

## Corporate Governance Report

Last Update: June 26, 2020

Seiko Epson Corporation

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<https://global.epson.com/>

The corporate governance of Seiko Epson Corporation (the “Company”) is described below.

### **I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information**

#### **1. Basic Views**

The general principles of corporate governance at Epson are as follows:

- Respect the rights of shareholders, and secure equality.
- Keeping the interests of shareholders, customers, communities, business partners, employees and other stakeholders in mind, work in an appropriately cooperative manner with them.
- Disclose company information as appropriate and ensure transparency.
- Directors, Executive Officers, and Special Audit & Supervisory Officers shall be aware of their fiduciary responsibilities and shall fulfill the roles and responsibilities expected of them.
- Epson shall engage in constructive dialogue with shareholders.

To achieve the goals declared in Epson’s Management Philosophy, promote sustainable growth, and increase corporate value over the medium and long terms, Epson strives to continuously enhance and strengthen corporate governance so as to realize transparent, fair, fast, and decisive decision-making. Operating as a company with an Audit & Supervisory Committee, Seiko Epson will further improve the supervisory function of the Board of Directors, enhance discussions at Board of Directors meetings, speed up management decision-making, and further increase the effectiveness of corporate governance.

The general principles and policies regarding corporate governance at Epson are summarized in “Corporate Governance Policy,” which is available for viewing on the corporate website.  
([https://global.epson.com/SR/organizational\\_governance/](https://global.epson.com/SR/organizational_governance/))

#### **Reasons for Non-compliance with the Principles of the Corporate Governance Code**

Epson continuously strives to enhance and strengthen its corporate governance based on the foregoing policy and has implemented all the principles in the Corporate Governance Code.

## Disclosure Based on the Principles of the Corporate Governance Code

### Principle 1.4

For the policy on cross-shareholdings, please see Article 5 in Epson's Corporate Governance Policy. Individual cross-shareholdings in the Epson Group (as of the end of June 2019) were analyzed by the Board of Directors in September 2019 based on Epson's compliance assessment criteria to determine the purpose of these cross-shareholdings and their associated risks and benefits. Epson is moving toward reducing those cross-shareholdings that were found to be non-essential.

Please see Article 6 in the Corporate Governance Policy for Epson's standards for exercising voting rights for cross-shareholdings.

### Principle 1.7

Please see Article 8 in the Corporate Governance Policy for procedures relating to transactions with related parties.

### Principle 2.6

The Company systematically promotes and assigns qualified individuals to manage the corporate pension fund and provides them with ongoing educational opportunities so that they can increase their professional knowledge of corporate pension fund management and fulfill the functions expected of them as asset owners.

The Company has adopted a funded corporate pension plan to help assure the appropriate management of conflicts of interest between the Company and corporate pension beneficiaries, and it has worked with the corporate pension fund and labor union to build a system for monitoring and supervising the management of the corporate pension.

### Principle 3.1

- (1) The Company's management philosophy is shared with the public. The Company also shares its long-term corporate vision and three-year business plans with the public. Details are provided on the Company's corporate website.

Management Philosophy: ([https://global.epson.com/company/epson\\_way/management/](https://global.epson.com/company/epson_way/management/))

Corporate Vision: ([https://global.epson.com/company/corporate\\_vision/](https://global.epson.com/company/corporate_vision/))

Mid-Range Business Plan:

([https://global.epson.com/company/corporate\\_vision/epson25\\_plan2.html](https://global.epson.com/company/corporate_vision/epson25_plan2.html))

- (2) The Company's basic principles and policies regarding corporate governance are set forth in the Corporate Governance Policy, which is available on the corporate website.

([https://global.epson.com/SR/organizational\\_governance/](https://global.epson.com/SR/organizational_governance/))

- (3) The policies and procedures that the Board of Directors follows when deciding Director compensation are stated in Article 23 of the Corporate Governance Policy.

- (4) The policies and procedures that the Board of Directors follows when nominating Director candidates and dismissing Officers are stated in Article 22 of the Corporate Governance Policy.

- (5) The reasons for the selection of Directors who were selected at the General Meeting of Shareholders held on June 25, 2020, are stated in the convocation notice of the 78th Ordinary General Meeting of Shareholders. (<https://global.epson.com/IR/information/meeting.html>)

### Supplementary Principles 4.1.1

A summary of the scope of matters delegated to the management is provided in Article 14 of the

Corporate Governance Policy.

### **Supplementary Principles 4.1.3**

The Company's Director Nomination Committee, which is composed primarily of Outside Directors, discusses enhancements to succession plans and the Director appointment process, reviews the roadmap, selects Director candidates, establishes and implements development plans, and reviews the process for evaluating, narrowing down, and replacing candidates.

The Company selects candidates for senior management positions in order to systematically develop these individuals as future executives. After their development is assessed, the HR Development Strategy Council, an advisory body to the President, devises and implements a concrete development plan. The state of development and issues are reported to the Director Nomination Committee, and development activities are further enhanced under the supervision and advice of the Outside Directors. Candidates to succeed the President are identified through the aforesaid process and developed by appointing them to key management roles and by providing them with other essential training opportunities.

### **Principle 4.9**

The criteria for judging the independence of Outside Directors are described in "Matters relating to Independent Directors" under II. 1. Independent Directors in this report. The criteria are also listed in Appendix 2 to the Corporate Governance Policy.

### **Supplementary Principles 4.11.1**

Principles regarding the balance of the Board of Directors in terms of overall knowledge, experience and skill, as well as Board diversity and size, are explained in Article 19 of the Corporate Governance Policy. The Company's Board of Directors is well-balanced and composed of persons who combine a broad spectrum of knowledge, experience, and skill in their respective areas of expertise, without regard to things such as gender, race, ethnicity, country of origin, nationality, cultural background, or age. Please see the Notice of the 78th Ordinary General Meeting of Shareholders for information about the areas where there are particularly high expectations for Directors.  
(<https://global.epson.com/IR/information/meeting.html>)

### **Supplementary Principles 4.11.2**

Epson Officers who concurrently serve on the boards of other publicly listed companies shall keep the number to within reasonable limits based on Article 16 of the Corporate Governance Policy. As a general rule, Outside Directors in particular shall not concurrently serve as either a Director or a *Kansayaku* of more than three publicly listed companies other than Epson per the bylaws established by resolution of the Board of Directors. Per Epson policy, Directors shall attend at least 75% of the meetings of the Board of Directors per year.

Epson discloses information about Directors who hold important concurrent positions at other companies every year in the reference materials provided along with the notices of Ordinary General Meetings of Shareholders as well as in other business reports.

(<https://global.epson.com/IR/information/meeting.html>) Information about Outside Directors who held important concurrent positions at other companies is provided in "Outside Directors' Relationship with the Company (2)" under II. 1. Directors.

### **Supplementary Principles 4.11.3**

The Board of Directors of the Company analyzes and evaluates the effectiveness of the entire Board of Directors every year based on Article 28 of the Corporate Governance Policy.

In the 2018 fiscal year, the Company analyzed and evaluated the effectiveness of its Board of Directors

by asking all Board Members to complete a questionnaire that covered the topics listed below. The results showed that the Board of Directors as a whole is functioning effectively.

