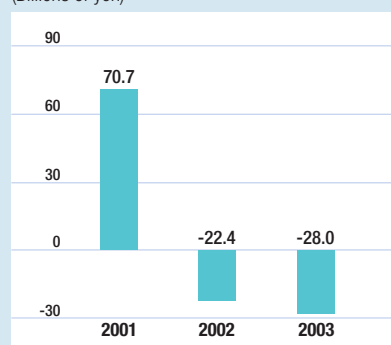
Segment Net Sales

Years ended March 31
(Billions of yen)



Segment Operating Income (Loss)

Years ended March 31
(Billions of yen)



Millions of yen

Thousands of
U.S. dollars

Year ended March 31,

2001 2002 2003 Year ended
March 31,
2003

Statement of income data:

Net sales				
Customers.....	¥382,242	¥292,616	¥328,460	\$2,732,612
Inter-segment.....	30,382	19,466	25,828	214,875
Total	412,624	312,082	354,288	2,947,487
Operating expenses	341,906	334,470	382,288	3,180,432
Operating income (loss).....	¥ 70,718	¥ (22,388)	¥ (28,000)	\$ (232,945)

Balance sheet data:

Identifiable assets	¥429,628	¥469,236	¥402,248	\$3,346,489
Depreciation and amortization.....	¥ 44,695	¥ 70,459	¥ 75,111	\$ 624,884
Capital expenditure	¥127,310	¥136,348	¥ 35,720	\$ 297,171



Performance of the Electronic Devices Segment

Within the display business, increases were recorded in sales of MD-TFD LCD modules, light valves and color STN LCD modules. However, sales of monochrome STN LCD modules declined. Sales of MD-TFD LCD modules and color STN LCD modules increased due to the effect of increased unit sales related to the shift to handsets with color LCDs in certain markets outside Japan offset in part by the effect of decreases in market prices, particularly with respect to MD-TFD LCD modules. Sales of monochrome STN LCD modules and monochrome LCD driver ICs decreased due to the effect of decreased unit sales related to the shift to handsets with color LCDs. Sales of light valves increased due to increased demand related to growth in the data projector and home LCD projector markets. As a consequence of these developments, sales by the display business as a whole were robust.

In the semiconductor business, sales of monochrome LCD driver ICs declined while sales of color LCD driver ICs memories

and ASICs rose, reflecting the shift to the use of color displays in mobile phones. The expansion in sales of memory was due to an increase in units sold for use in mobile phones, accompanying the trend toward mobile phones with a wider range of features. As a result, a substantial increase in sales was recorded for the semiconductor business.

Major increases were also reported for the quartz device business and the number of units sold to the mobile phone, digital camera, network, and automobile-related product markets expanded.

Despite a general recovery in demand for mobile phone handset components leading to increased unit sales, Epson's operating loss worsened as its cost reduction efforts were outpaced by the effects of declines in the market prices of its products and increased depreciation and amortization costs.

Therefore, Electronic Devices segment sales expanded 13.5%, to ¥354.3 billion for the fiscal year ended March 31, 2003, with an operating loss amounting to ¥28.0 billion.

Epson's Strategies for Mobile Displays

As new mobile phone handsets are shifting worldwide toward having color displays, demand for high-resolution, low power consumption, low-cost displays is increasing.

Epson has continued to focus its development efforts on small and medium-sized displays. Epson enjoys a leading position in the market for LCDs for use in mobile phone handsets due to its strength in compact product design, based on its expertise in low power consumption and high-density assembly technology, as well as its substantial manufacturing capabilities and extensive product lineup. Epson will continue to provide distinctive high-resolution, compact, low power-consumption displays.

Epson also has a strong market presence with respect to LCD driver ICs and LCD controller ICs for use in mobile phone handsets. Epson will combine its technological strengths related to these products, its LCDs and its digital image processing technology to create display solutions that can

comprehensively perform the display functions of a mobile phone handset. Epson aims to maintain and strengthen its leading position in these component markets by promoting its ability to provide these solutions.

Strategies for Light Valves for LCD Projectors

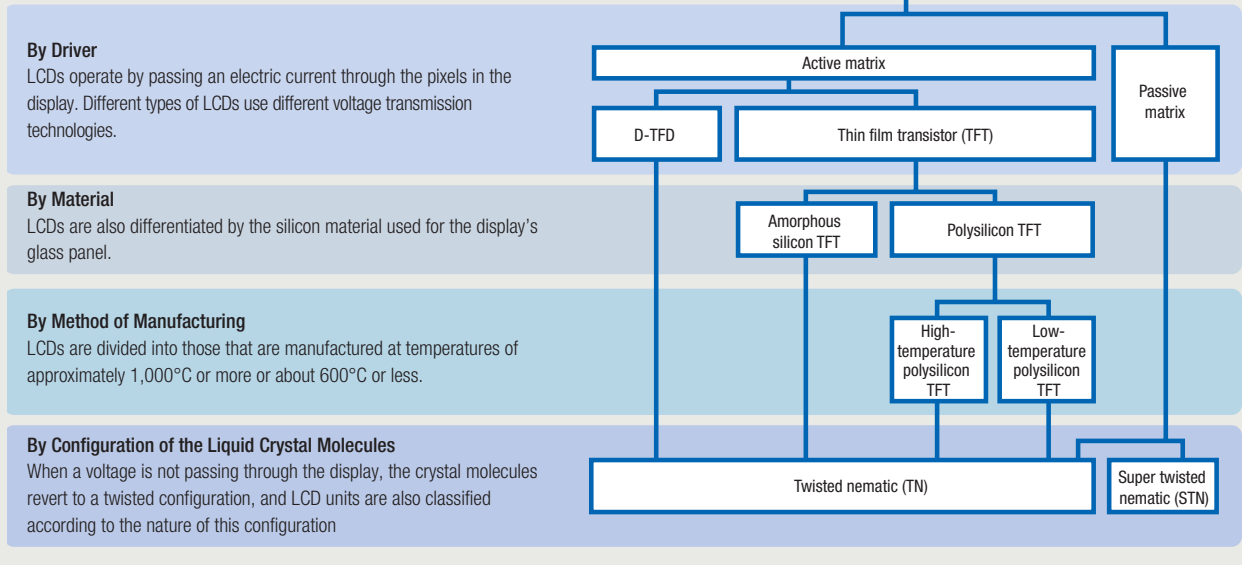
Light valves are an important product for Epson's electronic devices business. Epson believes that the market for LCD projectors, including data projectors for business use as well as home projectors, will continue to grow. Based on Epson's proprietary technologies, its light valves are relatively compact and inexpensive with high aperture ratios and have achieved high market shares, especially compared to those based on non-LCD technology such as DLP technology. Epson plans to continue enhancing its technologies, further reduce manufacturing costs and establish sufficient manufacturing capacity to support strong market growth and to maintain and improve its market presence in the light valve market.

What Accounts for the Superiority of Epson Technology?

LCDs for Mobile Phone Handsets

Ahead of its competitors, Epson introduced LCD units for mobile phone handsets featuring low power consumption, the thinnest profile, and transfective passive screens. Epson is particularly strong in this technology and holds major patents in this area. Epson's technology development capability is highly regarded by manufacturers of mobile phone handsets, and Epson has led the way in improving the performance of LCDs.

LCDs by Type



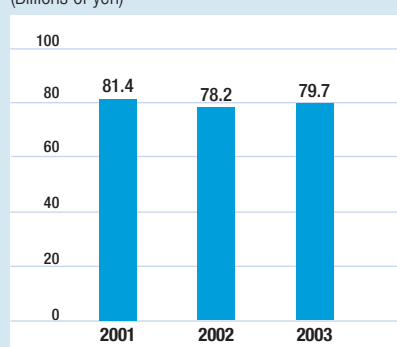
PRECISION PRODUCTS SEGMENT



Precision products include watches, watch movements, plastic corrective lenses and factory automation systems as principal products. Sales of watches and watch movements, including the sale of Seiko brand watches to Seiko Corporation, account for a significant portion of sales of precision products. Epson manufactures most of Seiko Corporation's watches as its main supplier.

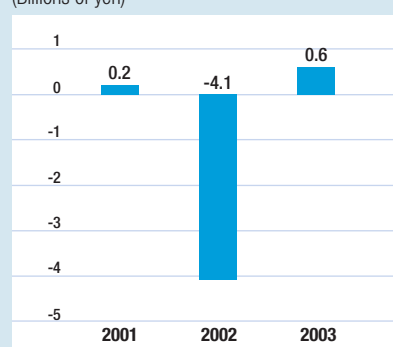
Segment Net Sales

Years ended March 31
(Billions of yen)



Segment Operating Income (Loss)

Years ended March 31
(Billions of yen)



Millions of yen			Thousands of U.S. dollars
Year ended March 31,			Year ended March 31,
2001	2002	2003	2003

Statement of income data:

Net sales				
Customers	¥79,084	¥76,365	¥77,155	\$641,889
Inter-segment.....	2,306	1,823	2,590	21,547
Total	81,390	78,188	79,745	663,436
Operating expenses	81,224	82,295	79,100	658,070
Operating income (loss).....	¥ 166	¥ (4,107)	¥ 645	\$ 5,366

Balance sheet data:

Identifiable assets	¥65,164	¥60,283	¥50,706	\$421,847
Depreciation and amortization	¥ 3,894	¥ 4,182	¥ 4,037	\$ 33,586
Capital expenditure	¥ 4,250	¥ 3,990	¥ 3,393	\$ 28,236

Performance of the Precision Products Segment

Segment sales as a whole expanded despite the adverse impact of the decline in the number of watches purchased because of stagnation in consumer spending and the decline in prices of products in the optical products business. The overall increase in segment sales was supported by an increase in orders in the factory automation systems business, from product assembly companies and manufacturers specializing in testing in Taiwan and ASEAN countries.

The operating income of the segment increased, supported by the shift toward higher margin watches and the increase in sales of factory automation systems.

As a consequence, Precision Products segment sales rose 2.0%, to ¥79.7 billion, and operating income was ¥645 million.

Performance of Other Business Segments

Sales of other business activities (including inter-segment sales) accounted for 1.9% of Epson's net sales for the fiscal year ended March 31, 2003. This business segment includes services offered within Epson, such as logistics and shipping services, insurance and leasing services, facility maintenance services, travel and other services, as well as new businesses still in the start-up phase. Because most of the sales in this segment are intersegment sales related to internal services, the segment does not contribute materially to Epson's net sales.

Research and Development

At Epson, we continually pursue R&D and technology development programs that will contribute to the strengthening and expansion of our existing businesses. To form the core of next-generation products, we are implementing a unique program of R&D aimed at anticipating future developments.



Epson's R&D costs in the fiscal year ended March 31, 2003 rose ¥6.0 billion, or 7.5% from the previous fiscal year, to reach ¥85.8 billion. As a consequence, the ratio of R&D expenses to net sales climbed 0.2 percentage point, to 6.5%. By segment, R&D expenditures were ¥35.2 billion in Information-Related Equipment segment, ¥25.1 billion in Electronic Devices segment, and ¥1.5 billion in Precision Products segment. In addition, we spent ¥24.0 billion for R&D in other business areas and for the Company on the corporate level. These expenditures were made from a medium-to-long-term perspective and were primarily directed toward next-generation basic technologies, devices, semiconductors, and other products.

Inkjet Open Laboratories

We opened inkjet open laboratories at our Suwa Minami Plant in July 2002 and at Epson Cambridge Laboratory in October. These new facilities will examine the possibilities for new applications of inkjet technology in relevant industrial fields.

We have received a number of inquiries regarding joint experimentation and development in this area, and successful results have been reported in using inkjet technology for metal wire plating and in the manufacturing of micro-lenses.

During fiscal year ending March 31, 2004, we plan to step up the activities of the inkjet open laboratories with a special focus on enhancing production technologies.

Development of Organic LED (OLED) Technology

Epson is engaged in producing prototypes of active color OLEDs formed through the application of inkjet technology and making use of high polymer materials. Organic EL displays are next-generation units that utilize organic materials that emit light when an electric current is passed through them.

Organic materials are divided into low polymer and high polymer types, but high polymer types can be formed using inkjet technology and their other characteristics include:

- High-precision patterning is possible, which is necessary for high-precision displays.
- High throughput film formation is possible.
- Virtually none of the materials are wasted and the process is environmentally friendly.
- Production of large display panels is relatively easy.



(Picture of Trial Product)

■ What Accounts for the Superiority of Epson Technology?

Pursuing “μ (micro) liquid process” technology

Epson has earned a strong reputation in the printer market for the development and commercialization of “photo-quality printers.” In addition, Epson is advocating the adoption of its “μ (micro) liquid process,” a revolutionary production technology based on inkjet technology. This process makes it possible to precision-spray minute amounts of liquid—on the order of one picoliter (one trillionth of a liter) or one nanogram (one billionth of a gram)—in exact locations. Functioning as a new production technique, the μ (micro) liquid process can be used to perform ultrafine direct etching, create uniformly thin membranes, and carry out other tasks at the pico and nano levels. Particularly in the fabrication of semiconductors and other devices, this inkjet technology can be used for direct pattern etching and to shorten the usually lengthy photolithography process down to only one to three steps. In addition, this process enables a reduction in the volume of the principal materials and resist materials used in the photolithography process, which are

now disposed of as waste materials, to one tenth of amounts currently employed. Therefore this process is expected to play an important role in reducing waste and helping to preserve the earth’s environment.

