

## Corporate Governance

### 1. Overview of corporate governance

#### (1) Basic corporate governance principles

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

- Respect the rights of shareholders, and ensure equality.
- Bear in mind the interests of, and cooperate with, stakeholders, including shareholders, customers, local communities, business partners, and Epson personnel.
- Appropriately disclose company information and maintain transparency.
- Directors, Executive Officers, and Special Audit & Supervisory Officers shall be aware of their fiduciary duties and shall fulfill the roles and responsibilities expected of them.
- Engage in constructive dialogue with shareholders.

To achieve the goals declared in the Management Philosophy, promote sustainable growth, and increase corporate value over the medium and long term, Epson strives to continuously enhance and strengthen corporate governance so as to realize transparent, fair, fast, and decisive decision-making.

Under a company with an Audit & Supervisory Committee, to further increase the effectiveness of corporate governance, Epson further improves the supervisory function of the Board of Directors, further enhances deliberation and speeds up management decision-making.

#### (2) Overview of and reasons for adopting the current system of corporate governance

Epson is structured as a company with an Audit & Supervisory Committee. It has a Board of Directors, an Audit & Supervisory Committee, and a financial auditor. It has also voluntarily established advisory committees 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.

The main corporate management bodies and their aims are described below:

#### Board of Directors

The Board of Directors, with a mandate from shareholders, is responsible for realizing efficient and effective corporate governance, through which Epson will accomplish its social mission, sustain growth, and maximize corporate value over the medium and long term. To fulfill these responsibilities, the Board of Directors will exercise a supervisory function over general management affairs, maintain management fairness and transparency, and make important business decisions, including decisions on things such as management plans, business plans, and investments exceeding a certain amount.

The Board of Directors is composed of 12 Directors, including five Outside Directors described in “2. Officers.” Meetings of the Board of Directors are, as a rule, held once per month and as needed. In FY2018, the Company held a total of 13 meetings of the Board of Directors with 92.3% attendance by Director Omiya and 100% by all the other Directors. In accordance with the Regulations of the Board of Directors, Chairman of the Board shall act as a chairman of the Board meetings. In case of vacancy or absence of Chairman of the Board, however, President and Representative Director shall instead act as a chairman of the Board meetings. Currently, President and Representative Director acts as the chairman of the Board meetings since the position of Chairman of the Board is vacant.

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. To speed up management decisions and increase business agility as a company with an Audit & Supervisory Committee, Epson has expanded the scope of affairs delegated to executive management from the Board of Directors, including capital investments below a certain threshold; and has limited board deliberations only to the most important issues, including governance, capital policy, compliance, risk management and megatrend and medium- to long-term strategies. Corporate Governance Policy states that at least one-third of the board members should be outside directors.

## **Audit & Supervisory Committee**

The Audit & Supervisory Committee, with a mandate from shareholders, is responsible for independently and objectively auditing and monitoring the execution of director duties and for ensuring the sound and sustained growth of Epson. The Audit & Supervisory Committee verifies the effectiveness of the internal control system and conducts audits primarily in cooperation with internal audit departments and the financial auditor. The Audit & Supervisory Committee has established basic guidelines for selecting outside financial auditors and criteria for evaluating their independence and expertise. Resolutions concerning financial auditors selected by the Committee per the guidelines are submitted for approval at a general meeting of shareholders. The Audit & Supervisory Committee also discusses the selection, dismissal, resignation, and compensation of Directors who are not Audit & Supervisory Committee members and decides on the opinions to be presented at a general meeting of shareholders.

The Audit & Supervisory Committee is composed of four Audit & Supervisory Committee members, three of whom are Outside Directors. It is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held once per month and as needed.

## **Corporate Strategy Council**

The Corporate Strategy Council is an advisory body to the President whose purpose is to help ensure that the right decisions are made based on a range of opinions on the executive management side. Meetings of the Corporate Strategy Council are where Directors, Executive Officers, and Special Audit & Supervisory Officers exhaustively examine important business topics that affect the Epson Group as a whole and matters on the agenda for meetings of the Board of Directors.

## **Compliance Committee**

The Compliance Committee's function is to discuss the content of reports that it receives concerning important compliance activities, and report its findings and communicate its opinions to the Board of Directors in order to see that compliance activities are appropriately executed by line management.

As an advisory body to the Board of Directors, the Compliance Committee is composed of Outside Directors and Directors who are Audit & Supervisory Committee members. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are held every half year and as needed.

A Chief Compliance Officer (CCO) is elected by the Board of Directors and supervises and monitors compliance-related affairs on the whole. The CCO periodically reports the state of compliance affairs to the Compliance Committee.

## **Director Nomination Committee and Director Compensation Committee**

Epson has established the Director Nomination Committee and the Director Compensation Committee as advisory bodies to the Board of Directors, with their secretariats operated by the human resources department. These Committees, which are composed primarily of Outside Directors, are designed to ensure transparency and objectivity in the screening and nomination of candidates for Director, Executive Officer, and Special Audit & Supervisory Officer and in matters of Director compensation.

The overview of each of these Committees is as follows.

### *Composition*

For the both Committees, President and Representative Director shall act as a chairman and Outside Directors and Director in charge of human resources as the other Committee members based on internal regulations defined by the Board of Directors. The two Committees currently consist of the members as shown below.