- (1) Board composition, functioning, and operation
- (2) The function of the Audit & Supervisory Committee
- (3) The function and operation of advisory bodies to the Board
- (4) Management team evaluation, compensation, succession planning, and training
- (5) Dialogue with shareholders
- (6) Other

The Company identified and addressed the issues below to improve Board effectiveness in the future.

- (1) Improvement of succession plans and further improvement of the Officer selection process

The Director Nomination Committee, which is composed primarily of Outside Directors, discussed further enhancements to succession plans and the director appointment process, reviewed the roadmap, selected director candidates, established and implemented development plans, and reviewed the process for evaluating, narrowing down, and replacing candidates. After going through these procedures, the Company replaced the President and Representative Director, effective April 1, 2020.

In anticipation of the replacement in the future of the current President and Representative Director, the Director Nomination Committee has begun working on a new succession plan to ensure that there is ample time for examination.

- (2) Clarification of the management framework for realizing the Management Philosophy and long-term corporate vision

The Company clarified the management framework for realizing the Management Philosophy and long-term corporate vision chiefly by identifying the areas where there are particularly high expectations for Directors.

Please see the Notice of the 78th Ordinary General Meeting of Shareholders for information about the areas where there are particularly high expectations for Directors.

(<https://global.epson.com/IR/information/meeting.html>)

- (3) Sharing of the effectiveness evaluation results of the Audit & Supervisory Committee in the Board of Directors meetings, and implementation of recommendations from the Audit & Supervisory Committee to the Board of Directors based on the audit results

It has been made standard practice for the Audit & Supervisory Committee to share the results of effectiveness evaluations of the Audit & Supervisory Committee with the Board of Directors.

In the 2019 fiscal year, the evaluation results, which showed that the Audit & Supervisory Committee is operating effectively, were shared with the Board of Directors, and recommendations were made on issues found in the effectiveness evaluation regarding improvements to the Company's internal controls and governance system.

The questionnaires conducted in the 2017 and 2018 fiscal years were comprehensive. The questionnaire conducted in the 2019 fiscal year was likewise comprehensive and showed that the Board of Directors as a whole is functioning effectively.

In addition, the Company dug deeper based on recent corporate governance trends (such as the interests of institutional investors) and identified the following issues in order to improve effectiveness in the future:

- (1) further improving the organization and disclosure of business strategy risks and opportunities; and
- (2) further improving the organization and disclosure of the thinking with regard to business portfolio management.

\* A third-party evaluation such as that conducted in fiscal 2017 was not conducted in fiscal 2019, because it is the Company's policy to implement it once every three years.

In the future, we will work to further improve effectiveness by addressing these issues.

**Supplementary Principles 4.14.2**

Information about the Director training policy is provided in Article 26 of the Corporate Governance Policy.

**Principle 5.1**

The Company's policy regarding constructive dialog with shareholders is provided in Appendix 1 of the Corporate Governance Policy.

**2. Capital Structure**

Foreign Shareholding Ratio	From 10% to less than 20%
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**Status of Major Shareholders**

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	54,424,400	15.72
Japan Trustee Services Bank, Ltd. (Trust Account)	24,647,100	7.11
Sanko Kigyo Kabushiki Kaisha	20,000,000	5.77
Seiko Holdings Corporation	12,000,000	3.46
The Dai-ichi Life Insurance Company, Limited	8,736,000	2.52
Mizuho Trust & Banking Co., Ltd., Retirement benefit trust, Mizuho Bank, Ltd. account	8,153,800	2.35
Trust & Custody Services Bank, Ltd. (Trust Account)	7,510,400	2.16
Epson Group Employees' Shareholding Association	7,309,864	2.11
Mikiko Kidosaki	6,855,302	1.98
Minako Hattori	6,855,302	1.98

Controlling Shareholder (except for Parent Company)	-----
Parent Company	None

**Supplementary Explanation**

1. Information about major shareholders is current as of March 31, 2020.
2. Although the Company holds 53,444,053 treasury shares, the Company is excluded from the above list of major shareholders. Shareholding ratio is calculated by deducting treasury shares. Treasury shares do not include the Company's shares (259,468 shares) owned by the Officer compensation BIP Trust.

**3. Corporate Attributes**

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Electric Appliances
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

#### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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#### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Supervisory Committee
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#### Directors

Maximum Number of Directors Stipulated in Articles of Incorporation	14
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Company Chairperson (except if the President as serves as the chairperson)
Number of Directors	12
Number of Outside Directors	5
Number of Independent Directors	5

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Hideaki Omiya	From another company											
Mari Matsunaga	From another company											
Yoshio Shirai	From another company											
Susumu Murakoshi	Lawyer											
Michiko Ohtsuka	CPA											

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-Executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*kansayaku*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

- i. Executive of a company, between which and the Company Outside Directors/*kansayaku* are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

#### Outside Directors' Relationship with the Company (2)

Name	Membership of Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Hideaki Omiya		○	<b>Important concurrent positions held at other companies</b> Senior Executive Adviser, Mitsubishi Heavy Industries, Ltd. Outside Director, Nomura Research Institute, Ltd	<b>Reason for nominating Hideaki Omiya as an Outside Director</b> Mr. Omiya has served as the President and a Chairman of the Board of Mitsubishi Heavy Industries, Ltd. and has considerable experience and insight as a chief executive and engineer. He has monitored corporate management by expressing opinions actively including findings and proposals regarding overall managerial issues from a perspective of a corporate manager well-versed in the global corporate management in the heavy industry, a different business field. We have nominated him as a candidate for independent Outside Director with the expectation that he will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.  <b>Independence of duties</b> Mr. Omiya was involved in business affairs at Mitsubishi Heavy Industries, Ltd. The Company has had no transactions with Mitsubishi Heavy Industries, Ltd. in the past three years. The Company has registered Mr. Omiya as an Independent Director with the Tokyo Stock Exchange.
Mari Matsunaga		○	<b>Important concurrent positions held at other companies</b>	<b>Reason for nominating Mari Matsunaga as an Outside Director</b> Ms. Matsunaga, who has

			-----	<p>created new business models and served as an Outside Officer in multiple companies, has a wealth of experience and considerable insight.</p> <p>As an Outside Director of the Company, she has appropriately monitored management, actively pointing out business issues and offering recommendations particularly from the viewpoint of promoting open innovation. We have nominated her as a candidate for independent Outside Director with the expectation that she will monitor corporate management appropriately aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.</p> <p><b>Independence of duties</b> The Company has had no transactions with Ms. Matsunaga in the past three years. The Company has registered Ms. Matsunaga as an Independent Director with the Tokyo Stock Exchange.</p>
Yoshio Shirai	○	○	<p><b>Important concurrent positions held at other companies</b> Outside Director, Audit &amp; Supervisory Committee member, Fujikura Ltd.</p>	<p><b>Reason for nominating Yoshio Shirai as an Outside Director</b> Mr. Shirai has served as Directors at Toyota Motor Corporation, Hino Motors, Ltd. and Toyota Tsusho Corporation, and has considerable insight and a wealth of experience as a corporate manager, and achievements as an Outside Director who is Audit &amp; Supervisory Committee member of the Company. We have nominated him as a candidate for Outside Director who is an Audit &amp; Supervisory Committee member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.</p> <p><b>Independence of duties</b></p>