Academic researchers have recently issued a number of reports on this process using commercially available printers. However, industrial applications of this process will require improvements in both productivity levels and quality. Thus far, fully satisfactory results have not been obtained because of the difficulty of optimizing the component technologies (inkjet heads, inks, surface processing of objects to be printed, ink systems, etc.) of this basic technology.

At Epson, we believe that μ (micro) liquid process technology will be indispensable for realizing energy and resource conservation in the 21st century. We have therefore set up inkjet open laboratories in Japan and in the United Kingdom to promote the development of mass production versions of this technology and to work together with research partners in employing the process in new applications.

Research and Development Structure

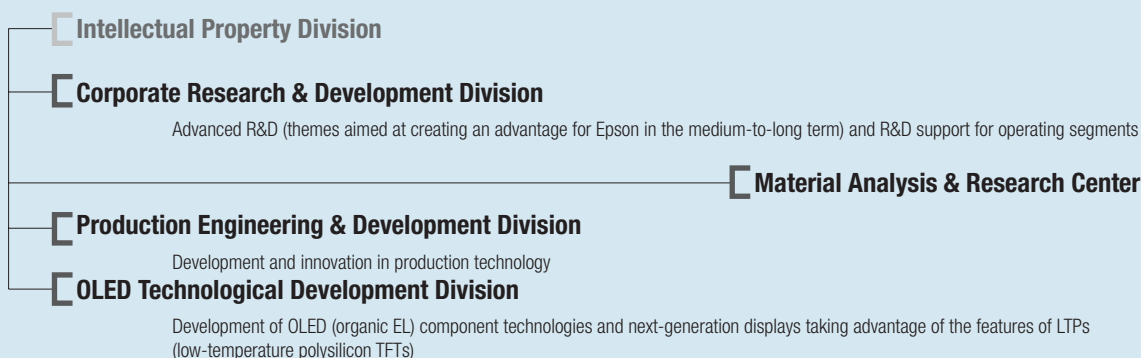
Epson’s R&D structure is led by the Research and Development Divisions of the corporate headquarters and those conducted by individual business units. The Research and Development Divisions of the corporate headquarters are responsible for the development of medium-to-long-term basic technologies, advanced technologies, and R&D for production technologies and is also engaged in R&D that will support the operating segments and have a direct impact on strengthening their activities.

Among R&D themes that have reached a certain stage, Epson has a policy of identifying those that are high priority

and should be commercialized at an early stage from the perspective of the Company as a whole. Epson then establishes organizational units that report directly to the parent company to work toward the commercialization of these selected R&D themes. The OLED Technology Development Division was established based on this policy.

Individual business units conduct new product R&D aimed at maintaining, strengthening, and expanding the activities of their respective segments. They also pursue R&D related to production technologies to facilitate the commercialization of product technologies.

● Research and Development Divisions of the Corporate Headquarters



● Research and Development for the Individual Business Units

Development of new products, R&D for the enhancement of product functions and performance and development of production technologies

Management Topics

Epson Receives Corporate Innovation Award from IEEE



Epson received the annual Corporate Innovation Recognition Award presented by the Institute of Electrical and Electronic Engineers (IEEE). With a membership drawn from 150 countries, IEEE is the international academic association responsible for establishing world interface standards for the IT and related industries in June 2002.

This award was inaugurated in 1985 and is presented annually to companies and research institutes that have contributed to the development of the electronics industry. Epson received the award in recognition of its pioneering role in development of the quartz watch in 1969. Such watches employ crystal oscillators, ICs for watches, and micro step motors, and the power-saving technologies developed by Epson for these timepieces contributed to the subsequent development of power-saving technology in the electronic device industry.

Tie-up with Noritsu Koki to Introduce Inkjet Technology into Dry Mini-Labs

Epson reached agreement in September 2002 with Noritsu Koki Co., Ltd., the world's leading supplier of dry mini-labs (for development of photos in retail stores) to provide Epson's inkjet technology for use in development and manufacturing of mini-labs. Noritsu Koki began to provide mini-labs incorporating Epson technology to existing and new customers in early 2003.

Under this tie-up, Epson is supplying its Micro-Piezo technology (print heads, ink, and image processing technologies). Noritsu Koki is incorporating an image processing technology created jointly with Epson in the dry mini-labs it will develop, manufacture and sell. These dry mini-labs will feature a reduced burden on the natural environment, require less space, and boast greater ease of maintenance as well as lower costs and greater reliability.

As a consequence of this tie-up, Epson will be able to provide advanced digital printing environments based on inkjet technology for not just the home printing market but all the way to street corner printing in photo processing shops, public facilities, and elsewhere.



Environmental and Corporate Citizenship Activities

Epson views attaining harmony with the natural environment as a management topic with the highest priority and conducts its activities accordingly.

Support for the “Kids ISO Program”

As part of its environmental and corporate citizenship activities, Epson is participating in and supporting the “Kids ISO Program,” an environmental education support program developed for children by ArTech, the International Art and Technology Cooperative Organization. The Kids ISO Program was created as an environmental consciousness education system by ArTech in 2000. Under this program, children are encouraged to take the lead in promoting environmental improvement activities in their daily lives. During the fiscal year under review, the management and staff of Epson were jointly involved in the program, inviting 50 children of Epson employees to participate in entry-level and beginners' courses on the environment. To enable the children to participate during the summer vacation, the voluntary program was scheduled to conclude at the end of August 2002.

Epson will continue to participate in this program in the future and has scheduled employee training seminars for becoming Eco Kids instructors, the staff who are responsible for evaluating the activities of young participants. Employees who have attended the training seminars will be able to offer their time on a voluntary basis to contribute to expanding the Kids ISO Program among children in their respective regions.

MAXART PX-9000 and MAXART PX-7000 Win Energy Conservation Center Award

Epson's large-format inkjet printers MAXART PX-9000* and MAXART PX-7000* were awarded the Chairman's Prize of Japan's Energy Conservation Center for their energy-conserving performance. This award was preceded by the receipt of the award of the Director of the Resource and Energy Agency in fiscal 2001 for Epson's Colorio Printer PM-950C* and Colorio Printer PM-3500C*. Therefore, the award from the Energy Conservation Center marked the second year for Epson inkjet printers to receive awards in Japan.

Epson is moving forward with activities to make its products more environmentally conscious, especially in the areas of (1) energy-conserving design, (2) resource conservation, and

(3) the elimination of harmful substances. In particular, as social demands for energy conservation are rising, Epson is actively implementing measures for energy conservation in its products, focusing on saving electric power.

(* Japanese product names)

Toyoshina Plant Receives METI Award for Energy Conservation

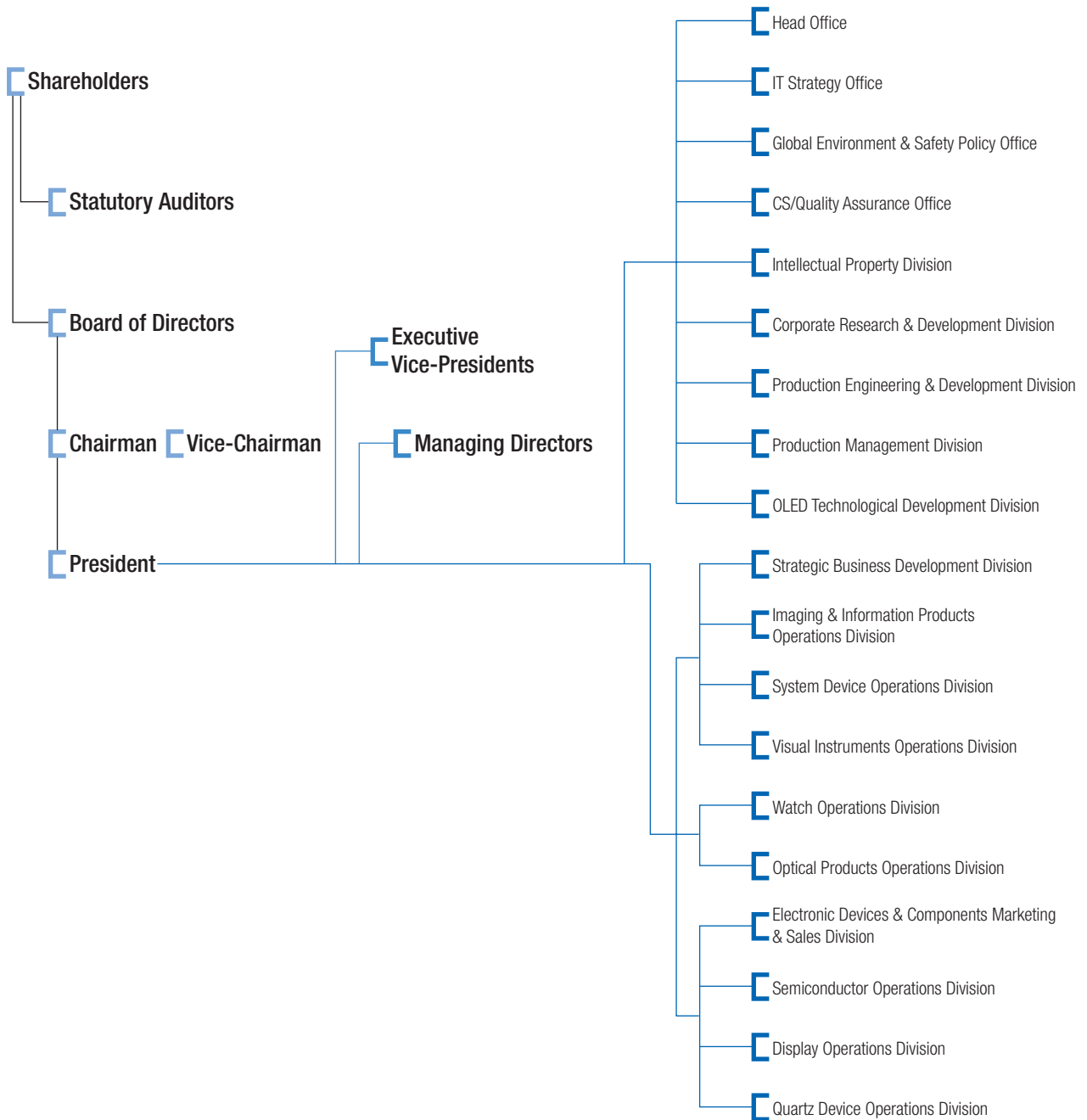
Epson's Toyoshina Plant was selected to receive the Minister of Economy, Trade and Industry Award following a conference for the presentation of examples of superior energy conservation activities that was sponsored by the Energy Conservation Center in September 2002. In addition, Tohoku Epson Corporation received an award for its energy conservation activities from the Energy Conservation Center.

Since the commencement of its operations in August 2001, the new facilities of the Toyoshina Plant have carried out their operations with consideration for the environment from the design stage onward. Goals were established for energy-conserving design for the basic equipment and production machinery of the plant, and, in comparison with other existing production lines, the new facilities are reporting major reductions in energy consumption.

Epson Issues *Environmental Report 2002*

Epson has issued its *Environmental Report 2002*, which summarizes the environmental preservation activities of the Epson Group for the fiscal year ended March 31, 2002. (The report is available in Japanese, English and Chinese.) This report also covers Epson's environmental accounting results for the fiscal year. In addition, the imaging and information products business became the first division in the Epson Group to issue a report on environmental activities by site. Moreover, detailed information not covered by the report is available from the imaging and information products business's Website in line with the policy of providing as much information as possible to promote understanding of Epson by as many people as possible.

Organization Chart



(As of June 27, 2003)

Corporate Governance

Epson's basic objectives in the area of corporate governance are to continue to increase corporate value and maintain a high level of transparency and soundness in its operations through strengthening management surveillance functions and ensuring compliance with corporate ethics for customers, employees, shareholders and other stakeholders.

Initiatives to Increase Corporate Value and Strengthen Surveillance Functions

To remain a winner under rapidly changing competitive conditions, Epson is aware that rapid decision making in the management of its operations is extremely important. Accordingly, Epson has delegated substantial management authority to each of its businesses, thus making it possible for the general managers of each business to make decisions autonomously and conduct business activities with speed and flexibility. On the other hand, Epson's Board of Directors concentrates on supervising the conduct of operations in every business and formulating policies that involve the activities of multiple business domains and giving direction on significant subjects that transcend individual businesses from a strategic corporate perspective. Epson's Management Deliberation Committee and Management Committee—which are composed of a small number of members and meet weekly—give thorough consideration to items to be considered by the Board and provide assistance to the Board in reaching decisions. Through these activities, these committees can set the direction flexibly and efficiently for matters that require approval of representative directors.

