

Organizational Governance

Corporate Governance

Epson strives to continuously strengthen corporate governance to ensure transparent, fair, timely and decisive decision-making so as to achieve the goals declared in the Management Philosophy, to promote sustainable growth, and to increase corporate value over the long-term. Toward this end, we have appointed multiple outside directors. We have also established a Director Nomination Committee and a Director Compensation Committee to serve as discretionary advisory bodies for the Board of Directors.

Epson will continue to enhance the effectiveness of its corporate governance by further improving the supervisory function of the Board of Directors and by enhancing discussions at board meetings, as well as by speeding up decision-making in management as a company with an Audit & Supervisory Committee.

Principles of Corporate Governance

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

Corporate Governance Structure

Seiko Epson (“the Company”) has established itself as a company with an Audit & Supervisory Committee with the aim of strengthening the supervision and monitoring of management and of speeding up decision-making by separating the management supervision and execution of operations.

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 the Company will accomplish its social mission, sustain growth, and maximize corporate value over the medium and long terms. To fulfill its responsibilities, the Board of Directors supervises general operations to ensure that operations are fair and transparent. The Board of Directors also makes decisions on important business affairs of the Company, such as decisions on the formulation of important business matters, such as the establishment of management plans and business plans and decision on investment projects that exceed a certain fixed amount of money.

The Board of Directors is composed of 12 directors¹, including five Outside Directors. Meetings of the Board of Directors are, as a rule, held once per month and as needed. 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. The Company is speeding up business decision-making as a company with an Audit & Supervisory Committee. To increase the agility of business, the scope of business affairs delegated by the Board of Directors to executive management has been expanded, so that the Board of Directors focuses only on the most important measures. The Company has further improved the supervisory function of the Board of Directors by specifying in the Corporate Governance Policy that at least one third of the members of the board should be Outside Directors.

¹ As of June 30, 2019

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 the Company. The Audit & Supervisory Committee establishes criteria for properly evaluating potential External Financial Auditors. After selecting External Financial Auditors, the Audit & Supervisory Committee verifies whether External Financial Auditors possess the necessary independence and expertise. In addition, the Audit & Supervisory Committee conducts audits in cooperation with internal audit departments and Financial Auditors.

The Audit & Supervisory Committee is composed of four Audit & Supervisory Committee members^{*1}, three of whom are Outside Directors. It is chaired by a full-time member of the Audit & Supervisory Committee. Meetings are generally held once per month and as needed.

^{*1} As of June 30, 2019

Compliance Committee

The Compliance Committee hears and discusses important matters concerning the Company's compliance program in order to supervise whether the compliance program is being properly implemented along the executive line. It reports its findings and offers opinions to the Board of Directors.

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. It is chaired by the full-time member of the Audit & Supervisory Committee, and meetings are held once every six months and as needed.

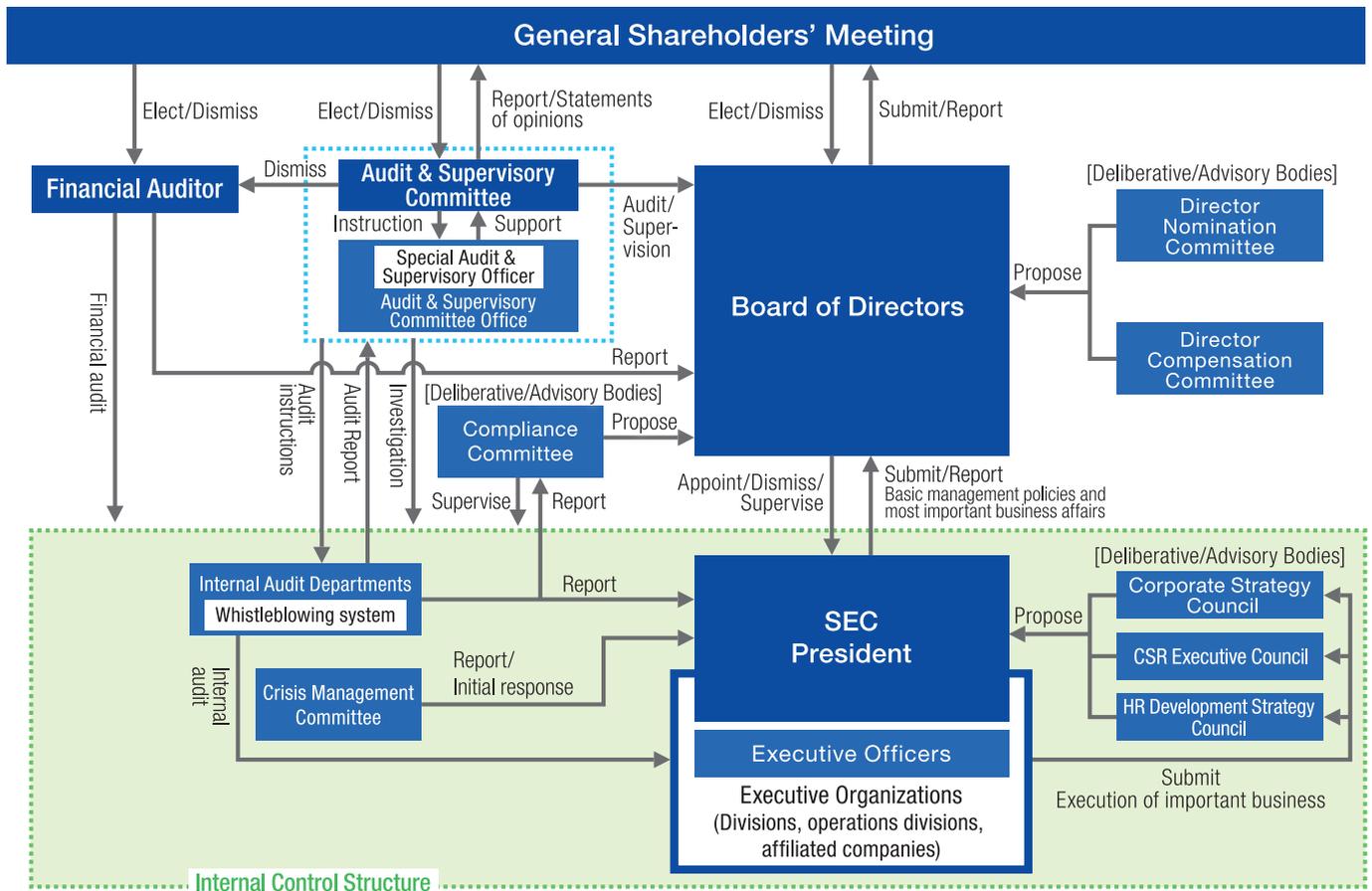
A Chief Compliance Officer ("CCO") is chosen by the Board of Directors to oversee and monitor the execution of all compliance operations. The CCO periodically reports the state of compliance affairs to the Compliance Committee.

Director Nomination Committee & Director Compensation Committee

A Director Nomination Committee and a Director Compensation Committee, in which Outside Directors make significant contributions, serve as advisory bodies to the Board of Directors. The purpose of these committees is to ensure the transparency and objectivity of selections for Director, Executive Officer, and Special Audit & Supervisory Officer, as well as their compensation. Outside Directors comprise the majority of both committees, which also include the Representative Director/President and the 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.

