Organizational Governance

Epson is aiming to be an indispensable company by realizing our management philosophy. We have established a system of compliance to ensure the transparency and soundness of management in the eyes of our stakeholders.

### Corporate Governance

The primary goal of corporate governance at Epson is to continuously enhance the value of the company and to ensure business transparency and health through a strong system of checks and ethical practices.

Seiko Epson has a board of directors and a board of statutory auditors. The nine-member board of directors meets once a month and convenes extraordinary meetings as needed. It makes decisions regarding basic management policies, key business operations, period-end closing, disclosure timeframes, and other important issues. An outside director was appointed to the board at the June 20, 2012, general shareholders’ meeting, a positive move aimed at bringing an outsider’s viewpoint and insight to the company.

Various management bodies have been created to advise the president or board of directors, deliberate issues and facilitate decision-making, and oversee and enhance the execution of business.

### Design of Internal Control System

Epson’s Management Philosophy outlines the vital business principles to which the global Epson Group is committed, while Epson’s Principles of Corporate Behavior describes the conduct required to live up to these principles. As illustrated below, Epson takes actions to steadily improve internal control across the entire Epson Group.

### Group Governance

The Epson Group is managed based on the concept: global consolidated responsibility of product-based divisions; and global responsibility of the Head Quarter (HQ) supervisory functions. The head of the business operations divisions take the responsibility for the business execution systems of subsidiaries, and the head of HQ supervisory sections take the responsibility for group-level corporate functions. With this system, Epson strives to streamline operations throughout the Epson Group, including subsidiaries.

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**Governance Structure**

[Diagram showing the governance structure with key roles and committees.

**Corporate Governance**

http://global.epson.com/company/governance/index.html

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**Corporate Strategy Council**

**Compensation Committee**

**Crisis Management Meeting**

**Nomination Committee**

**Corporate Management Meeting**

**Various Strategy Councils**

**Business Units and Affiliates**

**Business Operations**

**Audit Office**

**Audit Staff Office**

**Board of Directors**

**Board of Statutory Auditors**

**Compliance Committee**

**Compliance Office**

**Independent Public Accountant**

**SEC President**

**Propose/Report**

**Report**

**Submit/Report**

**Elect/Dismiss**

**Report**

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**General Shareholders’ Meeting**
Compliance and Risk Management

In March 2013, the Seiko Epson board of directors passed a resolution calling for the establishment of an internal organization intended to improve compliance and risk management. The highlights are the appointment of a chief compliance officer (CCO) and the establishment of a compliance committee and compliance office.

Under this new organization, the compliance committee, which is chaired by the CCO, acts as an advisor to the board of directors. The committee supervises operations related to compliance by deliberating important compliance activities and by giving reports and proposals to the board of directors. In addition, the Compliance Office 1) monitors compliance in general, making corrections and adjustments as necessary, and 2) takes action to mitigate risks by conducting regular monitoring of risks and overseeing risk management activities.

Meanwhile, the Corporate Strategy Council, which advises the president, strives to ensure the effectiveness of compliance and risk management by deliberating important matters related to compliance and risk management from various angles. When major risks become apparent, the president leads the entire company in mounting a swift initial response in line with Epson’s prescribed crisis management program. The president periodically reports to the board of directors on important matters concerning the execution of compliance and risk management, and formulates appropriate measures to respond to these issues.

Epson has also installed a compliance hotline which has internal and external report windows and other advisory and support services to facilitate internal and external compliance-related inquiries and to ensure an effective whistleblower system.

Compliance Activities

”Legal Quarterly” at ECC

The legal department at Epson (China) Co., Ltd (ECC) has been publishing a newsletter called “Legal Quarterly” since October 2011. This newsletter summarizes legal news affecting ECC and explains actions that need to be taken. The newsletter is designed to mitigate legal risks by increasing employee awareness of laws and their sensitivity toward risk and uncertainty in day-to-day operations. ECC publishes the newsletter in both Chinese and Japanese to ensure that Japanese employees working in China and related departments in Japan are up to speed on the latest legal developments, helping build awareness of compliance issues throughout the Epson Group.