Chairman: Minoru Usui, President and Representative Director  
Committee members: Hideaki Omiya, Mari Matsunaga, Michihiro Nara, Chikami Tsubaki, Yoshio Shirai,  
Outside Directors  
Masayuki Kawana, Director in charge of human resources

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

### *Activities of the Director Nomination Committee*

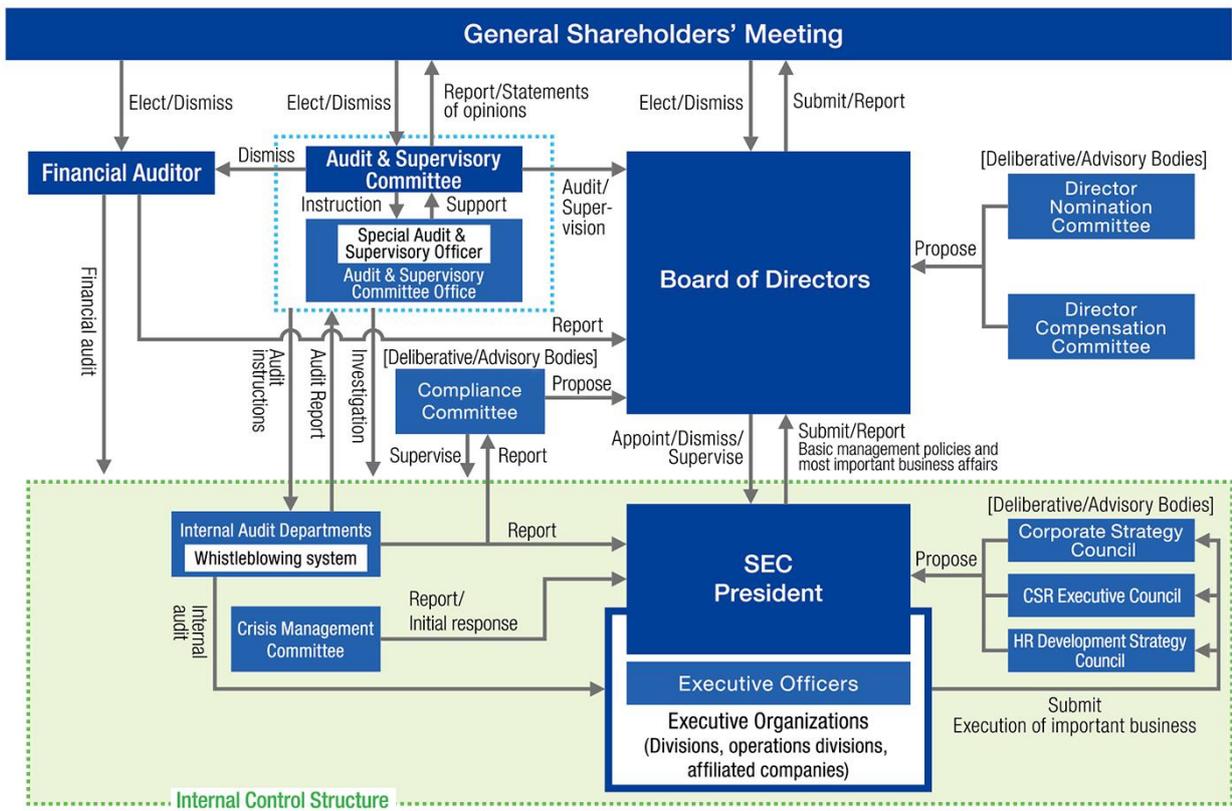
The Committee met three times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee discussed policies and process for selecting Officers (Directors, Executive Officers and Special Audit & Supervisory Officers), proposed candidates, and deliberated on

selection/dismissal policies of Officers, successor development plan and the status of development, in accordance with the amended Corporate Governance Policy. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

*Activities of the Director Compensation Committee*

The Committee met four times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee deliberated on matters including the necessity for revising the monthly compensation for Directors who are not Audit & Supervisory Committee members, and the amount of base compensation and bonuses and the number of base points under the stock compensation plan for Executive Officers including those who are concurrently serving as Directors. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

Epson’s system of corporate governance is schematically represented below.



### **(3) Internal control system**

Epson's Board of Directors approved a basic policy on the internal control system (a system for ensuring that business is conducted suitably by the corporate group), and Epson has implemented the approved internal control system.

The Company considers its Management Philosophy to be its most important business concept, and to realize it Epson has established "Principles of Corporate Behavior" that are shared across the Group, including at subsidiaries. The Company will 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.

### **Compliance**

- (1) The Company will establish "Principles of Corporate Behavior" as a guide for putting the Management Philosophy into practice. The Company will also establish regulations that spell out things such as basic compliance requirements and the organizational framework.
- (2) The Company has created a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee is chaired by a full-time member of the Audit & Supervisory Committee and is composed of Outside Directors and members of the Audit & Supervisory Committee. The Compliance Committee meets regularly and as needed to hear and discuss important matters concerning the Company's compliance program. It reports its findings and offers opinions to the Board of Directors. Financial auditors can attend meetings of the Compliance Committee as observers.
- (3) A Chief Compliance Officer (CCO) is elected and supervises and monitors the execution of all compliance operations. The CCO periodically reports the state of compliance affairs to the Compliance Committee.
- (4) Compliance promotion and enforcement will be supervised by the president of Seiko Epson. Group-wide compliance programs will 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 will be promoted by the respective chief operating officers of the divisions. The compliance management department helps 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 members of the Board of Directors, etc. of the Company, will address important matters with respect to compliance promotion and enforcement in the Epson Group as a whole, including subsidiaries. The Council will strive to ensure the effectiveness of compliance by exhaustively discussing and analyzing the implementation of programs for assuring observance of statutes, internal regulations, business ethics, and initiatives in high-risk and other key areas.
- (6) The Company, including its subsidiaries, will strive to provide an effective whistleblowing system. Employees are encouraged and are able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls are in place to protect whistleblowers from reprisal, and allegations are reported to the Company's Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
- (7) The Company strives to enhance legal awareness 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) The Company's "Principles of Corporate Behavior" states that the Company will have no association whatsoever with antisocial forces (i.e., organized crime groups). The Company takes a firm stance in rejecting any and all contact with antisocial forces that threaten social order and security.

### **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.

## **Business execution system**

- (1) The Company formulates long-term corporate visions and mid-range business plans, and it sets clear medium- and long-range goals for the Epson Group as a whole.
- (2) The Company has instituted a system to ensure the appropriate and efficient execution of business. To that end, the Company has established regulations governing organizational management, levels of authority, 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 report the matters below to the Board of Directors at least once every three months.
  - a. Current business performance and performance outlook
  - b. Risk management responses
  - c. Status of key business operations

## **Risk management**

- (1) The Company has established 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, belongs to the president of Seiko Epson. Group-wide risk management is carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business are managed by the chief operating officer of that business, including at subsidiaries consolidated under them. The Company has also set up the risk management department, monitors overall risk management Group-wide, makes corrections and adjustments thereto, and ensures the effectiveness of risk management programs.
- (3) The Corporate Strategy Council strives to ensure effective management of serious risks that could have an egregious effect on society by agilely and exhaustively discussing and analyzing ways 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 the Company's prescribed crisis management program.
- (4) The president of Seiko Epson periodically reports critical risk management issues to the Board of Directors and formulates appropriate measures to respond to these issues, as needed.