Corporate Strategy Council

The Corporate Strategy Council is an advisory body to the President. It was created to help ensure that the right decisions are made based on the advice and views of executive management. Meetings of the Corporate Strategy Council are held to discuss important matters that affect the entire Epson Group and matters brought up before the Board of Directors. The Corporate Strategy Council is composed of Directors, Executive Officers, and Special Audit & Supervisory Officers.



Policies and Procedures for Determining Compensation of Officers

With an aim to ensure transparency and objectivity, compensation of officers is determined by the General Meeting of Shareholders, the Board of Directors or Audit & Supervisory Committee after going through a fair, transparent, and rigorous reporting by the Director Compensation Committee in which Outside Directors make significant contributions.

Compensation Policies for Officers Who Have Executive Duties

1. Compensation shall be incentive to improve business performance in order to increase corporate value in both the near and long terms.
2. Compensation shall be sufficient to secure qualified persons both from within the Company and from outside.
3. Compensation shall be commensurate with the business performance so that they can demonstrate their management capabilities to the fullest during their terms of offices.

Compensation Policies for Officers Who Do Not Have Executive Duties

1. The composition of compensation shall guarantee independence so that these Officers can suitably demonstrate their general management supervisory function, etc.
2. Compensation shall be sufficient to secure qualified persons both from within the Company and from outside.

Procedures

1. Basic compensation Monetary compensation that is paid monthly in an amount decided by taking into account all factors such as the Officer's position and responsibilities.
2. Bonuses Monetary compensation that is paid once per year in an amount decided in accordance with considerations such as the levels of achievement with respect to annual operating performance targets, etc.
3. Stock compensation Stock-based compensation system wherein Company shares are delivered using a trust scheme, based on share delivery points awarded in accordance with considerations such as the levels of achievement with respect to the mid-to long-term operating performance targets.

Compensation to Directors (Fiscal year ended March 2019)

(Millions of yen)

Category	Number of individuals (Persons)	Fixed compensation	Variable compensation			Total
		Base compensation	Bonuses	Stock compensation		
Directors who are not Audit & Supervisory Committee members (of which, Outside Directors)	8 (2)	232 (28)	13 (-)	71 (-)	38 (-)	356 (28)
Directors who are Audit & Supervisory Committee members (of which, Outside Directors)	5 (3)	81 (48)	- -	- -	- -	81 (48)
Total	13	314	13	71	38	437

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 the monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
2. The Company has introduced an 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 to 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 (Board Incentive Plan) trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium- to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded for the current fiscal year based on Japanese Generally Accepted Accounting Principles (JGAAP).
6. The number of individuals above includes one Director who was an Audit & Supervisory Committee member who retired at the conclusion of the Ordinary General Meeting of Shareholders on June 27, 2018 and one Director who was not an Audit & Supervisory Committee member who retired on September 30, 2018.
7. Stock options are not granted.

Policy and Independence Criteria for Appointing Directors

Policy for Appointing Directors

1. Officers must be impartial and possess high integrity and ethical standards.
2. Outside Directors must satisfy criteria concerning the independence of Outside Directors in order to guarantee their independence. The Board of Directors established “Criteria for Independence of Outside Directors.”

Procedures for Appointing Directors

1. After passing a fair, transparent, and rigorous screening and reporting by the Director Nomination Committee, Executive Director candidates and Executive Officers are selected by the Board of Directors in addition to the foregoing policy and on nomination criteria, such as broadness of insight, extensiveness of experience, sense of mission, sense of responsibility, leadership, and the ability to drive change.
2. The Director Nomination Committee screens Non-Executive Director candidates and Special Audit & Supervisory Officers in a fair, transparent, and rigorous screening in line with the foregoing policy and on the basis of nomination criteria, including but not limited to broadness of insight, extensiveness of experience, sense of mission, sense of responsibility, management knowledge and specialized knowledge. The Director Nomination Committee reports its opinions to the Board of Directors, which finalizes the selections. The consent of the Audit & Supervisory Committee is required for nominating Director candidates who are Audit & Supervisory Committee Members and for appointing Special Audit & Supervisory Officers.

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 partner¹, or has served as an executive² within the past five years in an entity for which the Company is a major business partner;
 2. The person is a major business partner³ 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 compensation⁴ (other than remuneration 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 shareholder⁵ 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 lender⁶ 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 donation⁷ from the Company or, within the past three years, has performed duties equivalent to those of an executive as an employee of a corporation or a group, such as a union, that has received a large donation from the Company;
 10. The person came from an entity that employs someone from the Company as an Outside Director; or
 11. A spouse or relative within the second degree of kinship of a person having the interests listed in (1) through (9) above.

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

Notes

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

Reason for appointed as Outside Directors, and Attendance at meetings of the Board of Directors

Name	Reason for Appointment	Attendance at meetings of the Board of Directors
Hideaki Omiya	<p>Mr. Omiya has served as the President and a Chairman of the Board of Mitsubishi Heavy Industries, Ltd. and has considerable experience and insight as a chief executive and engineer.</p> <p>We have appointed him as an independent Outside Director with the expectation that he will monitor 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.</p>	12 / 13 meetings (92.3%)
Mari Matsunaga	<p>Ms. Matsunaga has created new business models and has a wealth of experience and considerable insight through her involvement in the management of multiple companies as Outside Officers.</p> <p>We have appointed her as an independent Outside Director with the expectation that she will monitor corporate management appropriately by actively pointing out business issues and offering recommendations particularly from the viewpoint of promoting open innovation.</p>	13 / 13 meetings (100%)
Michihiro Nara	<p>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 independent outside officer and achievements as an Outside Director who is Audit & Supervisory Committee Member of the Company.</p> <p>We have appointed him as an Outside Director who is Audit & Supervisory Committee Member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.</p>	13 / 13 meetings (100%)
Chikami Tsubaki	<p>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.</p> <p>We have appointed her as an Outside Director who is Audit & Supervisory Committee Member with the expectation that she will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.</p>	13 / 13 meetings (100%)
Yoshio Shirai	<p>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.</p> <p>We have appointed him as an Outside Director who is Audit & Supervisory Committee Member with the expectation that he will appropriately supervise and contribute to the soundness of the Company's management aimed at achieving sustainable growth and improving the Company's corporate value over the medium- to long-term.</p>	13 / 13 meetings (100%)

Policy of Training of Officers

Training of Internal Directors, Full-Time Audit & Supervisory Committee Members, Executive Officers, and Special Audit & Supervisory Officers

Training shall be provided to new appointees so that they acquire the knowledge, including about corporate governance that they will need as officers of a publicly listed company. The Company will invite businesspeople, lawyers, and other outside professionals to provide ongoing management, compliance, and other training to these officers after they assume their posts. They shall also seek to acquire the knowledge they need to fulfill their individual roles and responsibilities, and toward that end will undergo training appropriate for their roles at outside institutions.

Training of Outside Directors

The Company will explain Epson's businesses, strategies and the like to new appointees. To enable them to deepen their understanding of Epson's businesses, strategies, and the like after they assume their posts, Epson will provide ongoing learning opportunities. Epson will, for example, have the heads of the various businesses explain their operations, take the Outside Directors on tours of Epson's various offices and sites, and support their efforts to acquire the knowledge they will need to execute their roles and responsibilities.

Actions to Ensure Board Effectiveness

Seiko Epson seeks to continuously enhance the effectiveness of its board of directors pursuant to its Corporate Governance Policy. Toward this end, Seiko Epson has been analyzing and evaluating the effectiveness of its board of directors every year since FY2015 based on a self-evaluation questionnaire that all board members were asked to complete.