				<p>Mr. Shirai was involved in business affairs at Toyota Tsusho Corporation in the past five years. The Company has had no transactions with Toyota Tsusho Corporation in the past three years.</p> <p>The Company has registered Mr. Shirai as an Independent Director with the Tokyo Stock Exchange. If he is reappointed as proposed, he will continue to serve as an Independent Director.</p>
Susumu Murakoshi	○	○	<p><b>Important concurrent positions held at other companies</b></p> <p>Attorney-at-law President of Japan Attorneys Political Association</p>	<p><b>Reason for nominating Susumu Murakoshi as an Outside Director</b></p> <p>Mr. Murakoshi possesses a high level of professional knowledge and insight as an attorney. Given his extensive experience in the legal community, which has included stints as the Chairman of the Japan Federation of Bar Associations and the Chairman of the Political Federation of Japan Patent Attorneys, the Company believes that Mr. Murakoshi can be expected to contribute to the effective supervision and soundness of management so as to help ensure sustained growth and enhance long-term corporate value. Mr. Murakoshi has been appointed as an Outside Director who is an Audit &amp; Supervisory Committee member. He has never been involved in corporate management except as an Outside Officer. However, for the reasons given above, Epson believes that he can appropriately perform his duties as an Outside Director who is an Audit &amp; Supervisory Committee member.</p> <p><b>Independence of duties</b></p> <p>The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Mr. Murakoshi, who is an attorney-at-law, and the law office to which he belongs.</p> <p>The Company has registered</p>

				Mr. Murakoshi as an Independent Director with the Tokyo Stock Exchange.
Michiko Ohtsuka	○	○	<b>Important concurrent positions held at other companies</b> Certified Public Accountant	<p><b>Reason for nominating Michiko Ohtsuka as an Outside Director</b></p> <p>Ms. Ohtsuka possesses a high level of professional knowledge and insight as a certified public accountant. Given that she has experience and considerable insight as an Outside Officer in a public company, the Company believes that Ms. Ohtsuka can be expected to contribute to the effective supervision and soundness of management so as to help ensure sustained growth and enhance long-term corporate value. Ms. Ohtsuka has been appointed as an Outside Director who is an Audit &amp; Supervisory Committee member.</p> <p>She has never been involved in corporate management except as an Outside Officer. However, for the reasons given above, Epson believes that she can appropriately perform her duties as an Outside Director who is an Audit &amp; Supervisory Committee member.</p> <p><b>Independence of duties</b></p> <p>The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Ms. Ohtsuka who is a certified public accountant, and there is no transactional relationship. The Company has registered Ms. Ohtsuka as an Independent Director with the Tokyo Stock Exchange.</p>

## Supervisory Committee

### Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Supervisory Committee	4	1	1	3	Inside Director

Appointment of Directors and/or Staff to Support the Supervisory Committee	Appointed
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#### Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

The Company has set up an Audit & Supervisory Committee Office to assist the Audit & Supervisory Committee in performing its duties. The head of the Audit & Supervisory Committee Office serves as a Special Audit & Supervisory Officer and assigns full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from Directors who are not Audit & Supervisory Committee members. Matters relating to the personnel of the Office must be approved in advance by the Audit & Supervisory Committee.

#### Cooperation among Supervisory Committee, Accounting Auditors and Internal Audit Departments

To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework has been created to secure close cooperation between the internal audit department and others and the Audit & Supervisory Committee. The Audit & Supervisory Committee can ask the Representative Director or the Board of Directors to take corrective action if the Audit & Supervisory Committee recognizes that the structure of the Audit & Supervisory Committee Office and the system of cooperation between the Audit & Supervisory Committee and the internal audit departments and others interfere with the efficacy of audits.

The Company's internal audit department regularly reports audit plans and audit results to the Audit & Supervisory Committee. After receiving these reports, the Audit & Supervisory Committee can, when it deems it necessary, call upon the internal audit department to conduct an inquiry and can give specific instructions regarding the execution of those duties. In this way, we ensure the effectiveness of systematic audits by the Audit & Supervisory Committee.

The internal audit department is designated as the cornerstone of the internal control functions that the President and departments responsible for executing business affairs put in place. On the other hand, to ensure the effectiveness and independence of audits conducted by the Audit & Supervisory Committee and internal audit department, when the instructions of the Audit & Supervisory Committee and the President conflict, the President has the internal audit department respect the requests or instructions of the Audit & Supervisory Committee.

The Audit & Supervisory Committee and internal audit department thus strive to actively cooperate, but the Company has set up an Audit & Supervisory Committee Office, which is headed up by a Special Audit & Supervisory Officer, as an organization dedicated to supporting the Audit & Supervisory Committee. The Audit & Supervisory Committee Office is independent from the executive side. It operates under the direct instructions and chain of command of the Audit & Supervisory Committee to provide support to the Audit & Supervisory Committee.

At the beginning of the fiscal year, the Audit & Supervisory Committee and the financial auditor share risk assessments, confirm the audit plan of the financial auditor, and hold periodic discussions during the period to enhance the effectiveness of the audit. Financial Auditors can attend Compliance Committee meetings as observers, the Compliance Committee being composed of Outside Directors and Directors who are Audit & Supervisory Committee members.

#### Voluntary Establishment of Nomination/Compensation Committee

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Compensation Committee	Established
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## Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Committee's Name	Director Nomination Committee	Director Compensation Committee
All Committee Members	7	7
Full-time Members	0	0
Inside Directors	2	2
Outside Directors	5	5
Outside Experts	0	0
Other	0	0
Chairperson	Inside Director	Inside Director

## Supplementary Explanation

A Director Nomination Committee and a Director Compensation Committee have been established as advisory bodies to the Board of Directors, with the aim of ensuring the transparency and objectivity regarding selections for and compensation of Directors, Executive Officers and Special Audit & Supervisory Officers. Outside Directors are the main members and the human resources department is the secretariat.

The outline of each Committee is as follows:

### Composition

Based on the internal rules established by the Board of Directors, in each of the Committees, the chairman is the President and the other members are all Outside Directors and the Director in charge of human resources. The current members are as follows:

Chairman: Yasunori Ogawa, President

Members: Outside Directors Hideaki Omiya, Mari Matsunaga, Yoshio Shirai, Susumu Murakoshi, Michiko Ohtsuka

Masayuki Kawana, director in charge of human resources

\* Minoru Usui retired as Chairman and member, effective March 2020.

\* Michihiro Nara and Chikami Tsubaki retired as members, effective as of the Ordinary General Meeting of Shareholders of June 2020.

Directors who are full-time members of the Audit & Supervisory Committee can attend either meeting as observers.

### Activities of the Director Nomination Committee

The committee met four times from April 2019 to the June 2020 Ordinary General Meeting of Shareholders to deliberate things such as Officer (Director, Executive Officer, and Special Audit & Supervisory Officer) selection policies and candidate proposals, succession plans, bylaws concerning the Chairperson of the Board, and areas where there are particularly high expectations for Directors. Most notably, the committee went through the process of selecting a new President and Representative Director in advance of the April 2020 succession date, with the Outside Directors, who make up the majority of the Director Nomination Committee, interviewing multiple succession candidates and holding exhaustive discussions at meetings of the Director Nomination Committee before tendering the Committee's recommendation to the Board of Directors.

### Activities of the Director Compensation Committee

The committee met five times from April 2019 to the June 2020 Ordinary General Meeting of Shareholders to deliberate things such as base compensation, individual bonuses, the extension of the performance-linked stock compensation plan, and the performance-based coefficient. Mari Matsunaga was absent for one meeting, but the content of the discussions was separately explained to her later.

