

## **Corporate Governance**

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

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

##### **Outline**

Epson's basic approach to corporate governance is geared toward

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

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

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

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

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

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

#### **Compliance Committee**

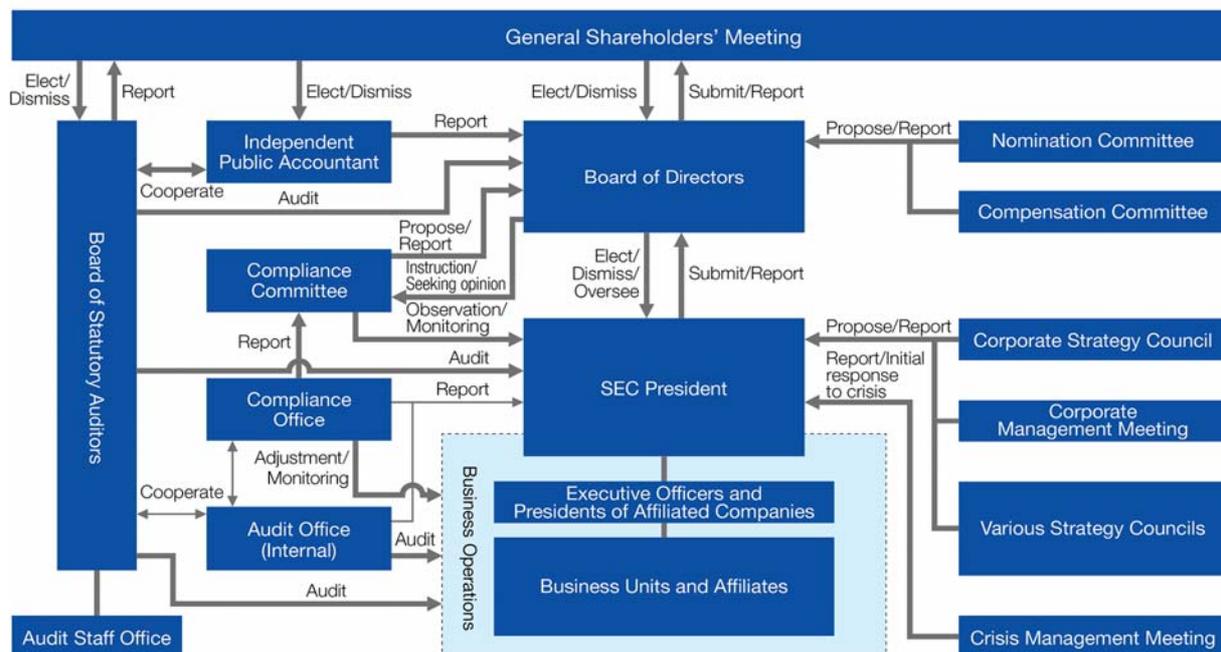
The Compliance Committee meets to hear and discuss important matters concerning Epson's compliance programs. It reports its findings and offers opinions to the board of directors.

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

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

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

## Epson's System of Corporate Governance

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

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

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

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

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

**Internal control system**

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

**Compliance**

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

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

## **Business execution system**

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

## **Risk management**

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

## **Ensuring proper business operations**

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

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

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

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

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

#### **Audit system**

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

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

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

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

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

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

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

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

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

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

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

## Notes

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

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

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

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

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

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

## **Outside directors**

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

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

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

## **Outside statutory auditors**

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

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

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

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

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

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

#### (4) Director remuneration

##### Basic policy

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

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

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

##### Remuneration paid

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

##### Notes

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

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

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

**(5) Stock holdings**

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

25 companies      ¥13,830 million

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

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

Current Fiscal year

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

Stocks held for pure investment

None

**(6) Accounting audits**

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

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

(b) Composition of auditing team

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

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

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

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

**(8) Number of directors**

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

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

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

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

**(10) Items for approval at the General Shareholders' Meeting that can be determined by the board of directors**

**Treasury stock acquisition**

The Company's Articles of Incorporation allow the Company to acquire treasury stock through stock market trade and other means by resolution of the board of directors. This enables a more flexible capital policy in response to a changing business environment.

**Director and auditor exemption from liability**

When liability falls under the requirements stipulated in Article 426, Paragraph 1, of the Japanese Companies Act, the Company's Articles of Incorporation allow the Company to exempt the directors and auditors from liability for damages in Article 423, Paragraph 1, of the Japanese Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the board of directors. This allows the directors to fully apply themselves to their expected task of building an organization capable of aggressive business expansion, and allows the statutory auditors to fulfill their functions accordingly.

**Interim dividend**

The Company's Articles of Incorporation allow the Company to declare an interim dividend with a date of record of September 30 every year by resolution of the board of directors. This provides the Company with flexibility in paying dividends to shareholders.

**(11) Special resolution requirements of the General Shareholders' Meeting**

The Company's Articles of Incorporation set forth the requirements for a special resolution of the general shareholders' meeting stipulated in Article 309, Paragraph 2, of the Japanese Companies Act as a two-thirds majority vote by at least one third of shareholders with voting rights. This policy is intended to ensure the smooth operation of the general shareholders' meeting by relaxing the quorum requirements for special resolutions at the general shareholders' meeting.

**2. Details of audit remuneration****(1) Remuneration for audits by certified public accountants**

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	147	59	197	13
Consolidated subsidiaries	69	12	67	4
Total	217	71	264	17

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

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

**Fiscal year under review**

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

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

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

**Fiscal year under review**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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