Please note that in selecting members of the Board of Directors, Epson believes that the people best qualified for rapidly making decisions that accurately reflect the Company's actual circumstances are those who can share the Company's management stance and philosophy. For this reason, Epson does not appoint outside directors to the Board and is working to enhance its functions with the current membership system.

To provide for sufficient checks on decision making, Epson is working to enhance its management surveillance functions by improving the quality of audits implemented by its statutory auditors, conducting internal inspections.

Epson has four statutory auditors, including external statutory auditors, who meet each month to confirm the conduct of management activities. In addition, statutory auditors are participating members not only of the Board of Directors but also other deliberative groups within the Company, including the Management Deliberation Committee. Under this system, statutory auditors are thus in a position to conduct their audits based on the same level of information as members of the Board of Directors.

Internal auditing functions, including audits of subsidiaries, are conducted periodically by the Auditing Office, which reports directly to the president of the Company, and the scope of the department's activities includes the examination of internal operating procedures. Under this system, issues and points for improvement that are selected from the results of internal audits are reported directly to the president and follow-up reports are made on subsequent progress toward improvement.

In addition, prior to preparing plans for audits, the statutory auditors and Auditing Office confer in advance regarding their ideas for accounting policy and accounting plans. Moreover, they exchange reports on auditing results periodically with the objective of enhancing the quality of auditing activities.

In addition, the accounts have been audited by independent accountants according to statutory procedures.

Strengthening Compliance Functions

In 1997, Epson prepared its *Code of Conduct for Personnel in Management Positions*, to provide a set of guidelines for corporate ethics, with the aim of promoting a keener awareness among personnel of their compliance responsibilities as members of society. In addition, in February 2001, Epson issued its *Code of Conduct for Employees* to encourage greater sensitivity and understanding of compliance among all staff members. The Company conducts regular training programs based on these codes of conduct for various levels of management and staff. In addition, in 2001, Epson established its Compliance Management Committee and began to take action to improve its systems for enhancing functions for ensuring compliance on a day-to-day basis and preventing compliance violations. Other initiatives to strengthen compliance functions include the formation of the Legal Compliance Promotion Office to be responsible for gathering information related to compliance issues (through the Compliance Hotline), which is one of the functions of the Compliance Management Committee.

Enhancing Corporate Disclosure

Epson emphasizes the timely disclosure and prompt release of accurate corporation information to the public in accordance with the spirit of fair disclosure and in fulfillment of its responsibility to be accountable to shareholders and other stakeholders.

Specific initiatives include the prompt release of quarterly financial reports and expansion of the content of disclosure. Epson works to promote an accurate understanding of its activities through information meetings, the use of its Website, and other means. Epson endeavors on a continuing basis to detect any divergences between the views of management and market participants by providing feedback, obtained through investor and public relations activities, to management on the views of persons outside the Company. In addition, Epson maintains a basic policy of actively disclosing information on risks that emerge within the Epson Group.

Looking forward, Epson is scheduled to release its medium-term plan for the Group. By disclosing information on its future plans and objectives, the Company aims to provide information

that will assist investors in making decisions. Releasing this information will also encourage observers outside the Company to follow Epson's progress toward its objectives and contribute to effective corporate governance.

Along with these initiatives to strengthen corporate governance, Epson is closely following developments in the corporate environment as well as trends in the market with the aim of making further improvements in its corporate governance structure.

Financial Section

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Over the past five years, Epson has in general experienced growth in both sales and profits. However, a downturn in the global economy and in the markets for Epson's electronic devices adversely affected Epson's results of operations for the year ended March 31, 2002. In the year ended March 31, 2003, Epson's results of operations improved compared to the previous fiscal year as sales and profits related to information-related equipment continued to grow. Sales of electronic devices also increased as demand began to recover, although the segment recorded operating losses, particularly in the first half of the fiscal year, as competition intensified for some electronic devices. Net sales in the years ended March 31, 2001, 2002 and 2003 were ¥1,341 billion, ¥1,274 billion and ¥1,322 billion, respectively. Operating income in the years ended March 31, 2001, 2002 and 2003 was ¥104 billion, ¥26 billion and ¥49 billion, respectively.

NET SALES BY BUSINESS SEGMENTS

Epson's business segments are information-related equipment, electronic devices, precision products and other.

Information-related equipment accounted for 66.6% of Epson's net sales (including inter-segment sales) in the year ended March 31, 2003. This business segment includes imaging and information products, visual instruments, system devices, and personal computers. Sales of imaging and information products are generally significantly

higher in the second half of the fiscal year compared to the first half. This is due mainly to the effect of year-end holiday-related sales of inkjet and multi-function printers and related supplies. For example, sales of imaging and information products for the second half of the year ended March 31, 2003 were 25.5% higher than sales for the first half of that fiscal year.

Electronic devices accounted for 25.7% of Epson's net sales (including inter-segment sales) in the year ended March 31, 2003, up from 23.7% in the prior year. The business segment includes displays, semiconductor products, and quartz devices. Eliminations due to inter-segment sales are higher in this segment compared to the other two principal segments as many of the components manufactured in this segment are used for products in Epson's other segments.

Precision products accounted for 5.8% of Epson's net sales (including inter-segment sales) in the year ended March 31, 2003. Precision products include watches, watch movements, plastic corrective lenses and factory automation systems as principal products.

Other accounted for 1.9% of Epson's net sales (including inter-segment sales) in the year ended March 31, 2003. It includes services offered within Epson, such as logistics and shipping services, casualty insurance and leasing services, facility maintenance services, travel and other services, as well as new businesses still in the start-up phase. Because most of the sales in this segment are inter-segment sales related to internal services, the segment does not contribute materially to Epson's net sales.

Net Sales by Business Segments

	Millions of yen, except percentages					
	Year ended March 31,					
	2001		2002		2003	
Information-related equipment.....	¥ 875,984	62.0%	¥ 902,248	68.4%	¥ 915,857	66.6%
Electronic devices	412,624	29.2	312,082	23.7	354,288	25.7
Precision products	81,390	5.8	78,188	5.9	79,745	5.8
Other	42,899	3.0	25,828	2.0	26,310	1.9
Total	1,412,897	100.0%	1,318,346	100.0%	1,376,200	100.0%
(Eliminations and corporate).....	(71,994)		(44,237)		(53,747)	
Total net sales	¥1,340,903		¥1,274,109		¥1,322,453	

NET SALES BY GEOGRAPHIC SEGMENTS

Epson divides its operations geographically into four segments: Japan, the Americas, Europe and Asia/ Oceania.

Based on the location of customers, sales outside Japan, constituting 55.9%, 60.1% and 63.0% of net sales in the years ended March 31, 2001, 2002 and 2003, respectively, were somewhat higher than when based on the location of the entity recording the sale. Unless otherwise stated, geographic segment information is based on location of the entity recording the sale.

While net sales of MD-TFD LCD modules continued to grow in Japan in the year ended March 31, 2002, overall net sales in Japan declined due mainly to decreases in sales of STN LCD modules and logic ICs. In the year ended March 31, 2003, increases in net sales of MD-TFD LCD modules, memory devices, light valves, inkjet and multi-function printers, including related supplies, and quartz devices were offset in part by decreases in net sales of STN LCD modules and image scanners.

In the Americas, net sales of inkjet and multi-function printers, including related supplies, and image scanners increased in the year ended March 31, 2002 compared to the prior year despite decreases in unit prices. However, this increase was more than offset by larger decreases in sales of quartz devices, STN LCD modules, Epson's silicon foundry business and logic ICs. In the year ended March 31, 2003, net sales decreased due mainly to decreases in sales of dot matrix printers, inkjet and multi-function

printers, including related supplies, logic ICs and Epson's silicon foundry business.

Net sales in Europe increased in the year ended March 31, 2002 due mainly to increased sales of inkjet and multi-function printers, including related supplies, and laser printers, including related supplies, which more than offset decreases in net sales of STN LCD modules and quartz devices. Net sales in Europe increased in the year ended March 31, 2003 due mainly to increased sales of inkjet and multi-function printers, including related supplies, and laser printers, including related supplies.

Net sales in Asia/Oceania in the year ended March 31, 2002 grew mainly as a result of increases in sales of inkjet and multi-function printers, including related supplies, laser printers, including related supplies, and LCD projectors which were offset in part by decreases in sales of STN LCD modules and logic ICs. Net sales in Asia/ Oceania in the year ended March 31, 2003 increased due mainly to increased sales of STN LCD modules, logic ICs and MD-TFD LCD modules.

Epson's net sales outside Japan are generally denominated in the local currency of the country in which the customer is located and are subject to fluctuations in the value of the yen in relation to these currencies.

Net Sales by Geographic Segments

	Millions of yen, except percentages					
	Year ended March 31,					
	2001		2002		2003	
Japan.....	¥ 704,771	52.6%	¥ 622,670	48.9%	¥ 637,544	48.2%
The Americas	246,011	18.3	245,098	19.2	230,263	17.4
Europe	228,230	17.0	241,202	18.9	258,278	19.5
Asia/Oceania	161,891	12.1	165,139	13.0	196,368	14.9
Total	¥1,340,903	100.0%	¥1,274,109	100.0%	¥1,322,453	100.0%

FINANCIAL CONDITION

Total assets as at March 31, 2003 decreased 3.6% to ¥1,196,080 million from ¥1,241,161 million as at March 31, 2002. Property, plant and equipment decreased by ¥59,482 million offset by an increase of ¥22,895 million in current assets. The decrease in property, plant and equipment was due mainly to an increase in accumulated depreciation. The increase in current assets was due mainly to an increase in cash and cash equivalents offset in part by a decrease in notes and accounts receivable, trade.

Total liabilities as at March 31, 2003 decreased 4.8% to ¥912,156 million from ¥958,440 million as at March 31, 2002. Current liabilities decreased by ¥107,804 million offset by an increase of ¥61,520 million in long-term liabilities. The decrease in current liabilities was due mainly to decreases in short-term bank loans, accrued warranty costs and current portion of long-term debt. The increase in long-term liabilities was due mainly to an increase in long-term debt offset in part by a decrease in accrued pension and severance costs. Epson's partial shift of borrowings from short-term to long-term debt was partially in response to the low interest rate environment.

Working capital, defined as current assets less current liabilities, increased from ¥21,524 million as at March 31, 2002 to ¥152,223 million as at March 31, 2003. The increase was due mainly to an increase in cash and cash equivalents and decreases in short-term bank loans, accrued warranty costs and current portion of long-term debt offset in part by a decrease in notes and accounts receivable, trade.

The ratio of debt to total capital was 68.4% at March 31, 2003, which was relatively unchanged from 68.3% at March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Epson has traditionally financed its operations primarily through cash generated by its operations and long-term and short-term bank borrowings.

Net cash provided by operating activities in the years ended March 31, 2001, 2002 and 2003 was ¥99,585 million, ¥151,284 million and ¥159,504 million, respectively. Net cash provided by operating activities was the result primarily of net income together with non-cash items such as depreciation and amortization. The increase in the year ended March 31, 2003 was due mainly to a smaller decrease in notes and accounts payable, trade compared to the previous year and the effect of recording a net income (as opposed to a net loss in the previous year) offset in part by a smaller decrease in notes and accounts receivable, trade and a smaller decrease in inventories compared to the previous year. The increase in the year ended March 31, 2002 was due mainly to a decrease (as opposed to an increase in the previous year) in the amount of notes and accounts receivable, trade, a decrease in inventories (as opposed to an increase in the previous year) and an increase in depreciation and amortization offset in part by a decrease (as opposed to an increase in the previous year) in notes and accounts payable, trade and a net loss in the year ended March 31, 2002 (as opposed to net income in the previous year).

Net cash used in investing activities in the years ended March 31, 2001, 2002 and 2003 was ¥170,454 million, ¥278,358 million and ¥107,943 million, respectively. The decrease in the year ended March 31, 2003 was due mainly to decreases in payments for purchases of property, plant and equipment as investments in manufacturing facilities declined. The increase in the year ended March 31, 2002 was due mainly to increases in payments for purchases of property, plant and equipment related primarily to investments in manufacturing facilities related to electronic devices. In addition, payment of long-term prepaid expenses related to Epson's investment in intellectual property in connection with a joint venture with IBM Corporation, Yasu Semiconductor Corporation, presented as other assets in the balance sheet, and others, consisting mostly of payments related to investment securities, contributed to the

increase in the year ended March 31, 2002. The amount of cash outflows from purchases of property, plant and equipment differs significantly from the amount of Epson's capital expenditures for the same years because of timing differences due to capital expenditures being accounted for on an accrual basis.

Net cash provided by financing activities in the years ended March 31, 2001, 2002 and 2003 was ¥97,729 million, ¥101,701 million and ¥9,111 million, respectively. Because cash used in investing activities in the years ended March 31, 2001 and 2002 was greater than that provided by operating activities, additional funds were provided through increases in bank financing. Short-term bank loans and long-term debt increased from a total of ¥602,867 million at March 31, 2002 to ¥609,390 million at March 31, 2003. This increase was due to an increase in long-term debt offset in part by a decrease in short-term loans, and, together with the excess of cash provided by operating activities over cash used in investing activities, cash and cash equivalents at March 31, 2003 increased.