## **Ensuring the appropriateness of operations in the corporate group**

- (1) The Group's management structure helps to 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 owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office own global responsibility. Responsibility for providing the framework for business operations at subsidiaries is owned by the head of each business. Group-wide 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 regulations governing the management of affiliated companies that require subsidiaries to report or acquire pre-approval for certain business affairs 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. The Company has established regional head offices in certain regions to supervise local subsidiaries in order to ensure the suitability and efficiency of operations Group-wide.
- (3) Per the Basic Regulation for Internal Audits, internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. Internal audit departments audit internal controls and the state of their implementation in all Epson Group companies, including subsidiaries. The findings of the internal audit departments are presented to the head of the audited organization along with requests for corrective action, where needed.

This information is also regularly reported to the president of Seiko Epson and to the Audit & Supervisory Committee. In this way, Epson strives to optimize operations across the entire Group.

## **Safeguarding and management of work-related information**

- (1) Information on the performance of duties is safeguarded and managed in accordance with regulations governing, among other things, document control, management approval, and contracts. All directors are able to access this information at all times.
- (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) The Audit & Supervisory Committee can interview Directors who are not members of the Audit & Supervisory Committee, 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 will enable them to conduct audits based on the same information as that available to directors who are not members of the Audit & Supervisory Committee. Members of the Audit & Supervisory Committee also routinely review important documents related to management decision-making.
- (3) An Audit & Supervisory Committee Office was set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office serves as the 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 members of the Audit & Supervisory Committee. 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 has been created to secure close cooperation between the internal audit departments and the Audit & Supervisory Committee.
- (5) If a situation involving the Audit & Supervisory Committee or cooperation with the internal audit departments or other organizations is observed to interfere with the effectiveness of audits by the Audit & Supervisory Committee, the Audit & Supervisory Committee can ask the representative director or Board of Directors to take corrective action.
- (6) The Audit & Supervisory Committee receives audit reports from internal audit departments and can issue specific instructions to internal audit departments as needed. If the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president will have the internal audit departments honor the instructions of the Audit & Supervisory Committee.
- (7) Per the Audit & Supervisory Committee Audit Regulation, the Audit & Supervisory Committee can ask Directors who are not members of the Audit & Supervisory Committee, the compliance management department, and the risk management department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also view supporting materials. The Audit & Supervisory Committee can also ask, as needed, subsidiary company directors, corporate auditors, internal audit departments, and other organizations to report the state of management of the subsidiary. 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 representative director or Board of Directors, 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 the representative director regularly meet to enable the Committee to directly assess business operations.
- (10) Funds required by the Audit & Supervisory Committee to perform its duties are properly budgeted for in advance. However, funds required to perform the duties of the Audit & Supervisory Committee in emergency or extraordinary situations will be promptly paid in advance or refunded on each occasion.

#### **(4) Number of directors**

Epson's Articles of Incorporation provide for a maximum of nine directors who are not members of the Audit & Supervisory Committee and a maximum of five directors who are members of the Audit & Supervisory Committee.

#### **(5) Election and dismissal 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 dismissal of directors do not vary from the provisions of the Companies Act.

#### **(6) Matters requiring resolutions of general meetings of shareholders that can be implemented by resolutions of the Board of Directors**

##### **Treasury share acquisition**

The Company's Articles of Incorporation allow the Company to acquire treasury shares 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.

##### **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.

##### **Director exemption from liability**

When liability falls under the requirements stipulated in Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation allow the Company to exempt the Directors from liability for damages under Article 423, Paragraph 1 of the 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 so that the Directors (excluding Executive Directors) to fully apply themselves to their expected roles.

#### **(7) Overview of limited liability agreements**

The Company has executed agreements with non-executive directors Hideaki Omiya, Mari Matsunaga, Taro Shigemoto, Michihiro Nara, Chikami Tsubaki, and Yoshio Shirai that limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the 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.

#### **(8) Special resolution requirements of the general meeting of shareholders**

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

**2. Officers**

**(1) List of Officers**

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

Name	Position and current function
Minoru Usui	President and Representative Director
Koichi Kubota	Representative Director, Senior Managing Executive Officer Chief Operating Officer, Printing Solutions Operations Division
Tatsuaki Seki	Director, Managing Executive Officer General Administrative Manager, Management Control Division
Yasunori Ogawa	Director, Managing Executive Officer Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment General Administrative Manager, Technology Development Division
Masayuki Kawana	Director, Executive Officer General Administrative Manager, Human Resources Division and CSR Management Office Chairman, Epson Sales Japan Corporation
Toshiya Takahata	Director, Executive Officer General Administrative Manager, Corporate Planning Division General Administrative Manager, DX Division
Hideaki Omiya	Outside Director
Mari Matsunaga	Outside Director
Taro Shigemoto	Director, Full-Time Audit & Supervisory Committee Member
Michihiro Nara	Outside Director, Audit & Supervisory Committee Member
Chikami Tsubaki	Outside Director, Audit & Supervisory Committee Member
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member
Motonori Okumura	Managing Executive Officer General Administrative Manager, Production Planning Division Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segmentt