Internal Audits

The Audit Office, which reports directly to the president of Seiko Epson, audits Epson Group divisions and subsidiaries to check compliance and the effectiveness and efficiency of their risk management, controls, and management methods. If problems are found, the Audit Office helps minimize business risks by conducting a follow-up audit to check the status of improvements. To ensure effective Group governance, The Audit Office also centrally oversees internal audits for the entire group based on reports from auditors at regional headquarters in Europe, the Americas, China, and Southeast Asia.

Internal Controls Over Financial Reporting

Every year, we audit internal controls to ensure the reliability of financial reporting (J-SOX). The Epson Group uses an autonomous distributed implementation system in which operations divisions and subsidiaries subject to external audits conduct a self-assessment on the design and operation of their internal controls, while the J-SOX Compliance Department ensures the validity of the assessment results. Operations divisions, subsidiaries, and affiliates not subject to external audits are required to independently assess their internal controls and make such improvements as are necessary.

Advisory and support services

- Epson Hotline (Compliance Office)
- Harassment advisory (HR Department)
- Counseling related to working long hours (HR Department)
- Employee counseling (General Affairs Department)
- Labor union counseling (Labor Union)
- Insider trading inquiries (Legal Affairs Department)
- Anti-monopoly inquiries (Legal Affairs Department)
- Inquiries related to bribes and corruption (Legal and General Affairs Departments)
Trusted Throughout the World

International Trade Initiatives

Epson is a multinational corporation with production centers, sales centers, customers, and business partners around the world. Smooth international trade operations are essential if we are to deliver Epson products and services to customers in a timely manner.

Meanwhile, we must observe numerous conventions and frameworks governing international trade that have been put in place to maintain international peace and security.

To maintain compliance with these and to ensure smooth trade, Epson has established comprehensive systems and processes that have enabled Epson companies to earn certification from the relevant authorities in Japan and abroad for compliance with the international trade programs. (See the table below.)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Program (Certifying Agency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seiko Epson Corp.</td>
<td>Special Bulk Export License (METI)</td>
</tr>
<tr>
<td>Seiko Epson Corp.</td>
<td>Authorized Exporter (Tokyo Customs)</td>
</tr>
<tr>
<td>Epson America Inc.</td>
<td>C-TPAT Partner (U.S. Customs)</td>
</tr>
<tr>
<td>Epson Portland Inc.</td>
<td>C-TPAT Partner (U.S. Customs)</td>
</tr>
<tr>
<td>Epson El Paso Inc.</td>
<td>C-TPAT Partner (U.S. Customs)</td>
</tr>
</tbody>
</table>

In January 2013, Seiko Epson was certified under the Authorized Importers’ Program run by Tokyo Customs. This program gives preferential customs treatment to authorized importers with high levels of compliance and cargo security. By filing a special import declaration, importers are able to import goods more quickly with fewer inspections and can file import declarations and receive authorization before the goods actually arrive in Japan. This program is beneficial to supply chain management because it ensures a stable lead time for customs processing.

Security at Epson

Declaring a commitment to protecting people, assets, and information in Principles of Corporate Behavior, Epson takes steps to ensure personal security, the security of corporate assets, and the utmost prudence in the handling of information. Epson recognizes the importance of good security practices. Accordingly, we establish and maintain systems to ensure the on-site safety and security of personnel and visitors, carefully control all assets, respect the property of others, and take strict precautions to safeguard personal data and confidential information.

Information Security

Epson’s Basic Information Security Policy describes our approach to information security and the requirements that we must satisfy. This policy calls for all Epson personnel to recognize the importance of information security, exercise effective information security governance, and build information security into the corporate culture.

Information Security Organization

Head Office

- President
- Audit Office
- Group CISO
- Group Supervising Dept.
- Group IT System Supervising Dept.