### Independent Directors

Number of Independent Directors	5
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#### Matters relating to Independent Directors

The Company has designated all Outside Directors who qualify as independent directors or auditors as independent directors or auditors.

### Criteria for Independence of Outside Directors

The Company has established the criteria below to objectively determine whether potential Outside Directors are independent.

1. A person is not independent if:

- (1) The person considers the Company to be a major business partner<sup>1</sup>, or has served as an executive<sup>2</sup> within the past five years in an entity for which the Company is a major business partner;
- (2) The person is a major business partner<sup>3</sup> of the Company or has served as an executive within the past five years in an entity that is a major business partner of the Company.
- (3) The person is a business consultant, certified public accountant, or lawyer who has received a large sum of money or other forms of compensation<sup>4</sup> (other than compensation as an Officer) from the Company or has, within the past three years, performed duties equivalent to those of an executive as an employee of a corporation or group, such as a union, that has received a large sum of money or other forms of compensation from the Company;
- (4) The person is a major shareholder<sup>5</sup> of the Company or has, within the past five years, been an executive or Audit & Supervisory Board Member of an entity that is a major shareholder of the Company;
- (5) The person is an executive or Audit & Supervisory Board Member of an entity in which the Company is currently a major shareholder;
- (6) The person is a major lender<sup>6</sup> to the Company or has been an executive of a major lender to the Company within the past five years;
- (7) The person has been employed by an auditing firm that has conducted a legal accounting audit of the Company within the past five years;
- (8) The person has been employed by a leading managing underwriter of the Company within the past five years;
- (9) The person has received a large donation<sup>7</sup> from the Company or, within the past three years, has performed duties equivalent to those of an executive as an employee of a corporation or a group, such as a union, that has received a large donation from the Company;
- (10) The person came from an entity that employs someone from the Company as an Outside Director; or
- (11) A spouse or relative within the second degree of kinship of a person having the interests listed in (1) through (9) above.

2. Even if any of the foregoing criteria apply to a potential Outside Director, the Company can elect that person as an Outside Director if that person satisfies the requirements for Outside Directors set forth in the Companies Act, and the Company deems the person suitable as an Outside Director of the Company in light of his or her personality, knowledge, experience, or other qualifications upon explaining and announcing the reasons thereof.

#### Notes

- 1: A person (usually a supplier) considers the Company to be a major business partner if 2% or more of its consolidated net sales (consolidated revenue) has come from the Company in any fiscal year within the past three years.
- 2: "Executive" means an Executive Officer, Executive Director or Operating Officer, or an employee occupying a senior management position of department manager or higher.
- 3: A person (usually a buyer) is a major business partner if 2% or more of the Company's consolidated revenue has come from that partner in any fiscal year within the past three years.
- 4: "A large sum of money or other forms of compensation" means an average annual amount for the past three years that is:
  - i) no less than 10 million yen for an individual; or
  - ii) no less than 2% of the annual revenues in any fiscal year for a group.
- 5: "Major shareholder" means a shareholder who directly or indirectly holds 10% or more of the voting rights.
- 6: "A major lender" means a financial institution or other major creditor that is indispensable for the Company's financing and on which the Company depends to the extent that it is irreplaceable in any fiscal year within the past three years.
- 7: "Large donation" means a donation whose annual average amount for the past three years exceeds either:
  - i) 10 million yen or
  - ii) 30% of the annual expense of the group, whichever is higher.

#### Incentives

Incentive Policies for Directors	Performance-Linked Compensation, Other
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#### Supplementary Explanation

For details, please see "Policy on Determining and Calculating Compensation" under II 1. "Director Compensation" in this Report.

Recipients of Stock Options	
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#### Supplementary Explanation

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#### Director Compensation

Disclosure of Individual Directors' Compensation	No Individual Disclosure
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#### Supplementary Explanation

Compensation of Directors in the fiscal year ending March 31, 2020 is as follows.

- The eight Directors who are not Audit & Supervisory Committee members received compensation totaling ¥389 million, including ¥267 million in base compensation (including ¥250 million in fixed compensation and ¥17 million in variable compensation), ¥85 million in bonuses, and ¥37 million in stock compensation.  
(This includes two Outside Directors who received compensation totaling ¥28 million, consisting of ¥28 million in base compensation.)
- The four Directors who are Audit & Supervisory Committee members received compensation totaling ¥81 million, consisting of ¥81 million in base compensation.  
(This includes three Outside Directors who received compensation totaling ¥48 million, consisting of ¥48 million in base compensation.)

#### Notes

1. The base compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors) consists of fixed compensation and variable compensation. Of which, variable compensation refers to the monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
2. The Company has introduced an Officers' shareholding association system to link compensation more closely to shareholders' value. A portion of the base compensation is discretionally allotted for the acquisition of the Company's shares. In addition, the internal rules determined by the Board of Directors are used to set the standard for holding Company shares and to show our shareholders our responsibility to management.
3. Upon the resolution at the Ordinary General Meeting of Shareholders of June 28, 2016, the maximum base compensation was set to at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (including 10 million yen per month for Outside Directors) and at 20 million yen for Directors who are Audit & Supervisory Committee members.
4. The amount above includes bonuses to be paid to Directors in the amount of 85 million yen (amount to be paid to six Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee members), subject to the approval of the proposal concerning the payment of bonus to Directors to be proposed at the General Meeting of Shareholders scheduled on June 25, 2020.
5. The Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the Officer compensation BIP (Board Incentive Plan) trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).
6. Stock options are not granted.

Policy on Determining and Calculating Compensation	Established
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#### Disclosure of Policy on Determining and Calculating Compensation

Compensation for Directors who are not Audit & Supervisory Committee members is decided by the resolution of the General Meeting of Shareholders and the Board of Directors, and compensation for Directors who are Audit & Supervisory Committee members is decided by the resolution of the General Meeting of Shareholders and by the discussion of the Audit & Supervisory Committee members after a fair, transparent, and rigorous review by the Director Compensation Committee (an advisory body to the Board of Directors),

which is composed primarily of Outside Directors and which issues an opinion, to ensure transparency and objectivity.

With regard to the compensation of Directors who are not Audit & Supervisory Committee members, the Audit & Supervisory Committee will share and discuss the matters confirmed by the Director Compensation Committee and confirm whether there are matters that should be stated at the Ordinary General Meeting of Shareholders.

The President is entrusted by the Board of Directors with the amount of compensation for Directors who are not Audit & Supervisory Committee members, etc., but it is decided based on the matters deliberated and accepted by the Director Compensation Committee.

An overview of the Director Compensation Committee is as follows.

### **Composition**

Based on the internal rules established by the Board of Directors, the chairman is the President and the other members are all Outside Directors and the Director in charge of human resources. The current members are as follows:

Chairman: Yasunori Ogawa, President

Members: Outside Directors Hideaki Omiya, Mari Matsunaga, Yoshio Shirai, Susumu Murakoshi, Michiko Ohtsuka

Masayuki Kawana, Director in charge of human resources

\* Minoru Usui retired as Chairman and member, effective March 2020.

\* Michihiro Nara and Chikami Tsubaki retired as members, effective as of the Ordinary General Meeting of Shareholders of June 2020.