Epson's long-term liabilities consist mainly of long-term debt and accrued pension and severance costs. At March 31, 2003, its long-term debt (less the current portion) totaled ¥396,934 million with a weighted average interest rate of 1.02% almost all of which was unsecured loans from banks with maturities up to October 2008. Epson also relies on short-term bank loans and trade payables as additional sources of liquidity. Epson is party to a line of credit with four banks to secure an efficient source of working capital in the total maximum amount of ¥40,000 million, all of which was unused as at March 31, 2003.

CAPITAL EXPENDITURES

Epson's capital expenditures were ¥239,414 million, ¥197,533 million and ¥89,111 million in the years ended March 31, 2001, 2002 and 2003, respectively. Capital expenditures include purchases (on an accrual basis) of property, plant and equipment as well as intangible assets,

long-term advanced assets and deferred assets. The decreases in the years ended March 31, 2002 and 2003 were due primarily to reductions in the electronic devices segment in response to the slowdown in related markets.

The downturn in the global economy has led Epson to become more selective in making capital expenditures in recent years. For example, in October 2001, Epson suspended construction of an HT Poly-Si TFT plant located in Hokkaido in northern Japan, which was originally scheduled to commence production in April 2002, based on a downward revision in Epson's expectations for future growth of LCD projector-related demand due to the downturn in the global economy. Of the original ¥16 billion in capital expenditures related to the construction of this plant, approximately ¥6 billion were made before construction was suspended, and this amount has been recorded as construction in progress on Epson's balance sheet. Epson currently expects to commence operation of the plant in the year ending March 31, 2005. Epson's recent selectivity in making capital expenditures was most pronounced with respect to its semiconductor product business, which accounted for a significant portion of the decline in capital expenditures in the year ended March 31, 2003 compared to the previous year. Epson currently plans to increase its utilization of silicon foundries for the manufacturing of its semiconductor products if future demand from its customers exceeds Epson's current manufacturing capacity.

CONSOLIDATED BALANCE SHEETS

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2002	2003	2003
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 131,309	¥ 192,288	\$1,599,734
Time deposits	788	498	4,143
Notes and accounts receivable, trade	240,127	218,280	1,815,974
Inventories	173,083	167,478	1,393,328
Deferred income taxes	37,916	34,508	287,088
Other current assets	43,945	36,502	303,677
Allowance for doubtful accounts	(4,753)	(4,244)	(35,308)
Total current assets	622,415	645,310	5,368,636
Property, plant and equipment:			
Buildings and structures.....	381,115	378,268	3,146,988
Machinery and equipment.....	479,412	472,977	3,934,917
Furniture and fixtures.....	162,677	177,972	1,480,632
Land.....	54,557	53,794	447,537
Construction in progress	10,383	10,983	91,373
Other	855	979	8,145
	1,088,999	1,094,973	9,109,592
Accumulated depreciation	(586,748)	(652,204)	(5,425,990)
	502,251	442,769	3,683,602
Investments and other assets:			
Investment securities	15,747	24,778	206,140
Investments in affiliates.....	11,091	11,128	92,579
Long-term loans receivable	3,956	2,038	16,955
Deferred income taxes	12,784	9,929	82,604
Intangible assets.....	31,247	26,955	224,251
Other assets.....	42,725	34,053	283,303
Allowance for doubtful accounts	(1,055)	(880)	(7,321)
	116,495	108,001	898,511
Total assets.....	¥1,241,161	¥1,196,080	\$9,950,749

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2002	2003	2003
Current liabilities:			
Short-term bank loans	¥ 203,397	¥ 142,198	\$1,183,012
Current portion of long-term debt	81,946	70,258	584,509
Notes and accounts payable, trade	118,233	115,966	964,775
Accounts payable, other	85,560	77,492	644,692
Income taxes payable	11,495	8,316	69,185
Deferred income taxes	678	895	7,446
Accrued bonuses	12,600	13,590	113,062
Accrued warranty costs	33,904	14,275	118,760
Other current liabilities	53,078	50,097	416,780
Total current liabilities	600,891	493,087	4,102,221
Long-term liabilities:			
Long-term debt	317,524	396,934	3,302,280
Accrued pension and severance costs	23,918	9,242	76,888
Accrued directors' and statutory auditors' retirement allowances	2,224	2,403	19,992
Deferred income taxes	1,122	347	2,887
Other long-term liabilities	12,761	10,143	84,384
Total long-term liabilities	357,549	419,069	3,486,431
Minority interest in subsidiaries	2,372	2,608	21,697
Shareholders' equity:			
Common stock, no par value			
Authorized—607,458,368 shares			
Issued —151,864,592 shares	12,531	12,531	104,251
Additional paid-in capital	10,259	10,259	85,350
Retained earnings	254,931	264,874	2,203,611
Net unrealized gains on other securities	1,286	167	1,389
Translation adjustments	1,342	(6,515)	(54,201)
Treasury stock	(0)	(0)	(0)
Total shareholders' equity	280,349	281,316	2,340,400
Commitments and contingent liabilities			
Total liabilities and shareholders' equity	¥1,241,161	¥1,196,080	\$9,950,749

CONSOLIDATED STATEMENTS OF INCOME

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Net sales.....	¥1,340,903	¥1,274,109	¥1,322,453	\$11,002,105
Cost of sales	942,833	938,001	959,865	7,985,566
Gross profit	398,070	336,108	362,588	3,016,539
Selling, general and administrative expenses:				
Salaries and wages	62,777	68,380	72,597	603,968
Advertising	29,816	28,765	30,138	250,732
Sales promotion.....	30,618	34,741	30,364	252,612
Research and development costs	39,598	40,998	42,787	355,965
Shipping costs.....	18,768	17,624	19,756	164,359
Provision for doubtful accounts.....	867	91	665	5,533
Other	111,481	119,313	116,921	972,721
	293,925	309,912	313,228	2,605,890
Operating income	104,145	26,196	49,360	410,649
Other income:				
Interest and dividend income	2,321	1,311	1,289	10,724
Gain on securities contributed to employee retirement benefit trust....	4,360	—	—	—
Reversal of specific warranty costs	—	—	2,982	24,809
Gain on transfer to government of the substitutional portion of pension liabilities	—	—	17,577	146,231
Equity in net gains under the equity method	—	976	—	—
Other	7,681	6,971	7,950	66,139
	14,362	9,258	29,798	247,903
Other expenses:				
Interest expenses.....	9,419	7,097	6,257	52,055
Net loss on foreign exchange.....	7,484	5,198	5,552	46,190
Loss on disposal of property, plant and equipment.....	5,590	7,484	3,233	26,897
Provision for specific warranty costs.....	—	21,797	—	—
Reorganization costs	—	4,865	23,955	199,293
Equity in net losses under the equity method	2,131	—	95	790
Transition obligation expenses for pension and severance costs	13,800	—	—	—
Other	4,512	7,395	8,437	70,191
	42,936	53,836	47,529	395,416
Income (loss) before income taxes and minority interest	75,571	(18,382)	31,629	263,136
Income taxes:				
Current	45,890	6,618	12,368	102,895
Deferred.....	(7,492)	(6,948)	6,289	52,321
	38,398	(330)	18,657	155,216
Income (loss) before minority interest	37,173	(18,052)	12,972	107,920
Minority interest in subsidiaries.....	148	380	462	3,843
Net income (loss).....	¥ 37,025	¥ (18,432)	¥ 12,510	\$ 104,077
		Yen		U.S. dollars
Per share:				
Net income (loss)	¥243.80	¥(121.37)	¥81.08	\$0.67
Cash dividends	¥ 18.00	¥ 18.00	¥18.00	\$0.15

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen							
	Number of shares issued	Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at March 31, 2000.....	75,932,296	¥12,531	¥10,259	¥ —	¥(25,270)	¥ (2)	¥240,597	¥238,115
Net income.....	—	—	—	—	—	—	37,025	37,025
Cumulative effect of the accounting change for income taxes in foreign subsidiary	—	—	—	—	—	—	248	248
Cash dividends	—	—	—	—	—	—	(1,367)	(1,367)
Bonuses to directors and statutory auditors.....	—	—	—	—	—	—	(198)	(198)
Net unrealized gains on other securities	—	—	—	1,565	—	—	—	1,565
Translation adjustments	—	—	—	—	15,393	—	—	15,393
Changes in treasury stock	—	—	—	—	—	1	—	1
Stock split (two-for-one)	75,932,296	—	—	—	—	—	—	—
Balance at March 31, 2001.....	151,864,592	12,531	10,259	1,565	(9,877)	(1)	276,305	290,782
Net loss.....	—	—	—	—	—	—	(18,432)	(18,432)
Cash dividends	—	—	—	—	—	—	(2,734)	(2,734)
Bonuses to directors and statutory auditors.....	—	—	—	—	—	—	(208)	(208)
Net unrealized loss on other securities	—	—	—	(279)	—	—	—	(279)
Translation adjustments	—	—	—	—	11,219	—	—	11,219
Changes in treasury stock	—	—	—	—	—	1	—	1
Balance at March 31, 2002.....	151,864,592	12,531	10,259	1,286	1,342	(0)	254,931	280,349
Net income.....	—	—	—	—	—	—	12,510	12,510
Cash dividends	—	—	—	—	—	—	(2,734)	(2,734)
Bonuses to directors and statutory auditors.....	—	—	—	—	—	—	(98)	(98)
Increase due to affiliates newly accounted for under the equity method.....	—	—	—	—	—	—	265	265
Net unrealized loss on other securities	—	—	—	(1,119)	—	—	—	(1,119)
Translation adjustments	—	—	—	—	(7,857)	—	—	(7,857)
Balance at March 31, 2003.....	151,864,592	¥12,531	¥10,259	¥ 167	¥ (6,515)	¥ (0)	¥264,874	¥281,316

	Thousands of U.S. dollars						
	Common stock	Additional paid-in capital	Net unrealized gains on other securities	Translation adjustments	Treasury stock	Retained earnings	Total
Balance at March 31, 2002.....	\$104,251	\$85,350	\$10,699	\$ 11,165	\$ (0)	\$2,120,890	\$2,332,355
Net income.....	—	—	—	—	—	104,077	104,077
Cash dividends	—	—	—	—	—	(22,745)	(22,745)
Bonuses to directors and statutory auditors.....	—	—	—	—	—	(815)	(815)
Increase due to affiliates newly accounted for under the equity method.....	—	—	—	—	—	2,204	2,204
Net unrealized loss on other securities	—	—	(9,310)	—	—	—	(9,310)
Translation adjustments.....	—	—	—	(65,366)	—	—	(65,366)
Balance at March 31, 2003.....	\$104,251	\$85,350	\$ 1,389	\$(54,201)	\$ (0)	\$2,203,611	\$2,340,400

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

SEIKO EPSON CORPORATION AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Cash flows from operating activities:				
Net income (loss)	¥ 37,025	¥ (18,432)	¥ 12,510	\$ 104,077
Adjustments to reconcile net income (loss) to net cash provided by operating activities—				
Depreciation and amortization	95,176	129,151	127,406	1,059,950
Reorganization costs	—	4,509	23,002	191,364
Accrual for net pension and severance costs, less payments	5,201	(9,590)	(18,212)	(151,514)
Gain on securities contributed to employee retirement benefit trust	(4,360)	—	—	—
Net loss on sales and disposal of property, plant and equipment	6,047	5,067	1,978	16,456
Equity in net (gains) losses under the equity method	2,131	(976)	95	790
Deferred income taxes	(7,492)	(6,948)	6,289	52,321
Decrease in allowance for doubtful accounts	(899)	(1,230)	(459)	(3,819)
Accrued income taxes	3,264	(18,520)	(1,839)	(15,300)
(Increase) decrease in notes and accounts receivable, trade	(73,234)	73,680	20,636	171,681
(Increase) decrease in inventories	(43,308)	48,221	2,471	20,557
Increase (decrease) in notes and accounts payable, trade	62,135	(53,317)	(3,613)	(30,058)
Other	17,899	(331)	(10,760)	(89,517)
Net cash provided by operating activities	99,585	151,284	159,504	1,326,988
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(165,951)	(222,300)	(85,274)	(709,434)
Proceeds from sales of property, plant and equipment	3,052	3,645	7,872	65,491
Payments for purchases of intangible assets	(12,118)	(10,980)	(8,898)	(74,027)
Payments of long-term prepaid expenses	—	(30,376)	(10,943)	(91,040)
Proceeds from acquisition of additional shares of affiliates, net of payment	3,969	444	—	—
Other	594	(18,791)	(10,700)	(89,018)
Net cash used in investing activities	(170,454)	(278,358)	(107,943)	(898,028)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	36,095	(82,668)	(56,723)	(471,905)
Proceeds from long-term debt	93,400	222,222	150,644	1,253,278
Repayments of long-term debt	(30,376)	(34,488)	(81,568)	(678,603)
Cash dividends	(1,367)	(2,734)	(2,734)	(22,745)
Other	(23)	(631)	(508)	(4,226)
Net cash provided by financing activities	97,729	101,701	9,111	75,799
Effect of exchange rate fluctuations on cash and cash equivalents	2,928	2,389	307	2,554
Net increase (decrease) in cash and cash equivalents	29,788	(22,984)	60,979	507,313
Cash and cash equivalents at the beginning of the year	124,316	154,293	131,309	1,092,421
Cash and cash equivalents of subsidiaries newly consolidated	189	—	—	—
Cash and cash equivalents at the end of the year	¥154,293	¥131,309	¥192,288	\$1,599,734
Supplemental disclosures of cash flow information:				
Cash received and paid during the year for—				
Interest and dividend received	¥ 3,218	¥ 1,449	¥ 2,227	\$ 18,527
Interest paid	¥ (9,099)	¥ (7,446)	¥ (6,143)	\$ (51,106)
Income taxes paid	¥ (42,627)	¥ (25,138)	¥ (14,207)	\$ (118,195)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEIKO EPSON CORPORATION AND SUBSIDIARIES

1. Basis of presenting consolidated financial statements

(1) Background

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

(2) Basis of presenting consolidated financial statements

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively, "Epson") are an English

translation of the Japanese consolidated financial statements of Epson, which have been prepared in accordance with accounting principles and practices generally accepted in Japan.