Group Information Security Council

Business Unit

- Business Unit Chief Executive
- CISO
- Senior Info. Security Manager
- Admin. Office
- Departments

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1 Chief Information Security Officer

Basic Information Security Policy
At Epson, each business unit builds and maintains its own information security system based on group-wide standards. Internal audits ensure that the systems and controls at each business unit are evaluated and that information security-related risk management is effective. Senior information security managers from the business units gather to discuss initiatives across the organization and to track progress.

Epson also acquires ISMS (information security management system) certification, which complies with ISO 27001, to ensure continuous improvement of its information security management organization. Currently, Seiko Epson’s Business Systems Operations Division, IT Division, data centers, and Epson Sales Japan have all been certified and manage information security accordingly.

Employees and managers learn about information security through online training courses and training programs for managers. The online training program has a participation rate of 100%, including executives. Every July, which is designated as Information Security Enhancement Month, Epson implements a number of awareness-raising initiatives. There are also year-round initiatives such as the monthly Information Security News, which gives specific examples of actions employees can take in the office and at home.

During Information Security Enhancement Month in 2012, Epson asked employees to rethink the way they use e-mail, an essential business tool. Improper use of e-mail is reported to have negative consequences, such as reducing the quality of one’s work and inconveniencing customers. Epson asked its employees to review proper e-mail rules and manners and to make sure they are using e-mail appropriately.

Protection of Personal Data
Epson conducts internal audits to ensure that personal data is properly managed.

Epson Sales Japan and Epson Direct are both Privacy-Mark certified and continue to operate in accordance with the program.

Kyoichi Nakajima from Epson Sales Japan says, “Epson Sales Japan first obtained PrivacyMark certification in March 2005 and we have renewed it four times since then. The year leading up to certification was the most difficult for those involved because we had to establish all of the rules and train employees on them, but now personal data protection has become ingrained across our operations. Epson Sales Japan handles the personal data of many customers. Our employees understand the importance of protecting our customers’ privacy and do so of their own accord.”

Intellectual Property Protection
Epson protects the rights to our proprietary technologies so as to support the ongoing development of our existing businesses and the growth and commercialization of new businesses. These actions ensure that our IP portfolio contributes to corporate earnings. We also respect the rights of third parties and implements measures to prevent infringement of those rights.

In 2012, Epson ranked 13th in Japan and 12th in the U.S. for number of registered patents. Epson also received numerous awards in recognition of its contributions to the advancement of science and technology and to the development of industry. These include the Japan Patent Attorneys Association President’s Award and the Inventor’s Award at the 2012 National Commendation for Invention, and the Japan Patent Office Director’s Encouragement Award at Kanto Region Commendation for Invention.

Our IP initiatives are not limited to Japan. We emphasize understanding and respect for intellectual property throughout the world. In China, Epson (China) Co., Ltd. (ECC) launched the IP Rights Reporting Seminar in 2007. As part of this ongoing program, ECC works with the media to raise awareness of IP issues among students in China.
Sustainable Procurement

Prospering with suppliers based on the principles of fairness, coexistence and co-prosperity

Approach to Sustainable Procurement

Basic Procurement Policy and Procurement Guidelines

As stated in the beginning of the Management Philosophy, Epson is committed to being “a progressive company, trusted throughout the world.” We strive to grow in harmony with the local and international communities by procuring goods in a manner consistent with the Principles of Corporate Behavior and Basic Procurement Policy.

To this end, we established formal procurement guidelines that spell out fundamental Epson principles for our suppliers around the world. Our procurement guidelines cover requirements regarding compliance with laws, social norms and ethics in areas such as child and forced labor, respect for human rights, environment preservation, and health and safety. Epson practices sustainable procurement in line with these guidelines.

From the perspective of our stakeholders, “Epson” refers to the entire supply chain for Epson products. Epson asks its suppliers to follow the Epson Supplier Code of Conduct, established in April 2008, to help ensure that equivalent standards of conduct are maintained across the supply chain.