Name	Position and current function
Junichi Watanabe	Managing Executive Officer Deputy Chief Operating Officer, Wearable Products & Industrial Solutions Operations Segment Chief Operating Officer, Wearable Products Operations Division Deputy General Administrative Manager, Production Planning Division
Hideki Shimada	Managing Executive Officer Deputy Chief Operating Officer, Printing Solutions Operations Division
Akihiro Fukaiishi	Executive Officer President, Epson (China) Co., Ltd.
Yoshiyuki Moriyama	Executive Officer Chairman and President, Epson Engineering (Shenzhen) Ltd.
Naoyuki Saeki	Executive Officer General Administrative Manager, Sales & Marketing Division
Nobuyuki Shimotome	Executive Officer Chief Operating Officer, Microdevices Operations Division
Kazuyoshi Yamamoto	Executive Officer President, Epson Europe B.V.
Munenori Ando	Executive Officer Managing Director, Epson Singapore Pte. Ltd.
Hitoshi Igarashi	Executive Officer Deputy Chief Operating Officer, Printing Solutions Operations Division
Keith Kratzberg	Executive Officer President and Chief Executive Officer, Epson America, Inc.
Isamu Otsuka	Executive Officer President, Epson Atmix Corporation
Eiichi Abe	Executive Officer President, PT. Indonesia Epson Industry
Kazuhiro Ichikawa	Executive Officer Deputy General Administrative Manager, Technology Development Division
Keiji Naito	Executive Officer Chief Operating Officer, Visual Products Operations Division

Name	Position and current function
Kazunori Kumakura	Executive Officer In Charge of IT Infrastructure Enhancement, DX Division
Yoshifumi Yoshida	Executive Officer Chief Operating Officer, Robotics Solutions Operations Division
Andrea Zoeckler	Executive Officer Senior Vice President, Epson America, Inc.
Yoshiro Nagafusa	Executive Officer Senior Vice President, Epson Europe B.V.
Satoru Hosono	Executive Officer Deputy General Administrative Manager, Technology Development Division
Fuminori Suzumura	Executive Officer President, Epson Sales Japan Corp.
Akifumi Takei	Executive Officer President, Epson Precision (Philippines), Inc.
Sunao Murata	Technology Officer Deputy General Administrative Manager, DX Division
Tsuyoshi Kitahara	Technology Officer In Charge of Exploration for New Technology Development, Technology Development Division
Akihiko Toeda	Special Audit & Supervisory Officer General Administrative Manager, Audit & Supervisory Committee Office

## (2) Outside Officers

### The role of Outside Directors

To ensure that Outside Directors are independent from the Company's management team, have a broad view, and are able to objectively supervise the making of important decisions, the Company has set forth the role of Outside Directors in the Corporate Governance Policy as below. In principle, Independent Outside Directors should comprise at least one-third of the members of the Board of Directors.

- a. Monitoring of the management
  - Monitoring of corporate executives through involvement in the officer election process and the compensation determination process based on an evaluation of the business as a whole
  - Monitoring of the business as a whole through the exercise of voting rights on important business decisions made by the Board of Directors
- b. Advisory function for improving business efficiency
- c. Monitoring of conflicts of interest
  - Monitoring of conflicts of interest between Epson and its Directors and Executive Officers
  - Monitoring of conflicts of interest between Epson and related parties

### Principle of independence

The Company's Board of Directors has established a "Criteria for Independence of Outside Directors" and, in compliance with this standard, elects director candidates who are unlikely to have conflicts of interest with general shareholders. All current Outside Directors satisfy the independence requirements of the criteria. The content of the amended standard is described below.

## 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 with a relationship of reciprocal employment of Outside Director<sup>8</sup>; or
- (11) The spouse or other immediate family member of a person to whom any of items (1) through (9) apply.

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

- <sup>1</sup> 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.
- <sup>2</sup> “Executive” means an executive officer, executive director, operating officer, or an employee occupying a senior management position of department manager or higher.
- <sup>3</sup> 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.
- <sup>4</sup> “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.
- <sup>5</sup> “Major shareholder” means a shareholder who directly or indirectly holds 10% or more of the voting rights.
- <sup>6</sup> “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.
- <sup>7</sup> “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.
- <sup>8</sup> “Reciprocal employment of Outside Director” means accepting an Outside Director from an entity that currently employs someone from the Company as an Outside Director.

## **Number of outside directors, selection criteria, and human, capital, business or other interests between outside directors and the Company**

Epson had five outside directors (of whom three are Audit & Supervisory Committee members) as of the submission date of its the security report.

a. Hideaki Omiya

Mr. Omiya has served as a President and CEO and a Chairman of the Board of Mitsubishi Heavy Industries, Ltd. and has a wealth of experience and insight as a corporate manager and engineer.

As an Outside Director of the Company, he has monitored corporate management appropriately 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.

Epson believes that he will appropriately monitor management to achieve sustained growth and increase medium-to long-term corporate value.

Mr. Omiya was an executive of Mitsubishi Heavy Industries, Ltd. The Company has had no transactions with Mitsubishi Heavy Industries, Ltd. in the past three years. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

b. Mari Matsunaga

Ms. Matsunaga has created new business models and has a considerable insight and experiences through her involvement in the management of multiple companies as an Outside Officer. As an Outside Director of the Company, she has appropriately monitored management, actively pointing out business issues and offering recommendations particularly from the viewpoints of open innovation promotion, etc. Epson believes that she will monitor management appropriately to achieve sustained growth and increase medium-to long-term corporate value.

The Company has had no transactions with Ms. Matsunaga in the past three years. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

She owns a small number of Epson shares, but there are no human, capital, business or other interests between her and the Company.

c. Michihiro Nara (Outside Director who is an Audit & Supervisory Committee member)

Mr. Nara has a high level of expertise as an attorney. He has considerable insight and experiences through his involvement in the management of multiple companies as an outside officer and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. Epson believes that he will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management. He has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that he can appropriately perform his duties as an Outside Director who is an Audit & Supervisory Committee member.

As an Outside Director of the Company, Mr. Nara has actively pointed out business issues and offered recommendations from the perspective of a legal professional.

The Company has not entered into a consulting agreement nor has it consigned any business under any individual agreement with Mr. Nara as an attorney-at-law or with the law office to which he belongs. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

d. Chikami Tsubaki (Outside Director who is an Audit & Supervisory Committee member)

Ms. Tsubaki has a high level of expertise as a certified public accountant. She has a considerable insight and experiences through her involvement in the management of multiple companies as an independent outside officer, and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company. Epson believes that she will contribute to monitoring management appropriately to achieve sustained growth and increase medium to long-term corporate value, as well to ensure soundness of the management. She has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that she can appropriately perform her duties as an Outside Director who is an Audit & Supervisory Committee member.