FY2018 Evaluation Results (results released in June 2018 for the 2017 fiscal year)

In fiscal 2017, based on the evaluations and opinions of third-party organizations, we conducted a questionnaire on the following items for all Board Members, to analyze and evaluate the effectiveness of the Board. As a result, we confirmed that the Board of Directors as a whole was found to be functioning effectively.

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

Based on that, we have identified and addressed the issues for improving effectiveness in the future as follows. (Issue: Response)

- I. Improvement of the succession plan: Continued study in fiscal 2018
- II. Examination and improvement of procedures for nominating Director candidates and dismissing Officers: Revision of the Corporate Governance Policy (Article 22), etc.
- III. Improvement of Officer training: Dispatch of newly appointed Directors to the next-generation cross-industry managers group, etc.
- IV. Constructive dialogue with shareholders: Visit institutional investors and hold dialog with Outside Directors and institutional investors
- V. Preparation and operation of the Board of Directors: Review of the preparation schedule improvement of operation of advance briefing, etc.
- VI. Risk management (business strategy): Identification of business risks and handling through legal affairs and risk manage-

ment operations

- VII. Verification of and improvement in the design and operation of the office compensation system: Review within continuation of the performance-linked stock compensation plan
- VIII. Examination and improvement of operation of advisory bodies to the Board: Explanation of the status, key points, etc. of discussions at the Board of Direct

FY2019 Evaluation Results (results released in June 2019 for the 2018 fiscal year)

In fiscal 2018, the survey items from fiscal 2017 were continued to maintain comprehensiveness, and based on the recent trend of corporate governance (interests of institutional investors, various documents of government agencies, etc.), the following two items have been added:

- a. Should the chairman of the Board of Directors and advisory bodies be an independent Outside Director?
- b. Are Directors nominated based on megatrends and the direction in which the Company should aim?

Furthermore, we established a discussion time at the Board of Directors meeting, and analyzed and evaluated its effectiveness. As a result, we confirmed that the Board of Directors as a whole was found to be functioning effectively. Based on that, we have identified the following issues in order to improve effectiveness in the future:

1. Improvement of succession plans (including pooling of successor candidates and creating supplementary systems) and further improvement of the process of nominating Officers
2. Clarification of the management framework (skill set) for realizing the Management Philosophy and long-term corporate vision (Directors and Executive Officers)
3. Sharing of the effectiveness evaluation results of the Audit & Supervisory Committee in the Board of Directors meetings, and implementation of recommendations from the Audit & Supervisory Committee to the Board of Directors based on the audit results

* Regarding a. above, even in the current situation where the President is the chairman, we have positioned it as a medium-term issue in the future, instead of considering it as an issue in fiscal 2018, because free and open discussions were held based on the Outside Directors' opinions.

* Regarding the evaluation by third party organization conducted in fiscal 2017, it was not implemented in fiscal 2018, because it is the Company's policy to implement it once every three years.

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

Organizational Governance

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. Epson has established the basic concept of internal control of the entire group in the Basic Internal Control System Policy, and Epson takes actions to steadily improve that 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 Office supervisory functions. The head of the business operations divisions take the responsibility for the business execution systems of subsidiaries. And the head of Head Office supervisory sections take the responsibility for Group-level corporate functions. With this system, Epson strives to streamline operations throughout the Epson Group, including subsidiaries.

Compliance and Risk Management

Epson's goal is to continuously create value that exceeds customer expectations while building trust with all stakeholders based on the company's Management Philosophy. To maintain and strengthen this trust, Epson seeks to increase management transparency and fairness, ensure effective management through faster decision-making, and appropriately manage compliance and risk. Because of that, we conduct various types of monitoring and supervise activities under the following organization. There were no compliance-related issues that are subject to timely disclosure in the 2018 fiscal year.

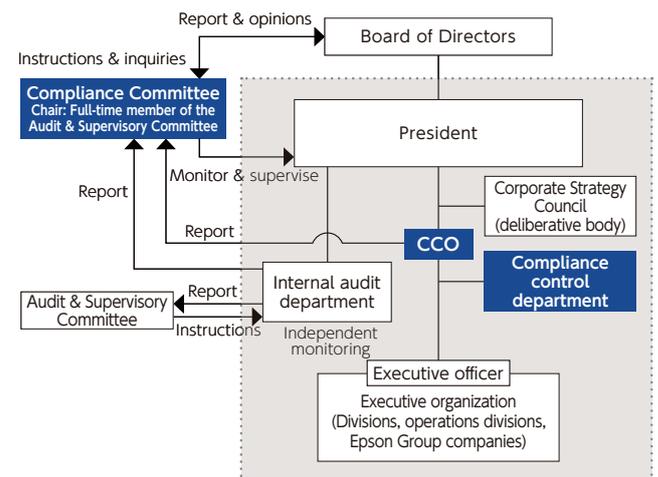
Compliance Organization

Seiko Epson transitioned to a company with an Audit & Supervisory Committee after receiving approval for the move at its June 2016 general shareholders' meeting. The company revised the composition of its Compliance Committee and the role of its Chief Compliance Officer (CCO) in conjunction with this change.

Under the current organization, the Compliance Committee, which acts as an advisory body to the Board of Directors and is chaired by a Full-Time Audit & Supervisory Committee Member, discusses important compliance activities, reports and proposes compliance affairs to the Board of Directors, and supervises business affairs. The CCO supervises and monitors the execution of all compliance operations and periodically reports the state of compliance affairs to the Compliance Committee. In addition, a compliance control department and a risk management department monitor compliance in general, making corrections and adjustments as needed.

These compliance organization are defined in the Epson Group Compliance Basic Regulation.

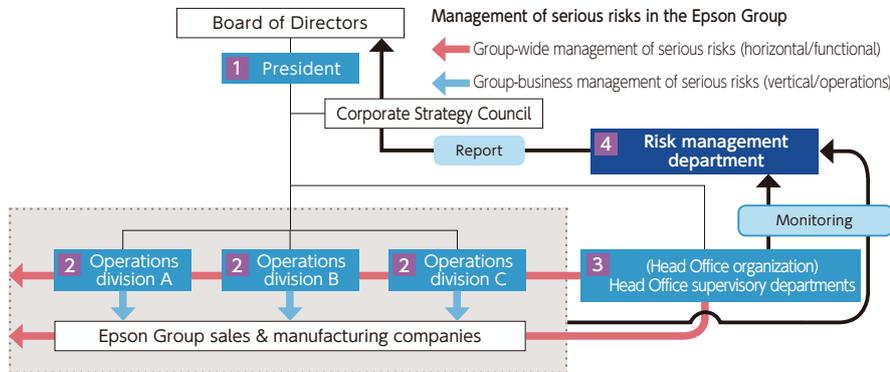
Compliance Organization Chart



Risk Management Organization

Seiko Epson has approved the following system for managing risks based on the Epson Group Risk Management Basic Regulation.

Risk Management Organization Chart



1. The Chief Risk Management Officer in the Epson Group is the president of Seiko Epson.
2. The heads of divisions own responsibility for managing risks in their respective businesses and subsidiaries.
3. The heads of Seiko Epson Head Office organizations own responsibility for managing risks in their areas of operations, both in their respective businesses and across companies in the Epson Group.
4. The Seiko Epson risk management department monitors overall risk management in the Epson Group, makes corrections and adjustments thereto, and ensures the efficacy of risk management programs.