Directors who are full-time Audit & Supervisory Committee members can attend as observers.

### **Activities of the Director Compensation Committee**

The committee met five times from April 2019 to the June 2020 Ordinary General Meeting of Shareholders to deliberate things such as base compensation, individual bonuses, the extension of the performance-linked stock compensation plan, and the performance-based coefficient. Mari Matsunaga was absent for one meeting, but the content of the discussions was separately explained to her later.

### **Policy**

The Company has established the basic policies regarding the Officer compensation in its internal rules decided by the Board of Directors.

Compensation of Officers who have executive duties

- (a) Compensation shall provide incentive to improve business performance in order to increase corporate value in the near, medium, and long terms.
- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.
- (c) Compensation shall be commensurate with period performance so that Directors and Executive Officers can demonstrate their management capabilities to the fullest during their tenure.

Compensation for Officers who do not have executive duties

- (a) The composition of compensation shall guarantee independence so that these Officers can suitably exert their general management supervisory function, etc.
- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.

### **Compensation system**

The Officer compensation system consists of the following components: base compensation, bonuses, and stock compensation. Non-Executive Officers receive base compensation only, a fixed amount,



because their role is to supervise general management. They do not receive bonuses and stock compensation, which are forms of compensation that are linked to performance and share price. The composition of total compensation in fiscal 2019 for Directors who are not Audit & Supervisory Committee members was approximately 66% base compensation (fixed compensation approximately 61%, variable compensation approximately 5%), bonus approximately 24%, and stock compensation approximately 10%.

**Base compensation (fixed and variable)**

Base compensation is a monthly monetary amount that is determined by taking into account factors such as the individual's position and responsibilities. The variable compensation component of base compensation for Officers who have executive duties reflects the results of annual performance evaluations based on criteria set according to the individual's role. (Variable range: 20%)

As resolved by shareholders at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation for Directors who are not Audit & Supervisory Committee members was set to at 62 million yen per month (Outside Directors account for 10 million yen of this amount) and at 20 million yen per month for Directors who are Audit & Supervisory Committee members.

**Bonuses (variable)**

Monetary compensation is paid as a bonus once per year to Officers who have executive duties in an amount determined in accordance with considerations such as the level of achievement with respect to annual operating performance targets. It is possible that bonuses may not be paid if business profit does not reach a certain amount. Bonuses reflect the results of annual performance evaluations based on criteria set according to the individual's role. (Variable range of bonuses in months' worth of salary:  $\pm 1.2$  months)

Bonuses are calculated based on a calculation standard that the Board of Directors has determined in advance. However, due to the nature of the short-term incentive bonus, non-recurring losses and other factors are taken into account based on the business profit of a single fiscal year. The final payment amount is decided at the Ordinary General Meeting of Shareholders to ensure transparency.

Most recently, at the Ordinary General Meeting of Shareholders on June 25, 2020, it was resolved that 85 million yen in bonuses would be paid to six Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee members).

**Stock compensation (variable)**

Officers who have executive duties are compensated with Seiko Epson shares under a trust scheme. The number of shares issued is dependent on the level of achievement with respect to medium-term financial performance targets, such as ROS and ROE. (Variable range: 20%)

The Company has introduced a transparent and fair performance-linked stock compensation system. The aim of the system is to further clarify the link between Officer compensation and stock value, strengthen the sense that they are sharing profits with shareholders, and demonstrate the Company's commitment to sustainable growth and medium- to long-term corporate value improvement.

The ratio of stock compensation to base compensation increases or decreases from 10% to 22% depending on position, while the number of shares delivered is linked to the achievement level of the performance indicators during the target period (3 years).

The Company has introduced provisions (malus and clawback provisions) under this stock compensation system that will cause Officers to lose their right to receive stock and require them to pay back an amount equal to the value of the stock already issued if they are found to have violated any laws, ordinances, or company regulations, standards, or other policies.

A resolution to introduce this stock compensation system was approved by shareholders at the Ordinary General Meeting of Shareholders on June 28, 2016. And, at a Board of Directors meeting held on May 16, 2019, the Board of Directors approved a resolution to continue this stock compensation system for the three-year period from the 2019 fiscal year through the 2021 fiscal year. The performance-based coefficient from the 2016 fiscal year through the 2018 fiscal year was 0.90X. The variable range of the

performance-based coefficient under the continuing system will be expanded from 0.90X-1.10X to 0.80X-1.20X, and the progress of ESG management has been added to the qualitative evaluation. For details, please see the Notice of the 78th Ordinary General Meeting of Shareholders. (<https://global.epson.com/IR/information/meeting.html>)

### Supporting System for Outside Directors

The Company has set up a department to serve as the administrative office for the Board of Directors and to provide the necessary support to the Outside Directors, including but not limited to providing supplementary explanations about motions to be submitted to the Board of Directors. The department that is responsible for the administration of the Board of Directors distributes materials concerning matters to be deliberated by the Board of Directors to all Directors, including Outside Directors, sufficiently in advance of meetings. The department also sets the schedule for the next fiscal year's regular meetings of the Board of Directors by the end of each fiscal year and provides the schedule to all Directors, including Outside Directors.

### Retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Information on retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/ without compensation, etc.)	Date when former role as president/ CEO ended	Term
—	—	—	—	—	—

Number of retired presidents/CEOs holding advisory positions (sodanyaku, komon, etc.)

0

Others

The Company has established a system that provides for executive advisors (*soudanyaku*) and advisors (*komon*) pursuant to regulations established by a resolution of the Board of Directors. After Presidents or other executives step away from the front lines of company management, they may be asked to become executive advisors or advisors for the purpose of assisting incumbent Board Members in an official capacity without being involved in managing the Company. Currently, the Company does not have any executive advisors or advisors.

The election procedures, compensation, term limits, and other conditions of the program are set forth in company regulations. The election of executive advisors and advisors is subject to a resolution by the Board of Directors. Compensation and other matters are decided separately in accordance with the person's role.

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Compensation Decisions (Overview of Current Corporate Governance System)

### Matters relating to the execution of business affairs

The Board of Directors is composed of 12 Directors, including five Outside Directors. Meetings of the Board of Directors are, as a rule, held once per month and as needed. Meetings were held 13 times in fiscal 2019. The attendance rate is 100% for all Directors except for Ms. Matsunaga who is at 92.3%. Meetings of the Board of Directors are chaired by the Chairperson of the Board per the Board of Directors Regulation.

The Board of Directors makes decisions on basic business policies, important business affairs, and other matters that the Board of Directors is responsible for deciding as provided for in internal regulations. Business affairs that the Board of Directors is not responsible for deciding are delegated to executive management, and the Board monitors these. Under the company with an Audit & Supervisory Committee structure, the scope of business affairs delegated by the Board of Directors to executive management, such as making decisions on investment projects that are less than a certain fixed amount of money, has been expanded. As such, matters discussed by the Board of Directors are limited to motions of the highest importance (e.g., governance, capital policy, compliance, risk management, deliberations on megatrends and mid- to long-term strategies), thereby speeding up business decision-making and increasing the agility of business. The Company has specified in the Corporate Governance Policy that at least one-third of the members of the Board of Directors shall be Outside Directors.