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

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of significant accounting policies

(1) Consolidation and investments in affiliates

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

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

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliates accounted for

under the equity method is recognized as a "consolidation adjustment" included in the intangible assets account and is amortized on a straight-line basis over a period of five years.

(2) Translation of foreign currency transactions and accounts

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.

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 financial statement translation differences are recorded in the consolidated balance sheet as a separate component of shareholders' equity.

(3) Cash and cash equivalents

Cash and cash equivalents included in the consolidated financial statements are composed of 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

On January 22, 1999, the Ministry of Finance of Japan (the "MOF", the relevant functions of which are currently performed by the Financial Services Agency) issued new accounting standards for financial instruments, which cover accounting treatments for investments in debt and equity securities, derivative financial instruments and allowance for doubtful accounts, effective for fiscal years beginning on or after April 1, 2000. Epson has adopted these new accounting standards from the fiscal year commencing on April 1, 2000, as follows:

Investments in debt and equity securities:

Under the new accounting standards, investments in debt and equity securities are to be classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 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 value in the consolidated balance sheets. 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 historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other securities for which market quotations are unavailable are stated at cost, based on the weighted average cost method. Other than temporary declines in the value of other securities are reflected in current income.

The effect of adopting the new accounting standards for the year ended March 31, 2001 was a decrease of ¥929 million in income before income taxes and minority interest, as compared with the amount which would have been reported if the previous standard had been applied consistently.

In the financial statements for fiscal years prior to April 1, 2000, Epson's marketable securities were stated at the lower of original purchase cost or market value, where cost was determined based on the weighted average cost method, and investment securities other than marketable securities were stated at their original purchase cost. Other than temporary declines in the value of the investment securities were reflected in current income.

Derivative financial instruments:

In accordance with the new accounting standards, derivative instruments (i.e., forward exchange contracts, interest rate swaps and currency options) are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

As a result of adopting the new accounting standards, income before income taxes and minority interest for the year ended March 31, 2001 increased by ¥223 million, as compared with the amount which would have been reported if the previous standards had been applied consistently.

Allowance for doubtful accounts:

In accordance with the new accounting standards, the 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. Prior to April 1, 2000, the allowance for doubtful accounts with respect to the Company and its Japanese subsidiaries was provided based on the aggregate amount of estimated credit losses for doubtful receivables and amount calculated based on the ratio stipulated under Japanese tax laws.

As a result of adopting the new accounting standards, reversal of allowance for doubtful accounts of ¥1,003 million was recognized in earnings, and income before income

taxes and minority interest for the year ended March 31, 2001 increased by the same amount, as compared with the amount which would have been reported if the previous standards had been applied consistently.

(5) Inventories

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

(6) Property, plant and equipment

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

The estimated useful lives of depreciable assets principally range from eight to fifty years for buildings and structures and principally range from two to eleven years for machinery and equipment.

(7) Intangible assets

Amortization of intangible assets is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method over their estimated useful lives, ranging from three to five years.

(8) Accrued bonuses

Accrued bonuses to employees are provided for the estimated amounts which Epson is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(9) Accrued warranty costs

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

(10) 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.

(11) Pension and severance costs

The Company and some of its Japanese subsidiaries maintain a contributory defined benefit welfare pension plan (the "welfare pension plan") covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law. The welfare pension plan covers the substitutional portion of the governmental welfare pension program and non-substitutional portion under which contributions are made by these companies and their employees.

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

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

On June 16, 1998, the MOF issued new accounting standards for pension obligations effective for fiscal years beginning on or after April 1, 2000. The new accounting standards require actuarial calculation for pension obligations. Epson adopted these new accounting standards from the fiscal year commencing April 1, 2000.

In connection with adoption of the new accounting standards, transition obligations of ¥13,800 million as at April 1, 2000, representing an excess of projected benefit obligations over the sum of funded assets and accrued pension and severance costs, were charged to other expenses at the time of implementing the new accounting standards.

Unrecognized prior service costs and actuarial gains and losses are amortized based on the straight-line method over a period of five years.

In September 2000, Epson entered into a retirement benefit trust agreement with an outside trust company and contributed certain marketable securities to the employee retirement benefit trust. These marketable securities were set aside for the trust at their fair value of ¥10,970 million, and a gain of ¥4,360 million thereon was recorded as gain on securities contributed to employee retirement benefit trust on the consolidated statements of income for the year ended March 31, 2001.

The effect of adopting the new accounting standards was to decrease income before income taxes and minority interest for the year ended March 31, 2001 by ¥11,615 million, after taking into account gains on securities contributed to employee retirement benefit trust of ¥4,360 million, as compared with the amount which would have been reported if the previous standard had been applied consistently.

Prior to April 1, 2000, the Company and some of its Japanese subsidiaries have accrued their pension and severance costs based on calculations performed by actuaries as prescribed by pension plan regulations using certain assumptions. Other Japanese subsidiaries accrued retirement liabilities estimated based on voluntary termination of employment of all eligible employees at balance sheet dates.

Most of the Company's foreign subsidiaries have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. Epson's funding policy for these defined contribution plans is to con-

tribute annually an amount equal to a certain percentage of the participants' annual salaries.

With respect to the Company's directors and statutory auditors, who are not covered by the benefit plans for employees described above, provision is made for retirement benefits based on internal rules regarding directors' and statutory auditors' retirement benefits. In accordance with the Commercial Code of Japan, payments of retirement benefits for directors and statutory auditors are subject to approval by a resolution at the Company's shareholders' meeting.

(12) 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.

(13) Research and development costs

Research and development costs are expensed as incurred.

(14) Leases

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

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

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

(15) Net income per share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal period. Epson had no dilutive potential common shares, such as convertible debt or warrants, outstanding during the relevant periods.

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. Epson has adopted these new accounting standards from the fiscal year

commencing on April 1, 2002. Under the new accounting standards, "bonuses to directors and statutory auditors", which is determined through appropriation of retained earnings by resolution of general shareholders' meeting subsequent to fiscal year-end and not reflected in the statement of income of the current year, should be reflected in the calculation of net income per share, as if "bonuses to directors and statutory auditors" was charged to income in the current year.

3. U.S. dollar amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers and are not audited. These translations should not be construed as representations that the yen amounts actually represent, or

(16) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Commercial Code of Japan. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the shareholders of record as of September 30 of each year.

4. Notes receivable and notes payable maturing at year-end

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2002 was a Saturday, notes receivable and notes payable maturing on that date could not be settled and are included in the ending balance

of notes and accounts receivable, trade and notes and accounts payable, trade, as follows:

	Millions of yen
Notes receivable.....	¥ 318
Notes payable	5,708

5. Inventories

Inventories at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31 2002	2003	March 31, 2003
Finished products.....	¥ 94,945	¥ 95,163	\$ 791,705
Work in process.....	41,242	37,580	312,646
Materials and supplies.....	36,896	34,735	288,977
Total.....	¥173,083	¥167,478	\$1,393,328

Losses recognized and charged to cost of sales as a result of valuation at the lower of cost or market value at March 31, 2002 and 2003 were ¥10,997 million and ¥12,493 million (\$103,935 thousand), respectively.

6. Investments in debt and equity securities

As described in Note 2 (4), Epson has adopted new accounting standards for investments in debt and equity securities from its fiscal year beginning on April 1, 2000. Epson's management determined at the beginning of such fiscal year that all such investments were either held-to-maturity debt securities or other securities.

Net unrealized gains, net of tax, on securities categorized as other securities of ¥1,286 million and ¥167 million (\$1,389 thousand) as at March 31, 2002 and 2003, respectively, were recorded as a component of shareholders' equity. A related deferred income tax liability thereon of ¥890 million and ¥109 million (\$907 thousand) was recorded against deferred income tax assets relating to other temporary differences as at March 31, 2002 and 2003, respectively.

The aggregate cost and market value (carrying value) of other securities with market values, which were included in investment securities at March 31, 2002 and 2003 were as follows:

	Millions of yen			
	March 31, 2002			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	¥6,393	¥2,247	¥(138)	¥8,502
Debt securities	53	5	(—)	58
Other	796	—	(93)	703
Total	¥7,242	¥2,252	¥(231)	¥9,263

7. Intangible assets

A consolidation adjustment account, representing the excess of cost over net equity of investments in subsidiaries as at March 31, 2002 and 2003, included in intangible

8. Derivative financial instruments

Epson enters into forward exchange contracts, currency options and interest rate swaps. Forward exchange contracts and currency options are utilized to hedge currency risk exposures. Interest rate swaps are utilized to hedge against

	Millions of yen			
	March 31, 2003			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	¥4,337	¥564	¥(235)	¥4,666
Debt securities	52	5	(—)	57
Other	582	—	(42)	540
Total	¥4,971	¥569	¥(277)	¥5,263

	Thousands of U.S. dollars			
	March 31, 2003			
	Gross unrealized			Market value (carrying value)
Cost	Gains	Losses		
Equity securities	\$36,081	\$4,692	\$(1,955)	\$38,818
Debt securities	433	42	(—)	475
Other	4,842	—	(349)	4,493
Total	\$41,356	\$4,734	\$(2,304)	\$43,786

The carrying amount of unlisted investment securities at March 31, 2002 and 2003 were ¥7,974 million and ¥19,515 million (\$162,354 thousand), respectively.

For the years ended March 31, 2001, 2002 and 2003, devaluation of the values of other securities with an aggregate market value of ¥359 million, ¥2,237 million and ¥2,251 million (\$18,727 thousand), respectively, were charged to current income. The devaluation is principally recorded in cases where the fair value of other securities with determinable market values has declined in excess of 30% of cost. Those securities are written down to the fair value and the resulting losses are included in current income for the period.

assets, were ¥2,542 million and ¥954 million (\$7,937 thousand), respectively.

possible future changes in interest rates on floating rate borrowings. Epson uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

Epson management believes that credit risk relating to derivative instruments that Epson uses is relatively low since all of its counterparties to the derivative instruments are creditworthy financial institutions.

Forward exchange transactions are approved by the Company's Forward Exchange Committee (composed of representatives of Epson management) and executed based on authorization of the general manager of Epson in charge of the treasury management in accordance with internal rules and policies developed regarding derivative transaction management.

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

The table below lists contract amounts, notional amounts and fair values of derivatives as at March 31, 2002 and 2003 by transactions and type of instrument, excluding derivatives eligible for hedge accounting based on the new accounting standards.

Instruments	Millions of yen		
	March 31, 2002		
	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold—			
U.S. dollar	¥ 7,193	¥ 7,241	¥ (48)
Euro	17,730	17,956	(226)
Sterling pound.....	4,726	4,744	(18)
Australian dollar	895	911	(16)
Thai baht	224	226	(2)
Purchased—			
U.S. dollar	13,662	13,864	202
Euro	63	63	0
Sterling pound.....	1,132	1,138	6
Total unrealized losses from forward exchange contracts			¥(102)

Instruments	Millions of yen		
	March 31, 2002		
	Notional amounts	Fair values	Unrealized losses
Interest rate swaps:			
Pay-fixed, Receive-floating	¥1,376	¥(68)	¥(68)

Instruments	Millions of yen		
	March 31, 2003		
	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold—			
U.S. dollar	¥ 8,196	¥ 8,239	¥ (43)
Euro	20,086	20,740	(654)
Sterling pound.....	679	681	(2)
Australian dollar	553	555	(2)
Swiss Francs.....	1,541	1,552	(11)
Thai baht	150	149	1
Purchased—			
U.S. dollar	5,903	6,054	151
Euro	17	17	0
Japanese yen.....	214	213	(1)
Total unrealized losses from forward exchange contracts			¥(561)

Instruments	Thousands of U.S. dollars		
	March 31, 2003		
	Contract amounts	Fair values	Unrealized gains (losses)
Forward exchange contracts:			
Sold—			
U.S. dollar	\$ 68,186	\$ 68,544	\$ (358)
Euro.....	167,105	172,546	(5,441)
Sterling pound.....	5,649	5,665	(16)
Australian dollar.....	4,601	4,617	(16)
Swiss Francs	12,820	12,912	(92)
Thai baht.....	1,248	1,240	8
Purchased—			
U.S. dollar	49,110	50,366	1,256
Euro.....	141	141	0
Japanese yen	1,780	1,772	(8)
Total unrealized losses from forward exchange contracts			\$(4,667)

There were no interest rate swap transactions outstanding at March 31, 2003.

