

## **Basic Internal Control System Policy**

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

### **1. Compliance**

- (1) The Company has established "Principles of Corporate Behavior" as a guide for putting the Management Philosophy into practice. The Company shall also establish a regulation that spells out things such as basic compliance requirements and the organizational framework.
- (2) The Company shall also create a Compliance Committee to serve as an advisory body to the Board of Directors. The Compliance Committee shall be chaired by a Full-Time Audit & Supervisory Committee Member and shall be made up as members the outside directors and Audit & Supervisory Committee members. The Compliance Committee will meet to hear and discuss important matters concerning the Company's compliance program. It will report its findings and offer opinions to the board of directors. Financial Auditors and the head of the internal audit administrative department shall be able to attend meetings of the Compliance Committee as observers.
- (3) A Chief Compliance Officer (“CCO”) shall be chosen to oversee and monitor the execution of all compliance operations. The CCO shall periodically report the state of compliance affairs to the Compliance Committee.
- (4) Compliance promotion and enforcement shall be supervised by the President of the Company. Group-wide compliance programs shall be carried out by Head Office supervisory departments with the cooperation of departments in the various operations divisions and subsidiaries. Compliance programs of the divisions and their related subsidiaries shall be promoted by the respective Chief Operating Officers of the divisions. A compliance control department shall help to ensure the completeness and effectiveness of compliance programs by monitoring compliance across the Epson Group and by taking corrective action or making adjustments where needed.
- (5) The Corporate Strategy Council, an advisory body to the President comprised of the Directors and others, addresses important matters with respect to compliance promotion and enforcement of the Epson Group as a whole, including subsidiaries. The Council strives to ensure the effectiveness of compliance by exhaustively discussing and analyzing the state of programs for assuring observance of statutes, internal regulations, business ethics and initiatives in key areas.
- (6) The Company, including its subsidiaries, shall strive to provide an effective whistleblowing system. Employees shall be encouraged and shall be able to easily and immediately report compliance violations using internal and external hotlines and e-mail addresses. Controls shall be in place to protect whistleblowers from reprisal, and allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee, and the Corporate Strategy Council in a way that whistleblowers cannot be identified.
- (7) The Company shall strive to enhance compliance consciousness by providing Epson Group employees with web-based training and other educational opportunities.

- (8) The President of the Company shall periodically report important compliance-related matters to the Board of Directors and shall take measures as needed to respond to issues.
- (9) "Principles of Corporate Behavior" shall state that the Company shall have no association whatsoever with organized crime. The Company shall take a firm stance in rejecting any and all contact with organized crime that threatens social order and security.

## **2. System for Ensuring Proper Financial Reporting**

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

## **3. Business execution system**

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

## **4. Risk management**

- (1) The Company shall establish a regulation that stipulates the risk management system of the Company, including its subsidiaries, and that defines the organization, risk management methods and procedures, and other basic elements of this system.
- (2) Overall responsibility for risk management in the Epson Group, including subsidiaries, shall belong to the President of the Company. Group-wide risk management shall be carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business shall be managed by the Chief Operating Officer of that business, including at subsidiaries consolidated under them. The Company shall also set up a risk management control department, monitor overall risk management Group-wide, make corrections and adjustments thereto, and ensure the effectiveness of risk management programs.
- (3) The Corporate Strategy Council shall strive to ensure effective management of serious risks

that could have an egregious effect on the Company by dynamically and exhaustively discussing and analyzing action to identify and control risks. Also, when major risks become apparent, the President shall lead the entire company in mounting a swift initial response in line with the Company's prescribed crisis management program.

- (4) The President of the Company shall periodically report to the Board of Directors on critical risk management issues and formulate appropriate measures to respond to these issues.

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

- (1) The Group's management structure shall help to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company shall be organized into product-based divisions. Each division shall be headed by a Chief Operating Officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office shall own global responsibility. Responsibility for providing the framework for business operations at subsidiaries shall be owned by the head of each business. Group-wide corporate functions shall be the responsibility of the heads of Head Office supervisory departments.
- (2) The Company shall have business processes that enable business to be controlled on a Group level. This shall be accomplished by internal regulations that require subsidiaries to report or acquire pre-approval for certain business operations from the parent company, Epson, and by requiring issues that meet certain criteria to be submitted to Epson's Board of Directors for resolution. In certain regions, moreover, the Company shall seek to ensure the suitability and efficiency of Group-wide business operations by establishing a company that acts as a regional head office that supervises subsidiaries.
- (3) Based on the basic regulation for Internal Audits, internal audit departments shall serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. The internal audit departments shall audit internal controls and the state of operations in all Epson Group companies, including subsidiaries. The findings of the internal audit departments shall be presented to the head of the audited organization along with requests for corrective action. This information shall also be regularly reported to the President of the Company and to the Audit & Supervisory Committee. In this way, Epson shall strive to optimize operations across the entire Group.

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

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

#### **7. Audit system**

- (1) The Audit & Supervisory Committee can interview Directors who are not Audit & Supervisory Committee Members, Executive Officers, and other personnel whenever they deem necessary in the performance of duties based on the Audit & Supervisory Committee audit regulation.
- (2) Audit & Supervisory Committee Members can attend Corporate Strategy Council sessions,

Corporate Management Meetings, and other important business meetings that shall enable them to conduct audits based on the same information as that available to Directors who are not Audit & Supervisory Committee Members. Audit & Supervisory Committee shall also routinely review important documents related to management decision-making.

- (3) An Audit & Supervisory Committee Office shall be set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office shall serve as a Special Audit & Supervisory Officer and shall assign full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office shall discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from Directors who are not Audit & Supervisory Committee Members. Matters relating to the personnel of the office must be approved in advance by the Audit & Supervisory Committee.
- (4) To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework shall be created to secure close cooperation between the internal audit department and others and the Audit & Supervisory Committee. Matters relating to the appointment and dismissal of the head of the internal audit administrative department must be approved in advance by the Audit & Supervisory Committee.
- (5) The Audit & Supervisory Committee can ask the Representative Director or the Board of Directors to take corrective action if the Audit & Supervisory Committee recognizes that the structure of the Audit & Supervisory Committee Office and the system of cooperation between the Audit & Supervisory Committee and the internal audit departments and others interfere with the efficacy of audits.
- (6) The Audit & Supervisory Committee shall receive audit reports from the internal audit departments and can issue specific instructions to the internal audit departments as needed. If the instructions issued to the internal audit departments by the Audit & Supervisory Committee and the President are in conflict, the President shall have the internal audit departments respect the instructions of the Audit & Supervisory Committee.
- (7) Based on the Audit & Supervisory Committee audit regulation, the Audit & Supervisory Committee can ask Directors who are not Audit & Supervisory Committee Members, the compliance control department, and the risk management control department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also inspect supporting materials. The Audit & Supervisory Committee shall, where necessary, be able to ask subsidiary company Directors, Audit & Supervisory Board Members, internal audit departments, and others to report the state of management within their respective companies. A system shall be put in place to protect reporters from reprisal for having made a report, and the identity of the reporter shall be protected even if the President or a Board Member, for example, is asked to make corrections and so forth based on the report.
- (8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with Financial Auditors.
- (9) The Audit & Supervisory Committee and Representative Director shall regularly meet to enable the committee to directly assess business operations.
- (10) The expenses required by the Audit & Supervisory Committee Members to perform its duties shall be properly budgeted for in advance. However, expenses required to perform the duties of the Audit & Supervisory Committee Members in emergency or extraordinary situations shall be promptly paid in advance or refunded on each occasion.