Whistleblowing Systems and Reporting Channels

Epson is committed to maintaining effective whistleblower systems and has installed internal and external compliance hot-lines and other advisory and support services to facilitate the reporting of potential compliance issues. We have also provided reporting channels for use by our business partners, to quickly catch any potential compliance problems that could go undetected internally. The identity of whistleblowers is rigorously protected and reprisals of any type are strictly forbidden.

Counseling and Support Services in Japan

- Epson helplines
- Harassment counseling
- Counseling related to overwork and long working hours
- Counseling for persons with disabilities
- Insider trading advisory service
- Antitrust (antimonopoly) advisory service
- Corruption (bribery) regulations advisory service
- Employee counseling
- Reporting contact for business partners

Whistleblowing systems have been installed in all Epson Group companies worldwide. The use of these systems is monitored, and usage data are reported to a corporate management body and to Group companies in an effort to increase system effectiveness.

Internal Audits

Epson's internal audit departments audit a total of 104 business units around the world, including operations divisions in Japan, 56 overseas subsidiaries, and 14 domestic subsidiaries. Audits are used to check compliance and the effectiveness and efficiency of their risk management, internal controls, and management methods. If issues 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 Office also centrally oversees internal audits conducted by auditors at regional headquarters in Europe, the Americas, China, and Southeast Asia.

Business units come up for audit once every three years based on the Audit Office's mid-range audit plan. In the 2018 fiscal year, the Audit Office performed 29 operational audits and 23 information system audits of Epson business units, and provided them with advice on correcting 170 items that required improvements.

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.

Organizational Governance

Initiatives of Internal Control

Anti-Bribery/Anti-Corruption

Basic Principles

Epson's Principles of Corporate Behavior include Principle 5: "Ensuring effective governance and compliance." In Principle 5, Epson commits itself to eliminating all improper transactions, including those that involve bribery, corruption, cartels, and insider trading, and to pursuing fair, transparent, and free competition and appropriate transactions.

In respect to employees, the Epson Group Global Code of Conduct breaks down the actions of the Principles of Corporate Behavior and describes the conduct expected of us as Epson employees. This document likewise affirms that we do not seek profit by improper means and urges employees to immediately report it to relevant departments if there is any conduct that presents a risk of violation.

In respect to business partners, Principle 7 of the Principles of Corporate Behavior is "Working with business partners for mutual benefit." This principle strictly forbids acts of bribery and collusion in our relationships with business partners and demands that our business partners also eliminate any illegal or unethical business practices. In addition, our Anti-Bribery and Competition Law Guidelines for Business Partners demand that business partners avoid the practice of business bribery and that they promptly notify concerned Epson companies if they discover any such act by an Epson employee.

Epson Group Anti-Bribery Regulation

The Epson Board of Directors is committed to preventing any bribery on the part of Epson. To that end, in 2014 we established a system to prevent bribery, along with rules to be followed. These make up the Group regulations that apply to all Group companies.

The regulations state that Epson employees must not offer bribes to public servants and the like. Moreover, we establish a bribery prevention system, for which the President is ultimately responsible. Under this system, supervisory departments take various measures to prevent bribery.

Anti-Bribery Activities

One of our designated priority company-wide serious risks is a violation of Anti-Bribery Regulation. As a prevention initiative, we draw up and execute plans to suppress the risk of bribery and corruption. We monitor the progress of this work and evaluate the effectiveness of bribery suppressing efforts.

Epson's department responsible for compliance conducts our bribery prevention activities as based on Epson Group Anti-Bribery Regulation. The wide-ranging activities cover 12 areas, including entertainment and gifts, donations, hiring and internships, penalty, education by external experts, agent management, sponsorships, and procurement management. The various supervisory departments work together to tackle the risk of bribery.

Compliance Permeation Activities

To ensure that compliance awareness permeates the Group, Epson provides online courses, training, and more on a regular basis to both general administrative managers and employees, in keeping with the Epson Group Global Code of Conduct.

We invite outside experts to give instruction in compliance training courses for executive management. We also provide compliance online courses and compliance training by internal instructors for all employees. At our affiliates outside Japan, our efforts include giving compliance trainings that reflect local conditions.

Every October is “Compliance Month” at Epson and this is to help each employee recall the importance of compliance to the realization of the Management Philosophy. During this period each year, we run events for the entire Group, including subsidiaries outside Japan, to raise compliance awareness based on our Management Philosophy and Principles of Corporate Behavior. Specific activities include: 1) the release of Compliance Messages by the Chief Compliance Officer and persons in charge of each business divisions/group companies, 2) the publishing of feature stories on compliance in the company newsletter, 3) initiatives to spread information about the Epson Group Global Code of Conduct, and 4) giving compliance training. These and other activities are meant to raise compliance awareness.

When the “Compliance Month” is over, we conduct a survey about these initiatives. We total and analyze survey responses as to participants’ opinions and suggestions on each company’s or organization’s efforts and initiatives. This helps us check employees’ compliance awareness and collect feedback for the next year’s activities.

International Trade Initiatives

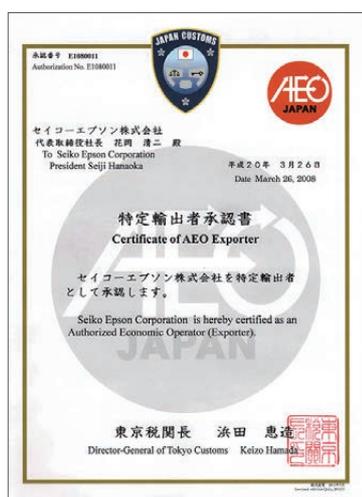
Epson is a multinational corporation with production centers, sales centers, customers, and business partners around the world. Smooth international trade operations are essential for delivering Epson products and services to customers in a timely manner.

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

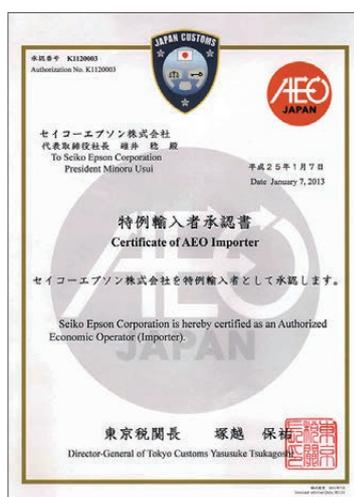
To maintain compliance with these and to ensure smooth trade, Epson has established comprehensive systems and processes that have enabled Group companies to earn certification from the relevant authorities for compliance with international trade programs. (See the table below.)

Certifications

Company	Program (certifying agency)	Program overview
Seiko Epson Corporation	Special general bulk export license (Ministry of Economy, Trade and Industry)	The program grants a blanket license to export certain items (or provide certain information) to certain destinations without an individual application if an export control system is found to be in place.
Seiko Epson Corporation	Authorized exporter (Ministry of Finance, Tokyo Customs)	The program enables certified parties to get export permission even if goods are not brought into a bonded facility, etc., if an export security control and compliance system is found to be in place.
Seiko Epson Corporation	Authorized importer (Ministry of Finance, Tokyo Customs)	The program enables certified parties to separate import declarations from tax declarations and accept goods before filing a tax declaration if an import security control and compliance system is found to be in place.
Epson America Inc. Epson Portland Inc.	Customs-Trade Partnership Against Terrorism (C-TPAT) (US Customs)	The program is designed to strengthen security of goods imported to the US and security of import channels to the US.