These forward exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these

contracts are recognized in earnings. Forward exchange contracts assigned individually to monetary items denominated in foreign currencies are excluded from the above table.

9. Short-term bank loans and long-term debt

Short-term bank loans and long-term debt from banks at March 31, 2002 and 2003 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	March 31				
	2002	2003		March 31, 2003	
	Amount	Weighted average interest rate	Last due on		
Short-term bank loans	¥203,397	¥142,198	0.82%	November 28, 2003	\$1,183,012
Current portion of long-term debt	81,946	70,258	1.01	March 31, 2004	584,509
Long-term debt	317,524	396,934	1.02	October 31, 2008	3,302,280
Total	¥602,867	¥609,390			\$5,069,801

Average interest rates are calculated using weighted-average interest rates as at March 31, 2003.

The maturities of long-term debt outstanding as at March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 70,258	\$ 584,509
2005.....	60,423	502,688
2006.....	112,786	938,320
2007.....	106,225	883,735
2008.....	87,500	727,953
Thereafter.....	30,000	249,584
Total.....	¥467,192	\$3,886,789

Assets pledged as collateral for secured loans and debt at March 31, 2002 and 2003 were as follows:

Pledged assets	Millions of yen		Thousands of U.S. dollars
	March 31		
	2002	2003	
Land	¥ 727	¥ 727	\$ 6,048
Buildings and structures	1,642	1,602	13,328
Machinery and equipment	575	483	4,018
Furniture and fixtures	24	26	217
Investment securities.....	6	—	—
Total.....	¥2,974	¥2,838	\$23,611

Secured loans and debt	Millions of yen		Thousands of U.S. dollars
	March 31		
	2002	2003	
Short-term loan.....	¥ 27	¥ —	\$ —
Current portion of long-term debt.....	226	194	1,614
Long-term debt.....	224	30	250
Total.....	¥477	¥224	\$1,864

In the year ended March 31, 2003, Epson entered into line of credit agreements with four banks for an aggregate maximum amount of ¥40,000 million (\$332,779 thousand).

As at March 31, 2003, there were unused credit lines of ¥40,000 million (\$332,779 thousand) outstanding and available.

10. Pension and severance costs

The funded status of retirement benefit obligations at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31,
	2002	2003	2003
Projected benefit obligations.....	¥244,400	¥187,269	\$1,557,978
Plan assets at fair value	175,495	144,262	1,200,183
Unfunded status	68,905	43,007	357,795
Unrecognized items:			
Prior service cost reduction from plan amendment.....	5,898	693	5,766
Actuarial losses	(51,520)	(38,898)	(323,611)
Accrued pension and severance costs—net.....	23,283	4,802	39,950
Prepaid pension cost	635	4,440	36,938
Accrued pension and severance costs	¥ 23,918	¥ 9,242	\$ 76,888

In addition to the above-mentioned accrued pension and severance costs, an accrued severance cost of ¥915 million, which related to specific reorganization program and is payable in the following year, was recorded in other current liabilities at March 31, 2002.

The composition of net pension and severance costs for the years ended March 31, 2001, 2002 and 2003 was as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended March 31,
	2001	2002	2003	2003
Service cost	¥ 9,818	¥ 9,201	¥10,627	\$ 88,411
Interest cost	6,840	7,175	6,960	57,903
Expected return on plan assets.....	(5,368)	(5,531)	(5,830)	(48,502)
Amortization and expenses:				
Transition obligations.....	13,800	—	—	—
Prior service costs	(243)	(1,622)	(1,338)	(11,131)
Actuarial losses	—	2,951	10,309	85,765
Net pension and severance costs.....	24,847	12,174	20,728	172,446
Gain on transfer to government of the substitutional portion of pension liabilities	—	—	(17,577)	(146,231)
	¥24,847	¥12,174	¥ 3,151	\$ 26,215

The assumptions used for the actuarial computation of the retirement benefit obligations for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Year ended March 31		
	2001	2002	2003
Discount rate	3.5%	3.0%	3.0%
Long-term rate of return on plan assets.....	3.5	3.5	3.5

In addition to the above-mentioned net pension and severance costs, additional severance costs of ¥1,701 million and ¥181 million (\$1,506 thousand), which related to

specific reorganization programs, were recorded in reorganization costs for years ended March 31, 2002 and 2003, respectively.

The Company has made amendments to the welfare pension plan by raising the commencement age to receive benefits and reduced the related interest rate under the pension plan in the fiscal years ended March 31, 2001 and 2002. These amendments have resulted in a negative amount of unrecognized prior service cost, which in turn

reduced the accrued pension and severance costs for the years ended March 31, 2002 and 2003.

On June 15, 2001, the Defined Benefit Pension Plan Law was enacted, which allows a company to return the substitutional portion of the pension to the government, thereby eliminating the company's responsibility for future benefits. In order to return the substitutional portion, a company must obtain approval from the Ministry of Health, Labor and Welfare for the exemption from the payment of future benefits. After obtaining an approval, the company must make another application for separation of the remaining substitutional portion (that is, the benefit obligation related to past service). After the government ordinance related to this transaction is released and becomes effective, the Japanese government will perform administrative processes and grant the company the final approval of return. Upon obtaining that approval, the remaining benefit obligation of the substitutional portion (that amount earned by past services) as well as the related government-specified portion of the plan assets will be transferred to the government.

On January 17, 2003, the Company and two consolidated subsidiaries obtained approval from the Ministry of Health, Labor and Welfare for exemption from the payment of future benefit obligations with respect to the substitutional portion that the Company and two consolidated subsidiaries operate on behalf of the Japanese government. The Company and two consolidated subsidiaries applied accounting for return of the substitutional portion at the date of approval, which is allowed as an alternative accounting method in accordance with "Practical Guidance for Accounting for Pensions" issued by the Japanese Institute of Certified Public Accountants. A gain on exemption from the payment of benefit obligations totaling ¥17,577 million (\$146,231 thousand) was recorded in income for the year ended March 31, 2003. The fair value of fund assets to be returned to the government was measured at approximately ¥39,677 million (\$330,092 thousand) as at March 31, 2003.

11. Shareholders' equity

The Company's retained earnings consists of unappropriated retained earnings and legal reserves required by the Commercial Code of Japan. The retained earnings accumulated by the Company are initially recorded as unappropriated retained earnings and later transferred to legal reserve upon approval at the shareholders' meeting.

Due to a change of the Commercial Code of Japan effective October 2001, the Company is permitted to transfer to retained earnings the portion of statutory reserve (additional paid-in capital and legal reserve) in excess of 25% of common stock upon approval at the shareholders' meeting. The Company does not currently make such transfers. Any transferred portions will be available for dividend distribution.

Under the Commercial Code of Japan, the appropriation 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

appropriations are recorded at the time of resolution. The Company may pay interim dividends by resolution of the board of directors once during each fiscal year in accordance with the Commercial Code of Japan and the Company's Articles of Incorporation.

For each of the years ended March 31, 2001, 2002 and 2003, the Company paid a year-end cash dividend of ¥9 (\$0.07) per share and interim cash dividend of ¥9 (\$0.07) per share to the shareholders of record as at the respective period-ends.

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2003 approved at the general shareholders' meeting, which was held on June 27, 2003, was as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥9 per share.....	¥1,367	\$11,373
Bonuses to directors and statutory auditors	196	1,630
	¥1,563	\$13,003

On September 6, 2000, the board of directors approved a two-for-one stock split of the Company's common stock, which was effected on January 1, 2001 for the shareholders of record at October 31, 2000. The number of shares issued was 75,932,296. There was no increase in the

common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Commercial Code of Japan.

There were 81 shares of treasury stock as at March 31, 2003.

12. Net income per share

Calculation of net income per share in accordance with the new accounting standards for the year ended March 31, 2003 is as follows:

	Millions of yen	Thousands of U.S. dollars
Net income.....	¥12,510	\$104,077
Less: Bonuses to directors and statutory auditors.....	(196)	(1,630)
	¥12,314	\$102,447
Weighted average number of shares outstanding.....	151,864,511	
	Yen	U.S. dollars
Net income per share.....	¥81.08	\$0.67

Had the new accounting standard been applied retroactively, net income per share on a pro-forma basis would have been ¥242.43 (unaudited) for the year ended March 31, 2001 and a net loss per share of ¥122.02 for the year ended March 31, 2002.

In addition, concerning the two-for-one stock split effective on January 1, 2001, net income per share of common stock for the year ended March 31, 2001 was calculated assuming the two-for-one stock split occurred as of the beginning of the year.

13. Income taxes

Epson is subject to a number of different income taxes which, in the aggregate, resulted in a statutory income tax rate in Japan of approximately 41.7% for each of the years ended March 31, 2001, 2002 and 2003.

The significant components of deferred tax assets and liabilities at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	March 31, 2003
Deferred tax assets:			
Property, plant and equipment and intangible assets	¥12,964	¥19,759	\$164,384
Net operating tax loss carry-forwards.....	10,716	16,513	137,379
Inter-company profits on inventories and write downs.....	15,084	9,604	79,900
Accrued warranty costs	12,489	4,422	36,789
Accrued bonuses.....	1,957	4,153	34,551
Accrued pension and severance costs	11,675	3,901	32,454
Allowance for doubtful accounts.....	1,542	1,837	15,283
Devaluation of investment securities	2,831	1,711	14,235
Others	11,417	12,212	101,597
Gross deferred tax assets.....	80,675	74,112	616,572
Less: valuation allowance.....	(16,410)	(15,754)	(131,065)
Total deferred tax assets.....	64,265	58,358	485,507
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries.....	(10,519)	(12,249)	(101,905)
Reserve for special depreciation for tax purpose.....	(3,081)	(2,626)	(21,847)
Net unrealized gains on other securities	(890)	(108)	(898)
Others	(876)	(180)	(1,498)
Gross deferred tax liabilities	(15,366)	(15,163)	(126,148)
Net deferred tax assets.....	¥48,899	¥43,195	\$359,359

The valuation allowance was established mainly against deferred tax assets on future tax-deductible temporary differences and operating tax loss carry-forwards of certain subsidiaries as it is more likely than not that these deferred tax assets will not be realized within the foreseeable future. The net change in the total valuation allowance for the year ended March 31, 2003 was a decrease of ¥656 million (\$5,458 thousand).

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

Deferred tax assets and liabilities at March 31, 2003 in Japan were calculated based on the consolidated tax return system which will be adopted by Epson in the year ending March 31, 2004.

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		
	2001	2002	2003
Statutory income tax rate	41.7%	41.7%	41.7%
Reconciliation:			
Unrecognized tax benefit for inter-company profit elimination	—	—	8.1
Changes in valuation allowance.....	1.1	(24.3)	5.1
Change in Japanese income tax rate	—	—	(2.4)
Entertainment expenses, etc. permanently non-tax deductible.....	0.6	(3.6)	2.1
Personal holding company tax.....	6.9	(0.7)	—
Tax credits	(2.8)	(21.9)	—
Tax for the prior period	—	12.7	—
Others	3.3	(2.1)	4.4
Income tax rate per statements of income.....	50.8%	1.8%	59.0%

The statutory income tax rate used in calculation of deferred tax assets and liabilities has been changed due to a change in Japanese tax laws. At March 31, 2001 and 2002, 41.7% was used in the calculation. At March 31, 2003, deferred tax assets and liabilities expected to be realized in the following year were calculated using a 41.7% tax rate, while those expected to be realized after April 1, 2004 were calculated using a 40.4% tax rate. The

effect of this change in accounting estimates for the year ended March 31, 2003 was an increase in net deferred tax assets of ¥778 million (\$6,473 thousand) and a decrease of income tax expense of ¥774 million (\$6,439 thousand).

Current income taxes for the year ended March 31, 2002 of ¥6,618 million consisted of current income taxes of ¥7,754 million and prior year income taxes adjustment of ¥1,166 million, offset by income tax refunds related to advanced pricing agreements of ¥2,302 million.

14. Research and development costs

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥76,019 million, ¥79,742 million and

¥85,761 million (\$713,486 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

15. Reorganization costs

The reorganization costs for the year ended March 31, 2003 mainly represented write-off of acquired technologies, as well as reorganization cost for certain domestic manufacturing plants in the semiconductor business.