Management meeting bodies have been established for executing operations. Among them is the Corporate Strategy Council, which usually meets about once a week to allow Directors, Executive Officers, and Special Audit & Supervisory Officers to exhaustively discuss important business themes that affect the entire Epson Group and matters brought up before the Board of Directors. Outside Directors can attend meetings of any of these bodies, but even if they cannot attend, they are provided with materials for discussion and supplementary explanations of the content of discussions. The Company strives to ensure the fairness and transparency of the execution of business affairs through the attendance of a Director who is a Full-Time Audit & Supervisory Committee member.

#### **Matters subject to audit and supervision**

The Audit & Supervisory Committee is composed of four Directors, including three Outside Directors. Taro Shigemoto was selected to serve as a Full-Time Audit & Supervisory Committee member to help ensure that the Audit & Supervisory Committee works effectively, as it was concluded that it would be necessary for someone to prepare an environment to facilitate audits, attend important internal meetings to smoothly collect internal information, work closely with groups such as the internal audit department, and monitor the internal control system.

Audit & Supervisory Committee members can attend meetings of the Corporate Strategy Council and other important meetings as part of their efforts to properly monitor business affairs. They examine the legality and suitability of actions taken by the Directors by checking and confirming compliance and by supervising and verifying things such as the state of the internal control system, including internal control over financial reporting. When deemed necessary, they can call upon the internal audit department to conduct an inquiry and can give specific instructions regarding the execution of those duties. Through these, we ensure the effectiveness of systematic audits by the Audit & Supervisory Committee.

Audit & Supervisory Committee member Michiko Ohtsuka is a certified public accountant and has an appreciable degree of knowledge and insight into finance and accounting.

#### **Matters relating to nomination and compensation decisions, etc.**

Please see the supplementary explanation under "Advisory bodies" in II 1.

#### **Names of certified public accountants and consecutive audit years**

The names of certified public accountants who executed financial audits during the period (the fiscal year ended March 31, 2020) and the names of the audit firm to which they belong are as follows:

Makoto Usui, Designated and Engagement Partner, (Ernst & Young Japan) 1 years

Yoshiyuki Sakuma, Designated and Engagement Partner, (Ernst & Young Japan) 4 years

Yoshitomo Matsuura, Designated and Engagement Partner, (Ernst & Young Japan) 7 years

#### **Matters concerning limited liability agreements**

The Company has executed agreements with Non-Executive Directors Hideaki Omiya, Mari Matsunaga, Taro

Shigemoto, Yoshio Shirai, Susumu Murakoshi, and Michiko Ohtsuka that limit their liability for damages under Article 423 (1), pursuant to the provisions of Article 427 (1) of the Companies Act. The maximum amount of liability for damages under these agreements is limited to the amount provided for by laws and regulations. The liability of the Non-Executive Directors shall be limited only if they have acted in good faith and without gross negligence in performing their duties.

### 3. Reasons for Adoption of Current Corporate Governance System

Seiko Epson is structured as a company with an Audit & Supervisory Committee. It has a Board of Directors, an Audit & Supervisory Committee, and financial auditors. It has also voluntarily established an advisory committee for matters such as the Director nomination and compensation. This governance system was adopted to further increase the effectiveness of corporate governance by strengthening supervision over management and by enabling the Board of Directors to devote more time to discussions while speeding up decision-making by management.

## III. Implementation of Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	As a general rule, shareholders are notified by mail of the date of General Meeting of Shareholders at least three weeks before the date. Convocation notices for the Ordinary General Meeting of Shareholders (held on June 25, 2020) for the period (the fiscal year ended March 31, 2020) were mailed on May 29, 2020. On May 22, prior to the mailing of the convocation notices, the Company posted a convocation notice on the Corporate website.
Scheduling AGMs Avoiding the Peak Day	The Company avoids holding the Ordinary General Meeting of Shareholders on the peak day so that as many shareholders as possible can attend.
Allowing Electronic Exercise of Voting Rights	In addition to exercising their voting rights by mailing in a form, shareholders can exercise their voting rights electronically.
Participation in Electronic Voting Platform	The Company posts convocation notices on its website, provides convocation notices in English, and uses visuals to report its operations at General Meeting of Shareholders. The Company participates in the electronic voting platform for institutional investors that is run by ICJ.
Providing Convocation Notice in English	Convocation notices are provided in English in their entirety on the Company's website and on the ICJ platform.

### 2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company has established a Policy on Information Disclosure and Dialog (Disclosure Policy) for engaging in honest dialogue with stakeholders, in keeping with the Principles of Corporate Behavior and the Corporate Governance Policy, both of which were established to realize the Management Philosophy. The Policy is posted on our website. ( <a href="https://global.epson.com/IR/disclosure_policy.html">https://global.epson.com/IR/disclosure_policy.html</a> )
Regular Investor Briefings for Individual Investors	The Company has been holding regular briefings for individual investors since 2010.
Regular Investor Briefings	In addition to full-year and quarterly financial results announcements,

for Analysts and Institutional Investors	the Company holds briefings for analysts when it announces its mid-range business plans, etc.
Posting of IR Materials on Website	The Company posts investor relations information on its website ( <a href="https://epson.com/">https://epson.com/</a> ), including messages from the President, financial data, the IR schedule, financial materials (consolidated results and supplementary information, financial results announcement presentations, summaries of questions and answers at the time of financial results announcements, etc.), annual reports, securities reports, integrated reports, shareholder notices, Ordinary General Meeting of Shareholders convocation notices and notices of resolutions, CSR activities, news releases, etc.
Establishment of Department and/or Manager in Charge of IR	The Company's PR & IR Department is in charge of investor relations. In addition to handling full-year and quarterly financial results announcements, the PR & IR Department handles day-to-day communications with analysts and institutional investors. It also regularly shares feedback from capital markets with the management team.

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	With the aim of maintaining the trust of all stakeholders, including customers, shareholders, investors, suppliers, governments, local citizens, NGOs, NPOs, and employees, Epson established "Principles of Corporate Behavior" and the "Epson Code of Conduct" based on an idea that underlies the Company's management philosophy: building trust through socially responsible action.
Implementation of Environmental Activities, CSR Activities etc.	The Company reports its activities on its website and prepares and posts an annual "Sustainability Report" on its website. In October 2016, the Company strengthened its CSR activities by creating a full-time promotional organization and assigning a Director to head up the organization. In addition, in 2017 it created "Key CSR Themes," a materiality matrix that identifies important initiatives for addressing social issues. The Company examined the relationship between its initiatives and the 17 Sustainable Development Goals by comparing its initiatives against the 169 targets of the SDGs. It selected 14 SDGs where the Company's initiatives and the SDGs overlapped and is carrying out actions to achieve sustainability.
Development of Policies on Information Provision to Stakeholders	Epson is committed to transparency and proactively releases information, including negative information, to its stakeholders. To ensure fair disclosure, the Company posts financial results data, etc., on its website in a timely manner.

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

The Company's Board of Directors passed a resolution on a basic internal control system policy (a system for ensuring that business is conducted suitably by the corporate group) and the Company has provided an improved internal control system based on this resolution.

Seiko Epson Corporation (“Epson” or “the Company”) considers its Management Philosophy to be its most important management concept, and to realize it Epson has established “Principles of Corporate Behavior,” a code of conduct that is shared across the Group, including at subsidiaries. The Company shall establish the following basic policy regarding the internal control system (a system for ensuring that business is conducted suitably by the corporate group) and provide an improved internal control system for the Epson Group as a whole.