Certificate of AEO Exporter



Certificate of AEO Importer

Business Continuity Management

Epson has a solid business continuity management program in place. For many years we have taken action to prevent and manage disasters, but the program really got started in 2006, when we formulated a business continuity plan (BCP) for what was then our liquid crystal displays business.

If a disaster or some other event impacts business at an Epson Group production site, our first priority is to ensure the safety of our employees. Next, we take steps to ensure continuity of the product supply so as not to inconvenience our customers. In order to provide a steady supply of products, particularly consumables and core components such as quartz and semi-conductor devices, print heads, and small liquid crystal panels, we have preparations in place that allow us to limit damage, secure repair parts, switch to alternative producers, and restore operations in line with established procedures. We conduct exercises to check our procedures and ensure their effectiveness. Mission-critical IT systems and critical data that are essential for business continuity are consolidated in a robust data center, and backups are at the ready in the event of a disaster. We have secured multiple distribution routes to enable us to immediately switch to alternative routes in response to any disruption in international shipping and transport. In addition, our finance, accounting, public relations, and other key corporate functions have established BCPs so that business can continue in emergencies.

Meanwhile, we ask the companies that make up our supply chain to strengthen their BCPs, and we check to see how established those BCPs are. We analyze the items we purchase, and we develop multiple sources for those that are most important. When we cannot secure multiple sources, we keep an inventory of goods on hand or try other means to ensure continuous production in the event that something should happen to a supplier.

Every business and site in the Epson Group will continue to refine its BCP to ensure that it has the resilience to withstand threats to business continuity going forward.



Tabletop exercise for earthquake



Checking the restoration procedure of the production line in a clean room

Tax Compliance Policy

Epson seeks to fulfill its corporate social responsibility by paying appropriate taxes in compliance with the spirit as well as the letter of the tax laws and regulations in the countries and regions where it operates. In accordance with this basic policy on taxes, we are taking the actions below to maintain and improve tax compliance.

1. Tax governance

- The Board of Directors is responsible for overseeing tax risk, and Epson's Chief Financial Officer is the responsible official of Group tax affairs. The group that is in charge of tax affairs reports and manages taxes is under the supervision of the Chief Financial Officer.
- Epson considers tax risk to be an important risk, and regularly reports such risks to the board of directors and the Corporate Strategy Council, which is composed of directors of the company.
- Employees are trained in the tax-related regulations and business process standards that Epson has established to ensure that it properly fulfills its tax obligations. We conduct periodic internal tax audits and report the findings to top management and to the Audit & Supervisory Committee.

2. Monitoring tax affairs

- We appropriately respond in a timely manner to changes in local tax systems and taxation trends through regular reporting among the group that is in charge of tax affairs and Epson's local subsidiaries.
- We enlist the support of tax accounting firms and other external experts for advice on taxes and for tax support in each country and region.

3. Tax planning and Tax avoidance

- Around the globe, we strive to effectively use preferential taxation systems where possible in our normal business activities to ensure a suitable tax burden.
- We do not transfer value created to low tax jurisdictions, and do not use tax structures intended for tax avoidance without the spirit of the law.

4. Dealing with uncertainty

- Tax risk uncertainty is expected to increase as countries and regions around the globe strengthen their tax reporting obligations, tax audits, and tax enforcement. Epson controls tax risks by identifying situations that could potentially pose serious tax risks.

5. Transfer pricing taxation

- Epson complies with local tax laws and OECD guidelines to control transfer pricing tax risks. We have established transfer pricing guidelines for the Epson Group to help ensure appropriate transfer pricing transactions. In line with these transfer pricing guidelines, we control the profitability range of our global subsidiaries to ensure that transactions are made at arm's length.
- We use an advance pricing arrangement (APA) for transactions with subsidiaries in high-risk countries.

6. Anti-tax haven rules (also known as Japanese Controlled Foreign Company rules, or "CFC")

- Epson sets up foreign subsidiaries to carry out its ordinary business activities, but does not do so in "tax haven" jurisdictions to avoid taxes. When anti-tax haven rules apply, Epson properly files and pays taxes.

7. Relationships with tax authorities

- Epson strives to work in good faith with tax authorities and to maintain and improve good tax corporate governance.

Organizational Governance

Security

Epson, in a code of conduct called “Principles of Corporate Behavior,” states “We will protect the security of people and corporate assets and exercise prudence in handling information, and maintain the security of management resources (corporate assets).” The company has put in place a system for ensuring the security of employees and visitors. Employees recognize the importance of security and follow good security practices. The company’s assets (financial, tangible, intellectual, brand, information, and other assets) are properly managed, and the assets of other parties are respected. We strictly control personal data and confidential information to prevent leaks.

Information Security

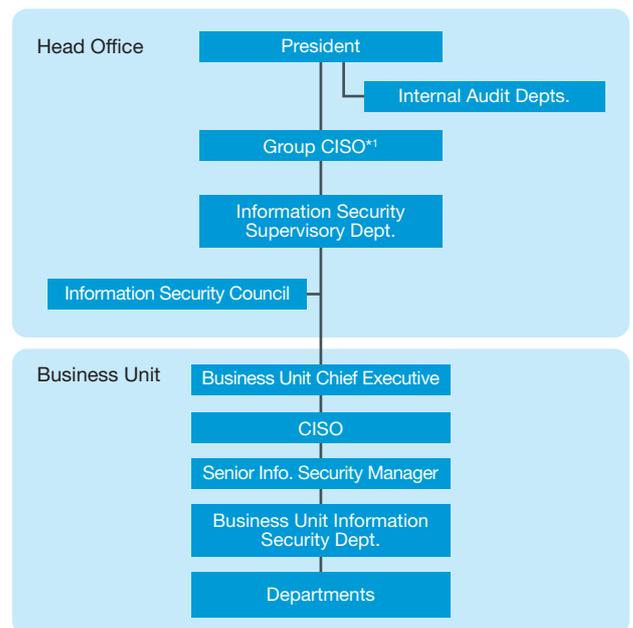
Epson has set forth essential information security principles and rules in a Basic Information Security Policy. The company is building an information security governance framework and fostering a corporate culture that reflect the importance and principles of good information security practices.

 [Basic Information Security Policy \(Please refer to page 236 of “Appendices”\)](#)

Our business units (including Group companies) build and maintain their own information security systems based on Group-wide rules. Internal evaluations are conducted to assess these systems and controls and to check whether information security risks are under control. We have established six different information security management levels that we use to measure the maturity of each business unit. The business units improve their information security systems based on their current management level. The information security supervisory department monitors the activities of the business units and instructs them to make improvements where needed.

In addition to these internal assessments, the Seiko Epson Printing Solutions Operations Division and DX Division, along with Epson Avsys, have earned and maintain ISO 27001-compliant Information Security Management System (ISMS) certification. They have also earned ISMS Cloud Security Certification (ISO/IEC 27017) so that customers can use services with greater peace of mind. In addition, to raise employee awareness of the importance of information security, we provide online courses in information security, conduct targeted email attack drills, and train managers to assess information security risks. These and similar actions are taken across the global Epson Group.

Information Security Organization



*1 Chief Information Security Officer

Cyber Security

We have in place a multilayer defense system to protect against cyber security threats. For example, we have installed a web application firewall to protect our public websites from external attacks. We have also installed a new type of anti-virus software on PCs that detects malicious behavior and shuts down attacks of all types before PCs can be exposed to danger.

However, since threats to cyber security are becoming increasingly sophisticated and insidious, we are working with a security consulting firm to identify and shore up any vulnerabilities in our existing security measures.