The reorganization costs for the year ended March 31, 2002 mainly represented loss on disposal of assets during the reorganization of certain overseas manufacturing plants.

16. Cash flow information

Cash and cash equivalents at March 31, 2002 and 2003 were composed of the following:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Cash and deposits	¥131,122	¥194,334	\$1,616,755
Investments with maturities of three months or less	1,490	—	—
Sub-total	132,612	194,334	1,616,755
Less:			
Short-term bank loans (overdrafts)	(514)	(1,548)	(12,878)
Time deposits due over three months	(788)	(498)	(4,143)
Investments held for more than three months	(1)	—	—
Cash and cash equivalents	¥131,309	¥192,288	\$1,599,734

In March 2001, the Company acquired additional shares of two affiliates, Orient Watch Co., Ltd., which has three consolidated subsidiaries, and E&G Hong Kong Ltd., which has one consolidated subsidiary, for an aggregate amount of ¥1,677 million. As a result, the Company became the majority shareholder of these companies. Upon consolidation, net cash proceeds of ¥3,969 million represented cash and cash equivalents of ¥5,646 million held by these companies at the date of acquisition, offset by the cash consideration of ¥1,677 million for the acquisition. This was disclosed as "Proceeds from acquisition of additional shares of affiliates, net of payment" in the consolidated statements of cash flows for the year ended March 31, 2001.

During the year ended March 31, 2002, the Company acquired additional shares of two affiliates, Tianjin Epson Co., Ltd. and Seiko Contactlens Inc. As a result, the

Company became the majority shareholder of these companies. Upon consolidation, net cash proceeds of ¥444 million represented cash and cash equivalents of ¥444 million held by these companies at the date of acquisition, no cash consideration was paid for the acquisition. The allocation of cash consideration for the acquisitions in the years ended March 31, 2001 and 2002 was as follows:

	Millions of yen	
	Year ended March 31	
	2001	2002
Current assets	¥17,212	¥4,677
Fixed assets and other assets	4,499	1,146
Current liabilities	(19,224)	(3,048)
Long-term liabilities	(3,692)	(2,450)
Consolidation adjustments	3,312	18
Minority interest	(758)	(1,024)
Epson's interest at acquisition	328	681
Consideration for acquisition	¥ 1,677	¥ 0

17. Leases

As described in Note 2 (14), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the years ended March 31, 2001, 2002 and 2003 amounted to ¥16,306 million, ¥13,668 million and ¥9,039 million (\$75,200 thousand), respectively.

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the capital lease assets at March 31, 2002 and 2003 would have been as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Acquisition cost:			
Machinery and equipment	¥40,642	¥13,728	\$114,210
Furniture and fixtures	8,202	7,082	58,918
Intangible assets	2,429	1,919	15,965
	51,273	22,729	189,093
Less: accumulated depreciation..	(39,074)	(17,586)	(146,306)
Net book value.....	¥12,199	¥ 5,143	\$ 42,787

Depreciation expenses for these leased assets for the years ended March 31, 2001, 2002 and 2003 would have been ¥14,964 million, ¥12,711 million and ¥8,422 million (\$70,067 thousand), respectively, if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no remaining value.

Interest expense for these capital leases for the years ended March 31, 2001, 2002 and 2003 would have been ¥913 million, ¥497 million and ¥214 million (\$1,780 thousand), respectively.

18. Commitments and contingent liabilities

Contingent liabilities for guarantee of employees' housing loans from banks at March 31, 2002 and 2003 were ¥5,299 million and ¥4,534 million (\$37,720 thousand), respectively. In addition, contingent liabilities for guarantee of bank loans to Xeus Inc., an affiliate of the Company, at

Future lease payments for capital leases at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Future lease payments			
Due within one year.....	¥ 8,594	¥2,812	\$23,394
Due after one year.....	4,029	2,469	20,541
Total.....	¥12,623	¥5,281	\$43,935

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Future lease payments			
Due within one year	¥ 3,176	¥ 2,983	\$ 24,817
Due after one year	8,491	10,071	83,785
Total	¥11,667	¥13,054	\$108,602

In addition, future lease receipts for non-cancelable operating leases as a lessor at March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Future lease receipts			
Due within one year.....	¥ 318	¥ 338	\$ 2,812
Due after one year.....	2,875	2,589	21,539
Total.....	¥3,193	¥2,927	\$24,351

March 31, 2002 was ¥348 million. Furthermore, the amount of discounted notes, which consisted of discounted letters of credit, at March 31, 2002 and 2003 were ¥208 million and ¥160 million (\$1,331 thousand), respectively.

19. Related party transactions

Mr. Koichi Murano, a Statutory Auditor of the Company until June 26, 2001, is also a representative director of Seiko Corporation. Until June 26, 2001, Seiko Corporation was regarded as a related party of the Company. The Company sells its products, mainly watches, and pays certain expenses to Seiko Corporation under terms and conditions stipulated in sales agreements. The Company and Seiko Corporation have also entered into other various types of agreements. All the transactions and balances stated in the table below are up to June 30, 2001.

Mr. Yasuo Hattori, a Vice Chairman, Director of the Company, is a representative director of Aoyama Kigyo K.K. ("Aoyama"). Aoyama owns 13.4% of the outstanding shares of the Company. Mr. Yasuo Hattori, Mr. Noboru Hattori, a Director and Advisor of the Company, and their relatives own 26.7%, 15.0% and 41.8% of the outstanding shares of Aoyama, respectively. The Company has entered into lease

agreements and certain other agreements with Aoyama effective from March 1, 2003.

The Company has entered into real estate lease agreements and certain other agreements with K.K. Sunritz ("Sunritz") in which two directors of the Company, and their relatives, owned a majority equity interest at March 31, 2001, 2002 and 2003. The Company has also purchased land and buildings from Sunritz.

The Company's management believes that all transactions with related parties as described in the preceding paragraphs and in the table below were in accordance with terms and conditions decided on a market-determined basis.

Transactions with these related parties for the years ended March 31, 2001, 2002 and 2003, and related balances at March 31, 2002 and 2003, were as follows:

	Millions of yen			Thousands of U.S. dollars
	Year ended March 31			Year ended
	2001	2002	2003	March 31, 2003
Transactions:				
With Seiko Corporation for the year ended March 31, 2001, and the three-month period ended June 30, 2001—				
Sales of products, mainly watches.....	¥12,610	¥3,857	¥ —	\$ —
Purchase of materials and equipment.....	1,961	—	—	—
Payments of expenses.....	295	55	—	—
With Aoyama for the year ended March 31, 2003—				
Rental expense for building.....	—	—	1	8
With Sunritz—				
Rental expenses for real estates.....	828	127	124	1,032
Purchase of land and buildings.....	2,471	17	—	—
Others.....	29	—	—	—
With other related companies:				
Purchase of materials.....	113	37	34	283
Other incomes.....	33	17	11	92
Other expenses.....	—	15	9	75

	Millions of yen		Thousands of
	March 31		U.S. dollars
	2002	2003	March 31, 2003
Balances:			
With Seiko Corporation at June 30, 2001—			
Receivables.....	¥4,995	¥—	\$ —
Payables.....	15	—	—
Other.....	61	—	—
With Aoyama at March 31, 2003—			
Other current assets.....	—	1	8
Other investments.....	—	38	316
With Sunritz—			
Other investments.....	2	2	17
With other related companies:			
Other current assets.....	1	4	33
Payables.....	—	33	275

20. Segment information

(1) Business segment information

Epson is primarily engaged in the development, manufacture and sale of computer printers, liquid crystal displays (“LCDs”), semiconductor products and other products. Epson operates manufacturing facilities in Japan, Asia, the Americas and Europe, and markets its products internationally through a global network of local sales subsidiaries.

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

Information-related equipment segment, including color inkjet printers, laser printers, dot matrix printers, multi-function printers, large format inkjet printers, and related supplies, color image scanners, LCD projectors, LCD

monitors, label writers, mini-printers, printers for use in POS systems and personal computers.

Electronic devices segment, including semiconductor products, small and medium-sized LCD modules, TFT LCD modules for LCD projectors, crystal units and crystal oscillators.

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

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

The table below summarizes the business segment information of Epson for the years ended March 31, 2001, 2002 and 2003:

	Millions of yen					
	Year ended March 31, 2001					
	Business segment					Consolidated
Information-related equipment	Electronic devices	Precision products	Other	Eliminations and corporate		
Net sales:						
Customers	¥866,938	¥382,242	¥79,084	¥ 12,639	¥ (—)	¥1,340,903
Inter-segment	9,046	30,382	2,306	30,260	(71,994)	—
Total	875,984	412,624	81,390	42,899	(71,994)	1,340,903
Operating expenses	839,182	341,906	81,224	49,593	(75,147)	1,236,758
Operating income (loss)	¥ 36,802	¥ 70,718	¥ 166	¥ (6,694)	¥ 3,153	¥ 104,145
Identifiable assets	¥474,046	¥429,628	¥65,164	¥154,888	¥149,189	¥1,272,915
Depreciation and amortization	¥ 37,075	¥ 44,695	¥ 3,894	¥ 9,496	¥ 16	¥ 95,176
Capital expenditures	¥ 46,189	¥127,310	¥ 4,250	¥ 61,665	¥ —	¥ 239,414
	Millions of yen					
	Year ended March 31, 2002					
	Business segment					Consolidated
Information-related equipment	Electronic devices	Precision products	Other	Eliminations and corporate		
Net sales:						
Customers	¥899,043	¥292,616	¥76,365	¥ 6,085	¥ (—)	¥1,274,109
Inter-segment	3,205	19,466	1,823	19,743	(44,237)	0
Total	902,248	312,082	78,188	25,828	(44,237)	1,274,109
Operating expenses	843,445	334,470	82,295	36,375	(48,672)	1,247,913
Operating income (loss)	¥ 58,803	¥ (22,388)	¥ (4,107)	¥ (10,547)	¥ 4,435	¥ 26,196
Identifiable assets	¥425,668	¥469,236	¥60,283	¥136,552	¥149,422	¥1,241,161
Depreciation and amortization	¥ 40,672	¥ 70,459	¥ 4,182	¥ 12,942	¥ 896	¥ 129,151
Capital expenditures	¥ 32,683	¥136,348	¥ 3,990	¥ 24,512	¥ —	¥ 197,533
	Millions of yen					
	Year ended March 31, 2003					
	Business segment					Consolidated
Information-related equipment	Electronic devices	Precision products	Other	Eliminations and corporate		
Net sales:						
Customers	¥911,459	¥328,460	¥77,155	¥ 5,379	¥ (—)	¥1,322,453
Inter-segment	4,398	25,828	2,590	20,931	(53,747)	—
Total	915,857	354,288	79,745	26,310	(53,747)	1,322,453
Operating expenses	835,431	382,288	79,100	30,042	(53,768)	1,273,093
Operating income (loss)	¥ 80,426	¥ (28,000)	¥ 645	¥ (3,732)	¥ 21	¥ 49,360
Identifiable assets	¥384,968	¥402,248	¥50,706	¥143,225	¥214,933	¥1,196,080
Depreciation and amortization	¥ 34,042	¥ 75,111	¥ 4,037	¥ 12,619	¥ —	¥ 125,809
Capital expenditures	¥ 27,656	¥ 35,720	¥ 3,393	¥ 22,342	¥ —	¥ 89,111

	Thousands of U.S. dollars					
	Year ended March 31, 2003					
	Business segment					
	Information-related equipment	Electronic devices	Precision products	Other	Eliminations and corporate	Consolidated
Net sales:						
Customers	\$7,582,854	\$2,732,612	\$641,889	\$ 44,750	\$ (—)	\$11,002,105
Inter-segment	36,589	214,875	21,547	174,135	(447,146)	—
Total	7,619,443	2,947,487	663,436	218,885	(447,146)	11,002,105
Operating expenses	6,950,342	3,180,432	658,070	249,933	(447,321)	10,591,456
Operating income (loss)	\$ 669,101	\$ (232,945)	\$ 5,366	\$ (31,048)	\$ 175	\$ 410,649
Identifiable assets	\$3,202,729	\$3,346,489	\$421,847	\$1,191,556	\$1,788,128	\$ 9,950,749
Depreciation and amortization	\$ 283,211	\$ 624,884	\$ 33,586	\$ 104,983	\$ —	\$ 1,046,664
Capital expenditures	\$ 230,083	\$ 297,171	\$ 28,236	\$ 185,874	\$ —	\$ 741,364

The amounts of corporate assets included in "Eliminations and corporate" were ¥164,704 million, ¥158,417 million and ¥227,464 million (\$1,892,379 thousand) at March 31, 2001, 2002 and 2003, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

As described in Note 2 (11), Epson has adopted new accounting standards for pension and severance costs

effective from April 1, 2000. As a result of adopting the new accounting standards, operating income decreased by ¥1,712 million in Information-related equipment, ¥1,558 million in Electronic devices, ¥659 million in Precision products and ¥20 million in Other for the year ended March 31, 2001, as compared with the amount which would have been reported if the previous standards had been applied consistently.