## 1. Compliance

- (1) The Company has established “Principles of Corporate Behavior” as a guide for putting the Management Philosophy into practice. The Company shall also establish regulations that spell out things such as basic compliance requirements and the organizational framework.
- (2) The Company shall also create a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee shall be chaired by a Full-Time Audit & Supervisory Committee member and shall be made up as members of the Outside Directors and Audit & Supervisory Committee members. The Compliance Committee will meet to hear and discuss important matters concerning the Company’s compliance program. It will report its findings and offers opinions to the Board of Directors. Financial Auditors shall be able to attend meetings of the Compliance Committee as observers.
- (3) A Chief Compliance Officer (“CCO”) shall be chosen to oversee and monitor the execution of all compliance operations. The CCO shall periodically report the state of compliance affairs to the Compliance Committee.
- (4) Compliance promotion and enforcement shall be supervised by the President of the Company. Group-wide compliance programs shall be carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions and subsidiaries. Compliance programs of the divisions and their related subsidiaries shall be promoted by the respective Chief Operating Officers of the divisions.  
A compliance control department shall help to ensure the completeness and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.
- (5) The Corporate Strategy Council, an advisory body to the President comprised of the Directors and others, addresses important matters with respect to compliance promotion and enforcement of the Epson Group as a whole, including subsidiaries. The Council strives to ensure the effectiveness of compliance by exhaustively discussing and analyzing the state of programs for assuring observance of statutes, internal regulations, business ethics and initiatives in key areas.
- (6) The Company, including its subsidiaries, shall strive to provide an effective whistleblowing system. Employees shall be encouraged and shall be able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls shall be in place to protect whistleblowers from reprisal, and allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
- (7) The Company shall strive to enhance legal consciousness by providing Epson Group employees with web-based training and other educational opportunities.
- (8) The President of the Company shall periodically report important compliance-related matters to the Board of Directors and shall take measures as needed to respond to issues.
- (9) “Principles of Corporate Behavior” shall state that the Company shall have no association whatsoever with organized crime. The Company shall take a firm stance in rejecting any and all contact with organized crime that threatens social order and security.

## 2. System for Ensuring Proper Financial Reporting

- (1) The creation of proper financial reports is recognized as a critical issue. The Company shall build, on the orders of the president, a system that enables internal control over financial reporting to be properly arranged, implemented, and evaluated. The financial reports will not be limited in scope to evaluations and reporting required by the Financial Instruments and Exchange Act but will also include reporting over the scope deemed necessary by management.
- (2) A basic regulation and other regulations and standards pertaining to internal control over financial reporting shall be created, and their observance shall be obligatory across the entire Epson Group.
- (3) Continuously evaluate whether the internal controls that have been put in place for financial reporting are effectively and properly functioning, and take corrective action where needed.

### 3. Business execution system

- (1) The Company shall formulate long-term vision statements and mid-range business plans, and it shall set clear med-to long-term goals for the Epson Group as a whole.
- (2) The Company shall institute a system that shall ensure the appropriate and efficient execution of business. To that end, the Company shall establish regulations governing organization management, job authorities, the division of responsibilities, and the management of affiliated companies, thus distributing power and authority across the entire Group.
- (3) Personnel responsible for business operations shall report the matters below to the Board of Directors at least once every three months.
  - 1) Current business performance and performance outlook
  - 2) Risk management responses
  - 3) Status of key business operations

### 4. Risk management

- (1) The Company shall establish a basic risk management regulation that stipulates the risk management system of the Company, including its subsidiaries, and that defines the organization, risk management methods and procedures, and other basic elements of this system.
- (2) Overall responsibility for risk management in the Epson Group, including subsidiaries, shall belong to the President of the Company. Group-wide risk management shall be carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business shall be managed by the Chief Operating Officer of that business, including at subsidiaries consolidated under them. The Company shall also set up a risk management control department, monitor overall risk management Group-wide, make corrections and adjustments thereto, and ensure the effectiveness of risk management programs.
- (3) The Corporate Strategy Council shall strive to ensure effective management of serious risks that could have an egregious effect on the Company by dynamically and exhaustively discussing and analyzing action to identify and control risks. Also, when major risks become apparent, the President shall lead the entire company in mounting a swift initial response in line with the Company's prescribed crisis management program.
- (4) The President of the Company shall periodically report to the Board of Directors on critical risk management issues and formulate appropriate measures to respond to these issues.

### 5. Ensuring the appropriateness of operations in the corporate group

- (1) The Group's management structure shall help to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company shall be organized into product-based divisions. Each division shall be headed by a Chief Operating Officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions

within the Head Office shall own global responsibility. Responsibility for providing the framework for business operations at subsidiaries shall be owned by the head of each business. Group-wide corporate functions shall be the responsibility of the heads of Head Office supervisory departments.

- (2) The Company shall have business processes that enable business to be controlled on a Group level. This shall be accomplished by internal regulations that require subsidiaries to report or acquire pre-approval for certain business operations from the parent company, Epson, and by requiring issues that meet certain criteria to be submitted to Epson's Board of Directors for resolution. In certain regions, moreover, the Company shall seek to ensure the suitability and efficiency of Group-wide business operations by establishing a company that acts as a regional head office that supervises subsidiaries.
- (3) Based on the basic regulation for Internal Audits, the internal audit departments shall serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. The internal audit departments shall audit internal controls and the state of operations in all Epson Group companies, including subsidiaries. The findings of the internal audit departments shall be presented to the head of the audited organization along with requests for corrective action. This information shall also be regularly reported to the President of the Company and to the Audit & Supervisory Committee. In this way, Epson shall strive to optimize operations across the entire Group.

#### 6. Safeguarding and management of information on performance of duties

- (1) Information on the performance of duties shall be safeguarded and managed in accordance with regulations governing, among other things, document control, management approval, and contracts. All Directors shall be able to access this information at all times.
- (2) The Company shall strive to prevent the leak and loss of Epson Group internal information by managing confidential information according to the level of sensitivity, in accordance with the Epson Group basic information security regulation.

#### 7. Audit system

- (1) The Audit & Supervisory Committee can interview Directors who are not Audit & Supervisory Committee members, Executive Officers, and other personnel whenever they deem necessary in the performance of duties based on the Audit & Supervisory Committee audit regulation.
- (2) Audit & Supervisory Committee members can attend Corporate Strategy Council sessions, Corporate Management Meetings, and other important business meetings that shall enable them to conduct audits based on the same information as that available to Directors who are not Audit & Supervisory Committee members. Audit & Supervisory Committee shall also routinely review important documents related to management decision-making.
- (3) An Audit & Supervisory Committee Office shall be set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office shall serve as a Special Audit & Supervisory Officer and shall assign full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office shall discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from Directors who are not Audit & Supervisory Committee members. Matters relating to the personnel of the office must be approved in advance by the Audit & Supervisory Committee.
- (4) To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework shall be created to secure close cooperation between the internal audit department and others and the Audit & Supervisory Committee.
- (5) The Audit & Supervisory Committee can ask the Representative Director or the Board of



Directors to take corrective action if the Audit & Supervisory Committee recognizes that the structure of the Audit & Supervisory Committee Office and the system of cooperation between the Audit & Supervisory Committee and the internal audit departments and others interfere with the efficacy of audits.