As an Outside Director of the Company, Ms. Tsubaki has actively pointed out business issues and offered

recommendations from the perspective of a finance and accounting professional.

Epson does not have a business relationship with Ms. Tsubaki, a certified public accountant, and has never engaged her based on an advisory agreement or other separate agreement. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

She owns a small number of Epson shares, but there are no human, capital, business or other interests between her and the Company.

e. Yoshio Shirai (Outside Director who is an Audit & Supervisory Committee member)

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 & Supervisory Committee Member of the Company.

Epson believes that he will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management.

As an Outside Director of the Company, Mr. Shirai has drawn on his global perspective as well as his management experience in a different business field including automotive industry and trading company to actively point out overall business issues and offer recommendations.

Mr. Shirai has served as an executive at Toyota Tsusho Corporation within the past five years. The Company has had no transactions with Toyota Tsusho Corporation in the past three years. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

He owns a small number of Epson shares, but there are no human, capital, business or other interests between him and the Company.

**(3) Interconnections between supervision or audits by Outside Directors or Outside Audit & Supervisory Committee Members and internal audits, audits by Audit & Supervisory Committee Members, and accounting audits; as well as relationship of these supervision/audits to the internal control department  
Interconnections among Audit & Supervisory Committee audits, internal audits, and accounting audits, and the relationship of these audits to the internal control department**

In order to make Audit & Supervisory Committee audits systematic and efficient, Epson ensures close collaboration between internal audit departments and the Audit & Supervisory Committee. In relation to the structure of the Audit & Supervisory Committee Office and the coordination system with internal audit departments, if circumstances hindering the effectiveness of the audit by the Audit & Supervisory Committee are found, the Audit & Supervisory Committee requests the representative directors or the Board of Directors to rectify them.

Epson's internal audit departments regularly report their audit plans and audit results to the Audit & Supervisory Committee. In response, the Audit & Supervisory Committee can, when it deems necessary, ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

Internal audit departments are seen as a keystone for internal control functions built by the president and operations departments. On the other hand, to ensure the effectiveness and independence of audits by the Audit & Supervisory Committee and internal audit departments, if the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president must have internal audit departments honor the requests or instructions of the Audit & Supervisory Committee.

The Audit & Supervisory Committee and the internal audit departments will thus proactively cooperate going forward, but Epson set up an Audit & Supervisory Committee Office headed by the Special Audit & Supervisory Officer as an organization dedicated to supporting the Audit & Supervisory Committee. The Audit & Supervisory Committee Office is independent from executive management and supports the Audit & Supervisory Committee, with a direct reporting line to it.

The Audit & Supervisory Committee and financial auditors work together to enhance the effectiveness of audit by sharing the results of their risk assessment at the beginning of each fiscal year and then confirm the audit plan of financial auditors, and also periodically discuss issues during the period. Financial auditors have the right to observe meetings of the Compliance Committee, which is made up of Outside Directors and a Director who is a member of the Audit & Supervisory Committee.

## **Cooperation between Outside Directors and internal control functions**

Outside Directors who are Audit & Supervisory Committee members and those who are not work cooperatively by attending meetings of the Compliance Committee, regular meetings with representative directors, and meetings solely of Outside Directors; and also work to enhance collaboration between the supervision or audits by Outside Directors and the internal control functions through on-site audits and on-site visits at subsidiaries both home and abroad.

### **(3) Internal audits**

#### **Audit & Supervisory Committee audits**

Epson's Audit & Supervisory Committee is composed of four Directors, three of whom are 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 daily 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 audit 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 they deem it necessary, Audit & Supervisory Committee members can ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

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

#### **Internal audits**

Epson's internal compliance system guards against potential legal and internal regulatory violations in departmental operations. Internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. They audit internal controls and the implementation of controls in all Epson Group companies, including subsidiaries.

Internal audit departments conduct internal audits based on an annual audit plan. After conducting internal audits, they report their observations, including recommendations for improvements based on the facts, to the president and to the Audit & Supervisory Committee in a timely manner. Internal audit departments also regularly report the internal audit situation to the president and Audit & Supervisory Committee.

#### **Interconnections among Audit & Supervisory Committee audits, internal audits, and accounting audits, and the relationship of these audits to the internal control department**

In order to make Audit & Supervisory Committee audits systematic and efficient, Epson ensures close collaboration between internal audit departments and the Audit & Supervisory Committee. In relation to the structure of the Audit & Supervisory Committee Office and the coordination system with internal audit departments, if circumstances hindering the effectiveness of the audit by the Audit & Supervisory Committee are found, the Audit & Supervisory Committee requests the representative directors or the Board of Directors to rectify them.

Epson's internal audit departments regularly report their audit plans and audit results to the Audit & Supervisory Committee. In response, the Audit & Supervisory Committee can, when it deems necessary, ask internal audit departments to investigate affairs or can provide specific instructions regarding the performance of their duties. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

Internal audit departments are seen as a keystone for internal control functions built by the president and operations departments. On the other hand, to ensure the effectiveness and independence of audits by the Audit & Supervisory Committee and internal audit departments, if the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president must have internal audit departments honor the requests or instructions of the Audit & Supervisory Committee.

The Audit & Supervisory Committee and the internal audit departments will thus proactively cooperate going

forward, but Epson set up an Audit & Supervisory Committee Office headed by the Special Audit & Supervisory Officer as an organization dedicated to supporting the Audit & Supervisory Committee. The Audit & Supervisory Committee Office is independent from executive management and supports the Audit & Supervisory Committee, with a direct reporting line to it.

The division in charge of whistleblowing regularly keeps the Audit & Supervisory Committee updated on compliance violation matters. The division provides the Committee with detailed reports especially on matters of material importance immediately after it is notified of such matters, and the Committee examines whether it should deal with the matter based on the detailed report. Also, controls are in place to protect whistleblowers from reprisal for having made a report. 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; and the identity of the reporter shall be protected even if the president or a Board of Directors, for example, is asked to correct the matter based on the report.