Information Security Training at an Epson Group Sales Company

Personal Data Protection

We at Epson are acting to protect the personal data of our customers, business partners, and employees to reward their trust and fulfill our social responsibility. Countries and regions around the world are establishing and amending laws and regulations governing personal data protection and privacy protection. The E.U.'s General Data Protection Regulation (GDPR) is a prominent example. To accurately understand the nature of changes being made, Epson participates in an international privacy protection association and ascertains whether internal rules need to be revised. In addition, Epson Sales Japan and Epson Direct, domestic subsidiaries that handle personal data belonging to customers, manage personal data protection based on the PrivacyMark System.

In FY2018, we offered three online courses in personal data protection to our employees: (1) a course in information security that all officers and employees are required to complete every year and that covers the basics, such as details about what constitutes personal data; (2) a course for employees who handle personal data on the job, which has been completed by a total of 15,850 individuals as of the end of March 2019; and (3) a course concerning the GDPR, which has been completed by a total of 9,727 individuals as of the end of March 2019.

Epson has also installed a system that temporarily halts email before it is sent to external recipients. The system asks the sender to confirm whether the mail contains personal data or confidential information that can be sent to external recipients. In addition, PCs that store personal identification numbers are monitored for suspicious activity.

Intellectual Property Protection

Epson protects the rights to its proprietary technologies so as to support the smooth and ongoing development of its existing businesses and the development and growth of new businesses. These actions ensure that our IP portfolio contributes to corporate earnings. We also respect the rights of others and implement measures to prevent infringement of those rights.

Anti-Counterfeiting Measures around the World

To protect the trusted Epson brand, we actively seek to seize counterfeit goods and other fraudulent articles that infringe the Epson trademark or our other intellectual property rights before they reach consumers.

We have set up anti-counterfeiting centers around the world that are staffed by people who monitor the goods produced and sold by manufacturers and retailers, and especially e-commerce retailers. We fight counterfeiting in a number of ways. For example, we share information with the police and other enforcement authorities to increase raids on counterfeiters. We educate customs officials to better enable them to recognize counterfeits and block their import and export. We also work with e-commerce site operators to halt the sale of imitation goods that violate our rights. The actions we take stop the distribution of counterfeit goods and help reassure consumers that the goods they buy are genuine Epson brand products.



Participating in an IP protection conference organized by customs officials in China



Educating customs officials and police about real and counterfeit goods in the UAE

Supply Chain CSR

Supply Chain CSR Vision

Supply Chain CSR Vision

Epson aspires to be an indispensable company, one that seeks to build mutually beneficial relationships with all its business partners, including suppliers, by asking them to uphold the highest standards of integrity and ethics while, at the same time, respecting their autonomy and independence.

We are particularly adamant that our business partners meet the following requirements:

- (1) Strictly forbid acts of bribery and collusion with their business partners and refuse to engage themselves in illegal or unethical business practices.
- (2) Hold their business partners to the same strict standards that Epson upholds with regard to compliance with laws and maintenance of human rights, suitable labor conditions, the environment, ethics, quality, and information security, and support improvements to any of these areas as needed.
- (3) Develop and maintain open relationships with their business partners and work with them to increase the competitiveness of the entire supply chain, based on mutual trust and mutual benefit.

These supply chain ethics requirements are based on the code of conduct of the Responsible Business Alliance (RBA), of which Epson is a member. Epson, which has mapped each of its supply chain initiatives to one or more of the Sustainable Development Goals (SDGs) of the United Nations, will help to achieve the SDGs by taking action throughout the supply chain.



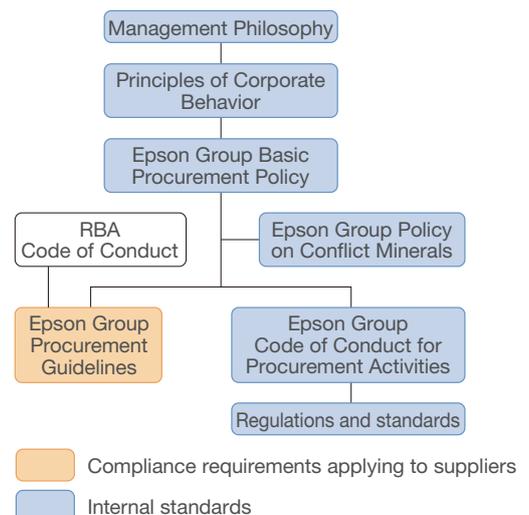
Sustainable Procurement Policy

Maintaining mutually beneficial relationships with suppliers is one of the keys to attaining the goals outlined in Epson's Management Philosophy. This is why Epson's Principles of Corporate Behavior states that Epson seeks to maintain mutually beneficial relationships with its suppliers, sales channels, collaborators, and other business partners, whom Epson asks to live up to the highest standards of ethical conduct while respecting their autonomy and independence.

In addition to good partnerships with suppliers, the Epson's Basic Procurement Policy requires adherence to high ethical standards and strict compliance in all supply chain operations. Further, it states that we will strive to reduce the environmental impacts of our procurement activities and always seek stable and reasonable QCD (quality, price and delivery) from suppliers.

Epson Group Procurement Guidelines includes a code of conduct pertaining to labor, health, safety, environment, ethics, and management systems. This code of conduct is based on the Responsible Business Alliance (RBA) Code of Conduct. Epson uses the Epson Group Procurement Guidelines to inform all suppliers about our requirements and to request their adherence to them.

CSR Procurement Policies



Supply Chain Strategy

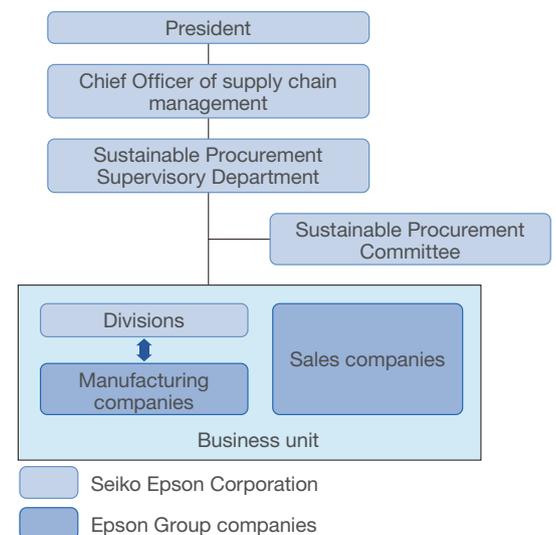
1. Providing products and services that create customer value
 - Meet customers' quality, delivery and price requirements, and position Epson to sustainably create products and services that will delight customers around the world and earn their trust.
2. Contributing to environmental conservation
 - Minimize the negative impacts of our production processes on society, environment, and natural resources.
 - Reduce environmental impacts over the life cycle of products and services.
3. Complying with laws, engaging in proper business practices, and operating with high ethical standards
 - Implement systems to ensure compliance with local laws, internal rules, and corporate ethics.
 - Maintain fairness, honesty, and promises.
 - Act with integrity and avoid any association with bribery, corruption, and extortion.
 - Maintain open and honest communication with stakeholders with appropriate information disclosures.
4. Respecting basic human rights
 - Eliminate all forms of discrimination based on race, gender, nationality, physical abilities, religion, and so on.
 - Prohibit any type of inhumane treatment, including forced labor, slave labor, and child labor.
5. Ensuring safe, healthy, and fair working environments
 - Maintain a safe and secure work environment.
 - Ensure that evaluations, work hours, and wages are fair.
6. Implementing business continuity management (BCM)
 - Establish systems to prevent occupational and industrial accidents and to restore operations promptly in the event of an interruption.