Co-creating with Our Business Partners

In addition to providing quality products and services, Epson believes that part of its responsibility is to work with business partners to ensure that human rights, labor standards, and environmental preservation are being upheld across the supply chain. Business partners that we can trust are essential if we are to continue to provide customers with products and services that excel in every area, including quality, price, and environmental performance. We strive to build trust through fair and transparent business practices with suppliers.

Procurement System

Management Philosophy

Principles of Corporate Behavior

Epson Code of Conduct

Basic Procurement Policy

1. We will build good partnerships with suppliers, based on mutual trust and the principles of fairness, coexistence and co-prosperity.
2. Exercising high ethical standards and a social conscience, we will conduct our procurement activities in strict compliance with both the letter and spirit of laws and regulations, both national and international, in every region where we operate.
3. We will strive to reduce our environmental impacts of our procurement activities and will always seek stable and reasonable quality, price, and delivery from suppliers.

Procurement Code of Conduct

Epson Group Procurement Management Regulation

Division & Group company standards

Evaluation standard

Request for compliance

Business relationship

Supplier evaluation

Self-assessment

Suppliers

Epson Supplier Code of Conduct

Epson Group procurement standards

Procurement Guidelines

Sustainable Procurement Initiatives

Bringing CSR to the Supply Chain
Epson shares its corporate social responsibility values and objectives with its suppliers as part of an ongoing effort to ensure that suppliers understand the risks associated with the environment, human rights, worker rights, and corporate ethics. This, in turn, minimizes associated risks and establishes a strong relationship of mutual trust.

Starting in fiscal 2008, Epson launched an effort to improve the level of CSR in our supply chain, including detailed evaluations of CSR activities at our suppliers. We report the results of evaluations to suppliers and, if necessary, request improvements. We also conduct on-site audits and other measures to verify the status of improvements.

In fiscal 2012, we focused our efforts on suppliers in the printer business. After requesting improvements at nine suppliers, we conducted on-site follow-up audits to check the status of the improvements.

Epson’s Approach to Conflict Minerals
“Conflict minerals” refers to gold, tantalum, tin, and tungsten that serve as a source of funding for armed insurgents and anti-government organizations in the Democratic Republic of the Congo and surrounding countries. Publicly traded companies in the United States are required to report the presence of any conflict minerals in their products to the Securities and Exchange Commission. This requirement does not apply to Epson because it is not traded in the United States.

Nevertheless, we work with our suppliers to eliminate conflict minerals from our products in line with our basic approach to socially responsible procurement. In October 2012, we amended our procurement guidelines so that it asks suppliers not to use conflict minerals and we began investigating whether such minerals are being used in our supply chain.

Determining the origin of minerals requires tracing them all the way up the supply chain. This is a long and difficult process that does not always produce final results, but Epson is continuing its efforts to eliminate conflict minerals in cooperation with its suppliers.

Compliance Management Initiatives
Exercising high ethical standards and a social conscience, Epson conducts procurement activities in strict compliance with both the letter and spirit of laws and regulations, both national and international, in every country and region around the world. Training and education is an important part of this commitment.

In Japan, companies in the Epson Group train employees on the laws, regulations, and social norms of various countries and regions around the world to ensure that employees have the required expertise and awareness.

All employees in Japan are required to take the Introduction to Procurement and Subcontracting Law Fundamentals online training courses. Employees directly involved in procurement must successfully complete procurement and compliance management training. As of March 2013, 15,500 employees have been certified. Then, starting in November 2012, we began holding manager procurement compliance training to improve knowledge and understanding of laws and regulations. This training course is mandatory for all managers with decision-making authority.

Kuniko Ito, who is in charge of the training course, says of the training, “We try to improve employee awareness of compliance as part of our corporate social responsibilities. As a result, employees are starting to take an even more serious approach to compliance.”

Kuniko Ito, Production & Trade Management Department

Conflict Minerals in Epson Products