The Audit & Supervisory Committee and financial auditors enhance the effectiveness of audits by sharing the results of their risk assessment at the beginning of each fiscal year and then confirming the audit plan of financial auditors, and also periodically discuss issues during the period. Financial auditors have the right to observe meetings of the Compliance Committee, which is made up of Outside Directors and a Director who is a member of the Audit & Supervisory Committee.

#### (4) Accounting audits

##### 1) Names and other details of certified public accountants performing audits

Name of CPA		Audit company	No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Seiji Yamamoto	Ernst & Young ShinNihon LLC	6
Designated and Engagement Partner, Certified Public Accountant	Yoshiyuki Sakuma	Ernst & Young ShinNihon LLC	3
Designated and Engagement Partner, Certified Public Accountant	Yoshitomo Matsuura	Ernst & Young ShinNihon LLC	6

##### 2) Composition of auditing team

The auditing team comprises 42 staff including 21 certified public accountants, 2 accountant examination passers, and 19 other accounting staff.

##### 3) Policy and reasons for selection of financial auditors

The Audit & Supervisory Committee has established the “Policies on Selection / Non-reappointment of Financial Auditors” and “Implementation Standards in Relation to Selection of Financial Auditors” prescribing details of the procedures whereby Epson can maintain and further strengthen its optimal financial audit system.

The Audit & Supervisory Committee appointed Ernst & Young ShinNihon LLC as financial auditor based on the decision that the auditing firm has a competitive advantage in terms of audit quality management system, governance system that supports the management of audit quality, and global audit system; the Committee reached the decision through evaluation of the auditing firm based on the Implementation Standards stated above.

In the event that any of the items set forth in the clauses of Article 340, Paragraph 1 of the Companies Act is met, and the Audit & Supervisory Committee deems it appropriate to dismiss the financial auditor, the Audit & Supervisory Committee shall dismiss the financial auditor subject to the unanimous consent of Audit & Supervisory Committee members. In addition, if the Audit & Supervisory Committee deems that (i) the quality of audit, quality control, independence and other aspects of the financial auditor are likely to hinder the execution of proper audits, (ii) an audit system more appropriate to the Company would be achieved by replacing the audit firm, or (iii) otherwise it would be necessary, the Audit & Supervisory Committee shall, based on its resolution, determine the details of the proposal to dismiss or not reappoint the financial auditor for submission to the General Meeting of Shareholders.

## 4) Evaluation of financial auditor by the Audit &amp; Supervisory Committee

Based on the Implementation Standards stated above, the Audit & Supervisory Committee shall annually evaluate more than one auditing firm with a network overseas, including the current financial auditor; the evaluation items range widely from their quality of audit, governance system to global supervision system. The Committee has judged, through comprehensive analysis and deliberation of these items, that Ernst & Young ShinNihon LLC has a relative competitive advantage.

**(5) Details of audit remuneration**

Epson has adopted items (i) through (iii) of the “Points of Attention Concerning Preparation of Form 2 (56) d-(f) from the revised “Cabinet Ordinance on the Disclosure of Corporate Affairs, etc.” following the promulgation of the “Cabinet Office Ordinance Partially Amending the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.” (Cabinet Office Ordinance No. 3, January 31, 2019) to comply with certain transition provisions.

**a. 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	167	2	171	0
Consolidated subsidiaries	46	–	52	–
Total	214	2	223	0

Non-audit services performed for Epson include various consultancy services.

**b. Other important remuneration****Previous fiscal year**

Total payments for audits carried out on behalf of 62 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2018, amounted to ¥599 million.

**Fiscal year under review**

Total payments for audits carried out on behalf of 60 consolidated overseas subsidiaries by certified public accountants belonging to the Ernst & Young network for the fiscal year ended March 31, 2019, amounted to ¥572 million.

**c. Reason for the Audit & Supervisory Committee consenting to the fees, etc. of the Accounting Auditor**

Taking into consideration the “Practical Guidelines for Cooperation with Financial Auditor” announced by the Japan Audit & Supervisory Board Members Association, Audit & Supervisory Committee has given consent to the compensation, etc., to be paid to the financial auditor as stipulated in Article 399, Paragraph 1 of the Companies Act, as a result of confirming the policies and the content of the auditing plan that form the basis of compensation to the financial auditor, auditing time and auditing compensation, as well as the auditing plan and its results for the previous fiscal year, and examining the validity of quotation for the auditing.

### **3. Officer compensation, etc.**

#### **(1) Amount of officer compensation, etc. and policies for determining the method of calculating the amount**

With an aim to ensure transparency and objectivity, compensation of officers is determined through resolution at the General Meeting of Shareholders and the Board of Directors' meeting for the Directors who are not Audit & Supervisory Committee members, or through resolution at the General Meeting of Shareholders and discussion by Audit & Supervisory Committee members for the Directors who are Audit & Supervisory Committee members, after going through a fair, transparent and rigorous reporting by the Director Compensation Committee (an advisory body to the Board of Directors) composed primarily of Outside Directors.

With regard to compensation of the Directors who are not Audit & Supervisory Committee members, the Audit & Supervisory Committee shares and discusses what have been examined by the Director Compensation Committee to confirm whether there are special items to be stated at the General Meeting of Shareholders. Although the matters related to the compensation, including its amount, of the Directors who are not Audit & Supervisory Committee members are left to the discretion of President and Representative Director, these matters are determined based on what have been deliberated and approved at the Director Compensation Committee.

The overview of the Director Compensation Committee is as follows.

#### *Composition*

President and Representative Director shall act as chairman and Outside Directors and Director in charge of human resources as other members based on internal regulations defined by the Board of Directors. The Committee currently consists of the members as shown below.

Chairman: Minoru Usui, President and Representative Director

Committee members: Hideaki Omiya, Mari Matsunaga, Michihiro Nara, Chikami Tsubaki, Yoshio Shirai,  
Outside Directors  
Masayuki Kawana, Director in charge of human resources

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

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

The Committee met four times during the period from April 2018 to the Ordinary General Meeting of Shareholders held in June 2019. The Committee deliberated on matters including the necessity for revising the monthly compensation for Directors who are not Audit & Supervisory Committee members, and the amount of base compensation and bonuses and the number of base points under the stock compensation plan for Executive Officers including those who are concurrently serving as Directors. Of the Committee members, Mr. Omiya and Ms. Matsunaga were absent once, but they were individually updated on details of the deliberations at a later date.