Organization

The Epson Group's global supply chain is managed to ensure sustainability and the responsible sourcing of minerals.

The Sustainable Procurement Committee is made up of personnel from all of Epson's divisions and manufacturing companies, with the Seiko Epson CSR procurement department providing administrative oversight. The committee discusses targets and action plans to address supply chain issues. After they are approved by the chief officer of supply chain management (SCM), the targets and action plans are communicated throughout the Epson Group. The chief officer of SCM monitors the progress of action plans.

Organization of CSR Procurement



Mid-term Target (KGI) and KPI

Epson has set mid-term targets and major action items for each year.

Mid-term targets (achieve by 2020)

Sustainable procurement: All critical suppliers earn no less than a medium-risk rank.

Conflict minerals: Ensure that minerals are sourced only from smelters certified by the RMI's Conflict-Free Smelter (CFS) Program.

FY2018 Major Action Items, Plans, and Results

	Description	For
1	Inform all suppliers of the Epson Procurement Guidelines (based on the RBA Code of Conduct)	Informed all production suppliers (1,252 companies) and obtained Supplier Agreements from 82%
2	Conduct a self-assessment questionnaire (SAQ) to check supplier compliance	Surveyed 100% of suppliers
3	Ensure that corrective action is completed for all issues identified from the SAQ or on-site audits	50% of suppliers found to be high risk based on the 2017 SAQ and on-site audit completed corrective actions
4	Have all suppliers complete conflict mineral surveys	Sent surveys to 100% of suppliers

FY2019 Major Action Items

	Action items, KPIs
1	Ask all suppliers to complete a CSR SAQ
2	Provide feed-back on CSR SAQ results, and support the efforts of all high-risk suppliers to improve
3	Invite all key suppliers to sustainable procurement briefings
4	Have all suppliers complete conflict mineral surveys

Supply Chain CSR

Procurement Guidelines

Procurement Guidelines/Epson Supplier Code of Conduct

To achieve the goals stated in its Management Philosophy, Epson believes that it is essential for suppliers to understand the Management Philosophy and to comply with the Epson Supplier Code of Conduct.

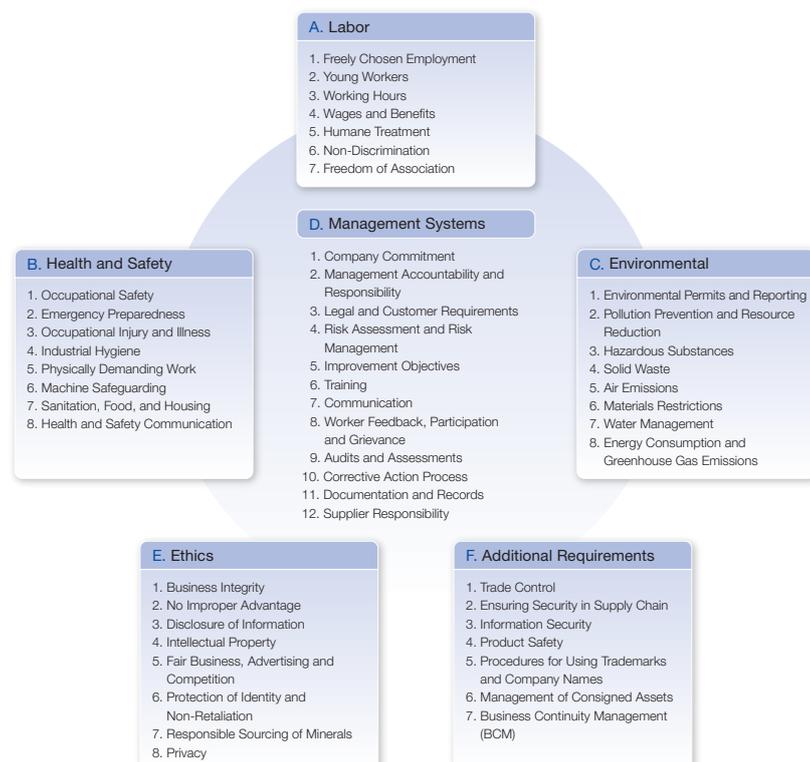
The Epson Group Procurement Guidelines were created in 2005 to inform suppliers about Epson's procurement policies and requirements. In 2008, the Epson Supplier Code of Conduct was added as an appendix to the Epson Group Supplier Guidelines. Epson's Code of Conduct was based on the code of conduct created by the Electronic Industry Citizenship Coalition (EICC), now called the Responsible Business Alliance (RBA).

The Epson Group Procurement Guidelines reflect international requirements. They are intended to help ensure that our suppliers work with us as partners to meet quality, cost, and delivery (QCD) obligations and maintain compliance with requirements in areas such as human rights, labor, the environment, ethics, and health and safety. Rev. 4.0, released in November 2018, is the latest version of the Epson Group Procurement Guidelines. The content was revised to maintain consistency with the latest RBA Code of Conduct. The Epson Supplier Code of Conduct is now a major part of the Procurement Guidelines and will be available in multiple languages.

Over the 15-year history of the Guidelines, we have asked our key suppliers to signify their consent to Epson's requirements by signing a Supplier Agreement. The six language, Japanese, English, Chinese, Spanish, Portuguese and Thai, are available on the Epson website.

Requirements Under Supplier Code of Conduct

The Epson Supplier Code of Conduct, which is part of the Epson Group Procurement Guidelines, is based on the RBA Code of Conduct. It specifies requirements in the areas of labor, health and safety, environmental, management, and ethics. Additional original Epson requirements cover such topics as trade control and security, as well as information security in the supply chain.



Supply Chain CSR

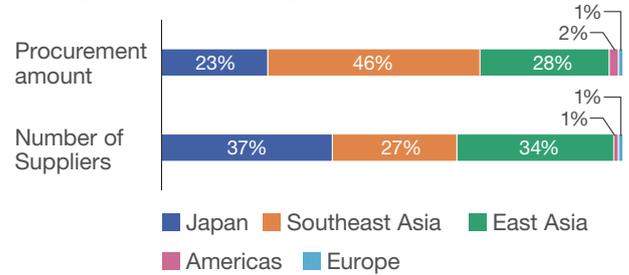
Supply Chain Initiatives

Supply Chain Overview

Epson considers suppliers to be important partners in its business activities. As such, our procurement activities are designed to develop mutually beneficial trusting relationships with our business partners based on fairness, transparency, and respect.

Epson procures goods and services from about 1,400 suppliers around the world. Domestic Japanese procurement accounts for about 23% of our total procurement spend. Asia accounts for the large majority of the remaining 77%.

Procurement Overview



Supplier Evaluation Program

Epson evaluates all suppliers, both direct materials suppliers and indirect materials suppliers such as logistics, construction, and staffing companies. Suppliers are evaluated from multiple angles on the basis of a supplier evaluation program. The program consists primarily of an indirect evaluation and a direct evaluation (periodic evaluation). The indirect evaluation is based on information from a credit investigation service. The direct evaluation is a self-check that suppliers do to evaluate their own QCD and other performance metrics.

Epson Group Supplier Evaluation Program

Indirect evaluation

Evaluation based on information from a third-party credit investigation
 Evaluation items: Credit score, business history, capital composition, business size, profit/loss, financing status, management, etc.