(2) Geographic segment information

The table below summarizes the geographic segment information of Epson for the years ended March 31, 2001, 2002 and 2003:

	Millions of yen					
	Year ended March 31, 2001					
	Geographic region					
	Japan	The Americas	Europe	Asia/Oceania	Eliminations and corporate	Consolidated
Net sales:						
Customers	¥ 704,771	¥246,011	¥228,230	¥161,891	¥ (—)	¥1,340,903
Inter-segment	468,366	42,278	2,812	403,703	(917,159)	—
Total	1,173,137	288,289	231,042	565,594	(917,159)	1,340,903
Operating expenses	1,096,668	280,014	222,119	555,412	(917,455)	1,236,758
Operating income	¥ 76,469	¥ 8,275	¥ 8,923	¥ 10,182	¥ 296	¥ 104,145
Identifiable assets	¥ 906,262	¥111,936	¥ 81,298	¥237,572	¥ (64,153)	¥1,272,915

	Millions of yen					
	Year ended March 31, 2002					
	Geographic region					
	Japan	The Americas	Europe	Asia/Oceania	Eliminations and corporate	Consolidated
Net sales:						
Customers	¥ 622,670	¥245,098	¥241,202	¥165,139	¥ (—)	¥1,274,109
Inter-segment	440,794	36,241	4,888	416,944	(898,867)	—
Total	1,063,464	281,339	246,090	582,083	(898,867)	1,274,109
Operating expenses	1,064,574	274,994	241,737	571,719	(905,111)	1,247,913
Operating income (loss)	¥ (1,110)	¥ 6,345	¥ 4,353	¥ 10,364	¥ 6,244	¥ 26,196
Identifiable assets	¥ 855,893	¥104,599	¥ 79,918	¥217,978	¥ (17,227)	¥1,241,161

Millions of yen						
Year ended March 31, 2003						
Geographic region						
	Japan	The Americas	Europe	Asia/Oceania	Eliminations and corporate	Consolidated
Net sales:						
Customers	¥ 637,544	¥230,263	¥258,278	¥196,368	¥ (—)	¥1,322,453
Inter-segment	478,441	39,315	5,573	439,632	(962,961)	—
Total	1,115,985	269,578	263,851	636,000	(962,961)	1,322,453
Operating expenses	1,097,056	262,468	260,665	620,376	(967,472)	1,273,093
Operating income	¥ 18,929	¥ 7,110	¥ 3,186	¥ 15,624	¥ 4,511	¥ 49,360
Identifiable assets	¥ 785,754	¥ 83,814	¥ 73,667	¥204,989	¥ 47,856	¥1,196,080

Thousands of U.S. dollars						
Year ended March 31, 2003						
Geographic region						
	Japan	The Americas	Europe	Asia/Oceania	Eliminations and corporate	Consolidated
Net sales:						
Customers	\$5,304,027	\$1,915,666	\$2,148,735	\$1,633,677	\$ (—)	\$11,002,105
Inter-segment	3,980,374	327,080	46,364	3,657,504	(8,011,322)	—
Total	9,284,401	2,242,746	2,195,099	5,291,181	(8,011,322)	11,002,105
Operating expenses	9,126,922	2,183,594	2,168,593	5,161,198	(8,048,851)	10,591,456
Operating income	\$ 157,479	\$ 59,152	\$ 26,506	\$ 129,983	\$ 37,529	\$ 410,649
Identifiable assets	\$6,537,055	\$ 697,288	\$ 612,870	\$1,705,399	\$ 398,136	\$ 9,950,748

Net sales are attributed to geographic segments based on the country location of the Company or the subsidiary that transacted the sale with the external customer.

Principal countries and jurisdictions in each geographic segment are as follows:

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

“Europe” mainly includes the United Kingdom, the Netherlands, Germany, France, Italy, Spain and Portugal.

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

The amounts of corporate assets included in “Eliminations and corporate” were ¥164,704 million, ¥158,417 million and ¥227,464 million (\$1,892,379 thousand) at March 31, 2001, 2002 and 2003, respectively, and mainly consisted of cash and cash equivalents, investment securities and short-term loans receivable.

As described in Note 2 (11), Epson has adopted new accounting standard for pension obligations effective from April 1, 2000. As a result of adopting the new accounting standards, operating income in Japan decreased by ¥3,949 million for the year ended March 31, 2001, as compared with the amount which would have been reported if the previous standards had been applied consistently.

(3) Sales to overseas customers

The table below shows sales to overseas customers by geographic region, and as a percentage of consolidated net sales, for the years ended March 31, 2001, 2002 and 2003:

	Millions of yen						Thousands of
	Year ended March 31						U.S. dollars
	2001		2002		2003		Year ended March 31, 2003
Overseas sales:							
The Americas	¥ 270,885	20.2%	¥ 266,105	20.9%	¥ 239,936	18.1%	\$ 1,996,140
Europe	262,370	19.6	279,992	22.0	318,575	24.1	2,650,374
Asia/Oceania	216,606	16.1	219,055	17.2	274,307	20.8	2,282,088
Total	¥ 749,861	55.9%	¥ 765,152	60.1%	¥ 832,818	63.0%	\$ 6,928,602
Consolidated net sales	¥1,340,903	100.0%	¥1,274,109	100.0%	¥1,322,453	100.0%	\$11,002,105

21. Subsequent events**(1) Initial public offering**

The shares of common stock were listed on the First Section of the Tokyo Stock Exchange on June 24, 2003. At the same time as the listing, 40,000,000 shares of common stock were issued by the Company with the aggregate net proceeds of ¥98,800 million (\$821,963 thousand). Of the 40,000,000 shares, 23,805,500 shares of common stock were offered in Japan and 16,194,500 shares were offered outside of Japan in an international offering. As a result of this issuance, common stock and additional paid-in capital increased ¥36,560 million (\$304,160 thousand) and ¥62,240 million (\$517,804 thousand), respectively.

(2) Offering of over-allotment

In addition to the 40,000,000 shares of common stock above, a resolution at the board of directors' meeting held on June 16, 2003 was made for the Company to grant Nikko Citigroup Limited an option to purchase 4,500,000 new shares of common stock solely to cover the short position in the shares of common stock created by the offering of the over-allotted shares. The total offering amount of the new shares is ¥11,115 million and its payment due date is July 23, 2003.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Seiko Epson Corporation

We have audited the accompanying consolidated balance sheets of Seiko Epson Corporation and its consolidated subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. 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, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our 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 subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As discussed in Note 2 (4) and (11), effective for the year ended March 31, 2001, Seiko Epson Corporation and its consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments and for pensions.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



Tokyo, Japan
June 27, 2003

Principal Subsidiaries and Affiliates

(As of March 31, 2003)

Company Name	Location	Main Business
Subsidiaries		
Epson Sales Japan Corporation	Japan	Sales and servicing of printers and other personal computer peripherals
Epson Direct Corporation	Japan	Sales of personal computers and peripherals
Epson OA Supplies Corporation	Japan	Sales and servicing of printer-related supplies
Tohoku Epson Corporation	Japan	Manufacture of semiconductor products and inkjet print heads
Orient Watch Co., Ltd.	Japan	Manufacture of printer parts, quartz devices and watches; sales of watches
U.S. Epson, Inc.	U.S.A.	Regional headquarters
Epson America, Inc.	U.S.A.	Sales and servicing of printers
Epson Electronics America, Inc.	U.S.A.	Sales and servicing of electronic devices
Epson Portland Inc.	U.S.A.	Manufacture of ink cartridges
Epson El Paso, Inc.	U.S.A.	Manufacture of ink cartridges
Epson Europe B.V.	Netherlands	Regional headquarters
Epson (U.K.) Ltd.	U.K.	Sales and servicing of printers
Epson Deutschland GmbH	Germany	Sales and servicing of printers
Epson Europe Electronics GmbH	Germany	Sales and servicing of electronic devices
Epson France S.A.	France	Sales and servicing of printers
Epson Italia s.p.a.	Italy	Sales and servicing of printers
Epson Iberica, S.A.	Spain	Sales and servicing of printers
Epson Telford Ltd.	U.K.	Manufacture of ink cartridges
Epson Trading S.A.	Switzerland	Asset management
Epson (China) Co., Ltd.	China	Regional headquarters
Epson Korea Co., Ltd.	Republic of Korea	Sales and servicing of printers
Epson (Shanghai) Information Equipment Co., Ltd.	China	Sales and servicing of printers
Epson Hong Kong Ltd.	Hong Kong	Sales and servicing of printers and electronic devices
Epson Taiwan Technology & Trading Ltd.	Taiwan	Sales and servicing of printers and electronic devices
Epson Singapore Pte. Ltd.	Singapore	Regional headquarters; sales and servicing of printers and electronic devices
Epson Australia Pty. Ltd.	Australia	Sales and servicing of printers
Suzhou Epson Co., Ltd.	China	Manufacture of LCDs and quartz devices
Epson Precision (Hong Kong) Ltd.	Hong Kong	Manufacture of printers, LCDs, miniprinters and watches
Epson Industrial (Taiwan) Corporation	Taiwan	Manufacture of LCDs
Singapore Epson Industrial Pte. Ltd.	Singapore	Manufacture of parts for watches, semiconductor products and image scanners
P.T. Indonesia Epson Industry	Indonesia	Manufacture of printers
Epson Precision (Philippines), Inc.	Philippines	Manufacture of printers and quartz devices
Epson Precision (Malaysia) Sdn. Bhd.	Malaysia	Manufacture of quartz devices
Other 59 companies		
Affiliates		
Yasu Semiconductor Corporation	Japan	Manufacture of semiconductor products
Time Module (Hong Kong) Ltd.	Hong Kong	Sales and servicing of watch movements
Other 8 companies		

Corporate Data

■ Company Name	Seiko Epson Corporation
■ Foundation	May 1942
■ Paid-in Capital	53,204 million yen (As of July 24, 2003)
■ Head Office	3-3-5 Owa Suwa, Nagano 392-8502 Tel: +81-266-52-3131
■ Tokyo Office	Shinjuku NS Building, 2-4-1 Nishishinjuku, Shinjuku-ku, Tokyo 163-0811 Tel: +81-3-3348-8531
■ Number of Employees	Epson Group (Consolidated): 73,797 Parent Company: 13,084 (As of March 31, 2003)
■ Group Companies	114 (domestic: 39, overseas: 75)
■ Business Lines	Development, manufacturing, sales, marketing and servicing of Information- Related Equipment (printers, including relat- ed supplies, imaging scanners, LCD projectors, PCs, and others), Electronic Devices (small and medium-sized displays, CMOS LSIs, crystal units, and others), Precision Products (watches, plastic correc- tive lenses and others), and Factory Automation Equipment and other products
■ URL	http://www.epson.co.jp/e/

■ Board of Directors	(As of June 27, 2003)
Chairman	Hideaki Yasukawa*
Vice-Chairman	Yasuo Hattori
President	Saburo Kusama*
Executive Vice-Presidents	Toshio Kimura* Norio Niwa* Seiji Hanaoka*
Managing Directors	Masayuki Morozumi Yasumasa Otsuki Masao Akahane Torao Yajima Kenji Kubota
Directors	Nobuo Hashizume Toshihiko Kishiro Takeo Kagami Hiroshi Komatsu Osamu Kamiwaki Seiichi Hirano Minoru Usui Kenji Uchida Noriyuki Hama Shuji Aruga
Auditors	Masayoshi Omae Yasuo Ishii Yukinobu Ozaki Yoshiro Yamamoto

* Representative Director

Investor Information

■ Closing of Accounts	March 31
■ Regular General Shareholders Meeting	June
■ Date for Confirmation to Shareholders of the Cash Dividend Payment Date	March 31
■ Date for Confirmation to Shareholders of the Interim Cash Dividend Payment Date	September 30
■ Transfer Agent	
Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo	
Business handling place of the agent: Head Office of Stock Transfer Agency Department Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo	

Mailing address and telephone number of the agent:

Business Office of Stock Transfer Agency Department
Mizuho Trust & Banking Co., Ltd.
17-7, Saga 1-chome, Koto-ku, Tokyo 135-8722
Tel: +81-3-5213-5213
<http://www.mizuho-tb.co.jp/english/stock-thtml>

Intermediary offices:

Branches of Mizuho Trust & Banking Co., Ltd.
Head Office and Branches of Mizuho Investors Securities Co., Ltd.

■ Newspaper in which Public Notices (in Japanese) Are to Be Inserted

The Nihon Keizai Shimbun, published in Tokyo

* However, please note that beginning with the financial results for fiscal 2002, in lieu of placing a public notice in the Nihon Keizai Shimbun, the Company has presented its balance sheets and statement of income on its Web site.

Investor Information:
Seiko Epson Corporation
Investor Relations Promotion Department
Shinjuku NS Bldg., 2-4-1 Nishishinjuku, Shinjuku-ku,
Tokyo 163-0811, Japan
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Tel: +81-266-52-3131

URL: <http://www.epson.co.jp/e/>



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Printed in Japan