#### **Policies**

The Company stipulates the Basic Policy regarding Officer Compensation in the internal regulations defined by the Board of Directors.

##### Compensation for executive officers

- (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 non-executive officers

- (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

Director and executive officer compensation of the Company consists of base compensation, bonuses, and stock compensation. In FY2018, the base compensation accounted for about 69% (fixed compensation about 65% and variable compensation about 4%), bonuses for about 20% and stock compensation for about 11% of the overall compensation for executive officers. Epson's compensation system for directors and executive officers is designed to provide incentives given that bonuses vary depending on the level of business profit achieved and may not be paid in case the business profit does not reach a certain threshold.

Non-executive officers receive base compensation only, a fixed amount, from the standpoint independent from business execution, 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.

### Base compensation

Base compensation is a monetary amount that is determined by taking into account all factors such as an individual's position and responsibilities. It is paid as a monthly compensation that reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

Through the resolution at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (eight as of the filing date of the Annual Securities Report) (including 10 million yen per month for two Outside Directors) and at 20 million yen per month for Directors who are Audit & Supervisory Committee members (four as of the filing date of the Annual Securities Report).

### Bonus

An annual bonus is monetary compensation in an amount that is determined by taking into account factors such as the financial performance for the year. The bonus reflects the results of annual performance evaluations based on criteria set according to the individuals' roles.

The amount of bonuses is calculated based on the calculation criteria predefined by the Board of Directors.

However, given its nature as a short-term incentive, the final payment amount is determined at the General Meeting of Shareholders based on the level of annual business profit in consideration of non-recurring losses incurred, to ensure its transparency. The amount of bonuses varies depending on business performance and may not be paid in cases where business profit failed to reach a certain threshold. More recently, it was resolved at the Ordinary General Meeting of Shareholders held on June 26, 2019 that the amount of bonuses to Directors would be 71 million yen (the amount to be paid to five Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee members).

### Stock compensation

Under Epson's stock-based compensation plan, a trust scheme is used to deliver Company shares to officers, the number of shares being based on points system, where in officers are awarded points depending on the level of achievement with respect to medium- and long-term operating performance targets, such as business profit, ROS and ROE.

Epson has introduced a highly transparent and fair performance-linked stock compensation plan for the purpose of making clear the linkage between the compensation of officers and its stock value, 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 interest with its shareholders.

The stock compensation basically accounts for 10% to 22% of the base compensation commensurate with responsibility and position of each officer. The number of shares awarded varies depending on the achievement level with respect to the operating performance targets during the subject period (three years). Such operating performance targets include a business profit, ROS and ROE specified in the mid-range business plan.

At the Ordinary General Meeting of Shareholders held on June 28, 2016, it was resolved that the stock compensation plan stated above would be implemented during the three years from the fiscal year ended March 31, 2017 through the fiscal year ended March 31, 2019. The formula for calculating the performance coefficient and the levels of achievements are as shown below.

$$\text{Performance coefficient} = \{(\text{Business profit factor}) + (\text{ROS factor}) + (\text{ROE factor}) + (\text{Operating cash flow factor}) + (\text{Qualitative evaluation factor} \times 2)\} \div 6$$

Quantitative evaluation				Qualitative evaluation (*)	Performance coefficient (times)
As at the end of FY2018		Average for three years from FY2016 through FY2018	Cumulative for three years from FY2016 through FY2018	As at the end of FY2018	
Business profit	ROS	ROE	Operating CF		
116.0 billion yen or more	10% or more	12% or more	350.0 billion yen or more	Far above expectation	1.10
106.0 billion yen or more	9% or more	11% or more	340.0 billion yen or more	Above expectation	1.05
96.0 billion yen or more	8% or more	10% or more	330.0 billion yen or more	Meets expectation	1.00
86.0 billion yen or more	7% or more	9% or more	320.0 billion yen or more	Below expectation	0.95
Less than 86.0 billion yen	Less than 7%	Less than 9%	Less than 320.0 billion yen	Far below expectation	0.90

\* Items and method of qualitative evaluation

The Director Compensation Committee makes a qualitative evaluation based on the progress of strategies towards achieving the operating performance targets for the “Epson 25” Phase 2 Mid-Range Business Plan, the amount of effect of exchange rate changes, and other evaluation items.

Although Epson had aimed to achieve a performance coefficient of 1.00 or over, the performance coefficient stood at about 0.908 given a business profit of less than 86.0 billion yen, ROS of less than 7%, and ROE of more than 9%, operating cash flows of less than 320.0 billion yen, and qualitative evaluation of “Far below expectation.”

$$\begin{aligned} \text{Performance coefficient} &= \{(\text{Business profit factor}) + (\text{ROS factor}) + (\text{ROE factor}) + (\text{Operating cash flow factor}) + (\text{Qualitative evaluation factor} \times 2)\} \div 6 \\ &= \{0.90 + 0.90 + 0.95 + 0.90 + ((0.90) \times 2)\} \div 6 \doteq 0.908 \end{aligned}$$

As a result of deliberations at the meeting of the Director Compensation Committee, it was revealed that all the quantitative evaluation items fell below expectations and the performance coefficient stood at 0.90, the lower end of the evaluation range, due also to the absence of qualitative evaluation factors to add points.

At the meeting held on May 16, 2019, the Board of Directors has resolved to expand the variance range of the performance coefficient from 0.80 to 1.20 to increase elasticity of the targets and continue with the stock compensation plan for three years from the fiscal year ending March 31, 2020 through the fiscal year ending March 31, 2022.