- (6) The Audit & Supervisory Committee shall receive audit reports from the internal audit departments and can issue specific instructions to the internal audit departments as needed. If the instructions issued to the internal audit departments by the Audit & Supervisory Committee and the President are in conflict, the President shall have the internal audit departments respect the instructions of the Audit & Supervisory Committee.
- (7) Based on the Audit & Supervisory Committee audit regulation, the Audit & Supervisory Committee can ask Directors who are not Audit & Supervisory Committee members, the compliance control department, and the risk management control department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also inspect supporting materials. The Audit & Supervisory Committee shall, where necessary, be able to ask subsidiary company Directors, Audit & Supervisory Board Members, the internal audit departments, and others to report the state of management within their respective companies. A system shall be put in place to protect reporters from reprisal for having made a report, and the identity of the reporter shall be protected even if the President or a Board Member, for example, is asked to make corrections and so forth based on the report.
- (8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with Financial Auditors.
- (9) The Audit & Supervisory Committee and Representative Director shall regularly meet to enable the committee to directly assess business operations.
- (10) The expenses required by the Audit & Supervisory Committee members to perform its duties shall be properly budgeted for in advance. However, expenses required to perform the duties of the Audit & Supervisory Committee members in emergency or extraordinary situations shall be promptly paid in advance or refunded on each occasion.

## **2. Basic Views on Eliminating Anti-Social Forces**

### **(1) Basic approach to eliminating antisocial forces**

As stated in item (9) under “Compliance” in the basic internal control system policy, the Company’s policy is to avoid any association whatsoever with organized crime and to take a firm stance in rejecting any and all contact with criminal organizations that threaten social order and security.

### **(2) Preparations for eliminating antisocial forces**

The Company’s views on eliminating antisocial forces are expressed as a unified commitment of the Epson Group in Principles of Corporate Behavior. Things that Epson personnel must endeavor to do and actions they are expected to take are stated in the Epson Group Global Code of Conduct, and these are communicated to personnel through online courses. The Company has built into its business systems a process for preventing transactions with antisocial forces (i.e., criminal and terrorist organizations) when credit investigations and periodic evaluations are conducted for customers and suppliers, and commercial contracts contain provisions regarding the elimination of relationships with antisocial forces. The Company’s crisis management program names the general affairs department as the organization responsible for responding to improper or unjust claims by antisocial forces. This department gathers information from relevant government authorities and so forth and has established strategic actions such as verifying the initial response system and consulting with outside experts, including public institutions.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

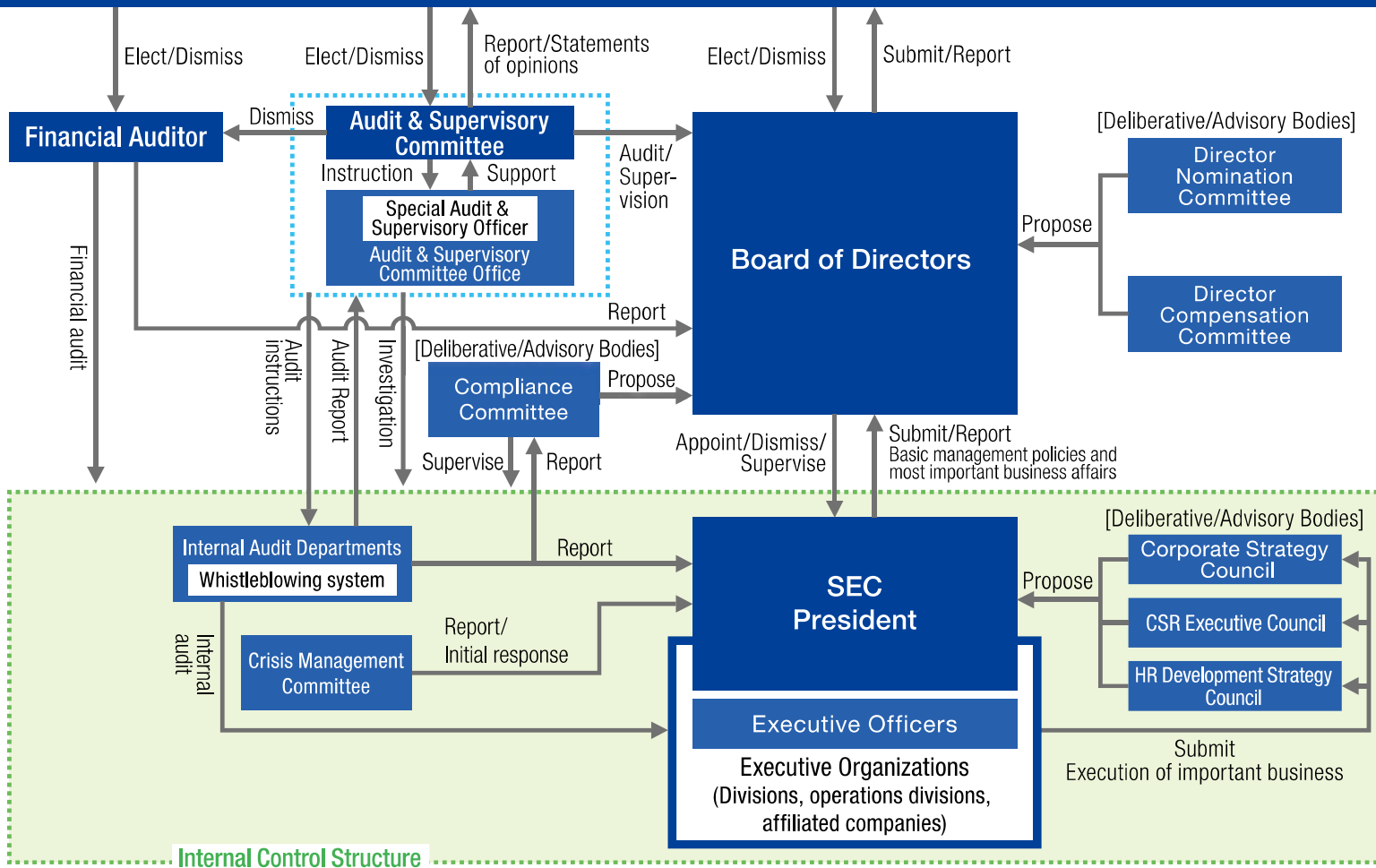
Article 7 of the Company's Corporate Governance Policy stipulates the following:

1. Whether to accept a bid to purchase a number of shares that would give the acquirer control over the Company's financial and business policies ("large-scale acquisition" hereafter) should ultimately be decided by the shareholders.
2. Epson shall ask persons who attempt to make large-scale acquisitions of Company shares to provide a sufficient amount of the information needed to determine the desirability of the large-scale acquisition from the perspective of ensuring and enhancing corporate value and the common interests of shareholders, after which Epson shall disclose the opinions of the Company's Board of Directors regarding the proposed large-scale acquisition, thereby doing its due diligence to provide shareholders with the time and information they need to consider the desirability of the large-scale acquisition. The Company shall also take appropriate actions based on the Financial Instruments and Exchange Act, the Companies Act, and other applicable laws and regulations.

### 2. Other Matters Concerning to Corporate Governance System

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## General Shareholders' Meeting



# Schematic Diagram of Seiko Epson's Timely Disclosure System