**(2) Total amount of compensation, total compensation by type, and number of officers to be paid by each category**

Category	Total compensation (millions of yen)	Total compensation by type (millions of yen)				Number of individuals
		Fixed compensation	Variable compensation			
		Base compensation	Bonus	Stock compensation		
Directors who are not Audit & Supervisory Committee members (amount accounted for by Outside Directors)	356 (28)	232 (28)	13 (-)	71 (-)	38 (-)	8 (2)
Directors who are Audit & Supervisory Committee members (amount accounted for by Outside Directors)	81 (48)	81 (48)	- (-)	- (-)	- (-)	5 (3)
Total	437	314	13	71	38	13

Notes:

1. The base compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors) consists of fixed compensation and variable compensation. Variable compensation refers to 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 officer stock ownership plan 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. Epson has established the criteria for shareholding by its officers based on internal regulations defined by the Board of Directors to demonstrate its commitment to and responsibilities for business operations to all shareholders.
3. Upon the resolution at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (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.
4. The amount above includes 71 million yen in bonuses to be paid to five Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee members), as resolved at the Ordinary General Meeting of Shareholders held on June 26, 2019.
5. The Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the officer compensation BIP 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. The number of individuals above includes one Director who is an Audit & Supervisory Committee member who retired at the conclusion of the Ordinary General Meeting of Shareholders held on June 27, 2018 and one Director who is not an Audit & Supervisory Committee member who retired on September 30, 2018.
7. Stock options are not granted.

**(3) Total compensation paid to persons whose total consolidated compensation is 100 million yen or more**

Name	Total consolidated compensation (millions of yen)	Category	Total consolidated compensation by type (millions of yen)			
			Fixed compensation	Variable compensation		
			Base compensation	Bonus	Stock compensation	
Minoru Usui	109	Director	60	8	23	18

Note: The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).

**4. Securities held by the Company**

**(1) Criteria for and approach to classification of investment securities**

Epson has classified its investment equity securities held only for earning capital or income gains into stocks held purely for investment purposes and those held for other purposes as stocks held for cross-shareholding purposes.

The Company currently holds no securities classified as stocks held purely for investment purposes.

**(2) Stocks held for reasons other than pure investment**

- a. Method of examining the rationale of shareholding policy and shareholding, and deliberations on whether or not Epson should hold specific shares at the Board of Directors' or other meetings  
 The Company may acquire and hold shares in companies, including the suppliers of key components and parts, major buyers of its products, major providers of funds and major providers of financial services, when it judges that such acquisition/holding of shares will help maintain and strengthen steady business relationships with these companies and ultimately enhance its corporate value over the medium- to long-term. Such acquisition/holding of shares, however, is preceded by a screening process to confirm the creditworthiness and safety of investing in these companies (equity securities held based on this policy is referred to as "stocks held for cross-shareholding purposes").  
 Every year, the Board of Directors evaluates on an individual basis, both quantitatively and comprehensively, the risks of the stocks it invests in for cross-shareholding purposes, as well as the profits obtainable by maintaining and strengthening trading relationships with the companies in comparison through comparing them against the internal hurdle rate specified based on the cost of capital, and it examines the rationality of holding such stocks for cross-shareholding purposes from a medium- to long-term perspective. When it deems that holding of the stocks for cross-shareholding purposes as unreasonable, the Company reduces the shareholding. During the current fiscal year, Epson actually sold part of its stocks held for cross-shareholding purposes.

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

	Number of issues	Balance sheet total (millions of yen)
Unlisted stocks	8	953
Stocks other than unlisted stocks	11	7,050

**Issues for which the number of shares held by Epson increased during the current fiscal year**

	Number of issues	Total acquisition price to increase shares (millions of yen)	Reasons for the increase of the number of shares
Unlisted stocks	1	236	Initial capital contribution to develop and strengthen new businesses
Stocks other than unlisted stocks	-	-	-

**Issues for which the number of shares held by Epson decreased during the current fiscal year**

	Number of issues	Total sale proceeds from decreasing shares (millions of yen)
Unlisted stocks	1	-
Stocks other than unlisted stocks	1	2,127

c. Number of special investment securities / equity securities deemed to be held for each issue and information including amounts recorded on the balance sheet

Special investment securities

Company	FY2018	FY2017	Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares	Shares held by Epson
	Stocks (shares)	Stocks (shares)		
	Balance sheet total (millions of yen)	Balance sheet total (millions of yen)		
Mizuho Financial Group, Inc.	15,008,880	15,008,880	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services. The effect of holding the shares was examined at the Board of Directors' meeting (held in September 2018) based on the method in (2) a. above but its quantitative results are not disclosed here as the results fall under insider information on business operation (the same applies hereunder).	Yes
	2,571	2,872		
NGK Insulators, Ltd.	1,257,000	2,507,000	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment. Epson sold part of its shareholdings in the company based on the results of examination by the Board of Directors.	Yes
	2,021	4,597		
Seiko Holdings Corporation	328,816	328,816	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	866	846		
Otsuka Corporation	120,000	60,000	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Printing Solutions business segment. The number of shares held has increased due to the 2-for-1 share split (on April 1, 2018).	None
	496	643		
The Hachijuni Bank, Ltd.	489,500	489,500	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services.	Yes
	224	279		

# SEIKO EPSON CORPORATION

Company	FY2018	FY2017	Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares	Shares held by Epson
	Stocks (shares)	Stocks (shares)		
	Balance sheet total (millions of yen)	Balance sheet total (millions of yen)		
Hakuto Co., Ltd.	190,000	190,000	To maintain and strengthen the business relationship with a major buyer of Epson products.	Yes
	222	296	Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	
Marubun Corporation	332,640	332,640	To maintain and strengthen the business relationship with a major buyer of Epson products.	Yes
	211	327	Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	
King Jim Co., Ltd.	221,980	221,980	To maintain and strengthen the business relationship with a major buyer of Epson products.	None
	192	227	Epson has a transactional relationship primarily with the Printing Solutions business segment.	
Joshin Denki Co., Ltd.	65,000	65,000	To maintain and strengthen the business relationship with a major buyer of Epson products.	None
	165	252	Epson has a transactional relationship primarily with the Printing Solutions business segment.	
Pixelworks, Inc.	100,000	100,000	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products.	None
	43	41	Epson has a transactional relationship primarily with the Visual Communications business segment.	
Nippon BS Broadcasting Corporation	33,200	33,200	To maintain and strengthen the business relationship with a company whose parent company is a major buyer of Epson products.	None
	34	41	Epson has a transactional relationship primarily with the Printing Solutions business segment.	

### (3) Stocks held purely for investment purposes

None