Direct evaluation (Annual evaluation)

Self-assessment of QCDEM
 Evaluation items: Quality management (Q), cost management (C), delivery management (D), environmental management (E) and business management (M)
 A green purchasing agreement is required.

Detailed CSR evaluation (SAQ)

Self-assessment of compliance with the Epson Supplier Code of Conduct
 Evaluation items: Labor, safety and health, environmental, management systems, ethics, etc.

Evaluation of emergency response capabilities

Self-assessment of ability to respond in the event of a natural disaster, fire, or other emergency.
 Evaluation items: Management attitudes, risk countermeasures, ability to respond to emergencies, recover from disasters, continue supplying goods, maintain procurement, and manage inventory, etc.

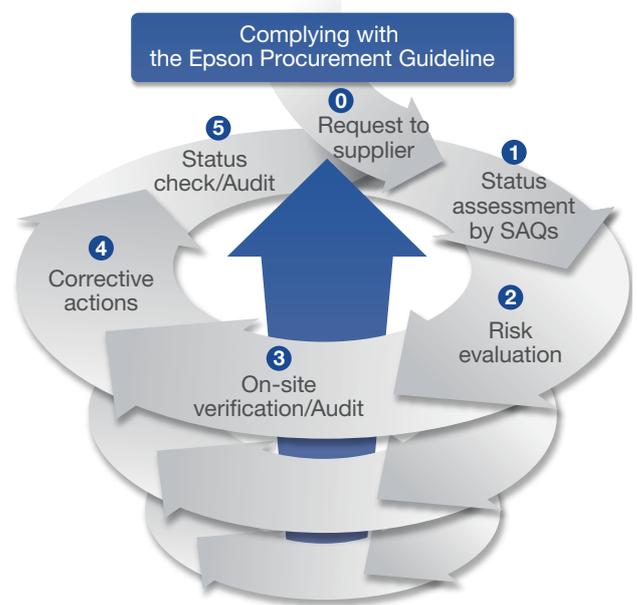
Safety management evaluation

Self-assessment of response to fires and other emergency risks
 Evaluation items: Management of electrical hazards, hazardous materials, fire prevention, etc.

Socially Responsible Procurement Program

Epson's sustainable procurement program is an annual cyclical activity. It consists of steps in which we ask suppliers to comply with Epson's procurement guidelines and complete self-assessment questionnaires (SAQ). Epson then analyzes and evaluates risks, verifies the facts on site or audits certain high-risk suppliers, and supports and works with suppliers on corrective actions.

Socially Responsible Procurement Program



Direct Evaluation (Annual Evaluation)

All suppliers are required to perform an annual self-assessment. They are asked questions in the categories of quality, cost, delivery, environment, and management systems. Among other things, the management system questions are designed to check the management of hazardous substances in products, the handling of personal data, and compliance with legal requirements concerning things such as international trade and bribery. Suppliers that receive a score of 60 points or less in the evaluation are considered to be high risk. Epson engages these suppliers to help resolve incidents of noncompliance. Suppliers that do not demonstrate improvement are excluded.

Section	Number of questions
Q. Quality	12
C. Cost	5
D. Delivery	5
E. Environment	5
M. Management system	15
Total	42

Prospective new suppliers are also required to complete the self-assessment. Transactions with those that receive a score of 70 points or less are permitted on the condition that corrective action is taken to remedy noncompliance.

Direct Evaluation Results

		FY2016	FY2017	FY2018
Target (KPI)	% of suppliers completing the self-assessment	100%		
Result	% of completed the self-assessment	100%	100%	100%
	Number of suppliers	1,009	880	994
	Number of accounts	1,422	1,413	1,481

Detailed CSR Evaluation (SAQ)

Epson evaluates supplier compliance with the Epson Supplier Code of Conduct based on a detailed self-assessment questionnaire (SAQ). We work with suppliers to make improvements as appropriate depending on their score and the gravity of noncompliance incidents.

The SAQ is based on site audit criteria of the Responsible Business Alliance (RBA) but also includes criteria that are unique to Epson. Major suppliers (those representing 80% of the spend) and single-source suppliers are required to complete an SAQ as Epson critical suppliers. Suppliers deemed high risk based on their SAQ scores are audited by an independent organization under the RBA's Validated Audit Program to foster improvement. To ensure that evaluations are fair and efficient, Epson created the Epson Group Detailed Supplier Evaluation Guideline to clarify SAQ and audit procedures.

Since 2015, Epson has evaluated direct suppliers (suppliers of product materials) and indirect suppliers (suppliers of supplies, services, etc.) in alternate years but plans to evaluate them annually starting in 2020.

Self-assessment Questionnaire (SAQ) Contents

Section	Number of questions
G. General	1
A. Labor (human rights)	28
B. Health and safety	22
C. Environment	14
D. Management system	16
E. Ethics	12
F. Additional items (Epson original)	7
Total	100

Risk Rank by SAQ

Risk rank	Assessed points	Explanation
Low risk	86-100 pts.	Low risk supplier basically meets the requirements of the Epson Supplier Code of Conduct.
Medium risk	66-85 pts.	Medium risk suppliers does not meet all the requirements of the Epson Supplier Code of Conduct but is deemed to be able to take corrective action to weaknesses.
High risk	65 pts. or less	High risk supplier does not meet many of the requirements of the Epson Supplier Code of Conduct, and needs to be monitored based on an improvement plan for corrective action.

Results of Detailed CSR Evaluation

In 2018, we evaluated direct suppliers. We asked 333 critical Tier 1 suppliers (those representing the top 80% of spend and single-source suppliers) to complete the SAQ. We received completed questionnaires from 312 of them. We also asked Tier 2 suppliers to complete the SQA when the Tier 1 supplier was a trading company. A completed SQA was returned by 132 of Tier 2.

For critical Tier 1 suppliers that were deemed to be high risk, we verified the facts on-site and supported corrective actions to help them improve to medium risk or better.

As a result of these actions, the average score of suppliers who fell into the high-risk rank on the 2016 SAQ improved by 15 points on the 2018 SAQ.

SAQ Evaluation Results

	FY2016	FY2017	FY2018
Intended suppliers	Direct suppliers	Indirect suppliers	Direct suppliers ¹
Number of evaluated suppliers	274 Suppliers	66 Suppliers	312 Suppliers (358 sites)
Mid-term target (by FY2020)	% of high-risk suppliers: 0%		
Low-risk (> 85 pts.)	60%	55%	57%
Medium-risk (66-85 pts.)	32%	36%	38%
High-risk (= < 65 pts.)	8%	9%	5%

¹ 2018 SAQ includes 29 of HR agents and on-site service providers.

Audit and Corrective Action

Epson supports the corrective action efforts of high-risk and medium-risk suppliers. In FY2018, support took the form of audits and on-site verifications.

Audit

In 2018, Seiko Epson retained an experienced and qualified organization to audit a key supplier in the Philippines. (This third-party audit conformed to the Validated Audit Program of the RBA.) The auditors found the supplier to be high risk. The supplier responded by establishing a corrective action plan and is now working to improve conditions.

Two suppliers who were audited in 2017 were found to have met their corrective action commitments.



On-site Verification and Support for Corrective Action

For suppliers that are not asked to receive a third-party audit, Epson manufacturing company staff members visit their sites to verify conditions on-site and help them improve. Through these activities, we not only help them address CSR issues but also support them when they struggle in other areas, such as in introducing fire prevention measures or establishing business continuity plans.

	Japan	Other area
Third Party Audit	0	1
On-site verification	38	210

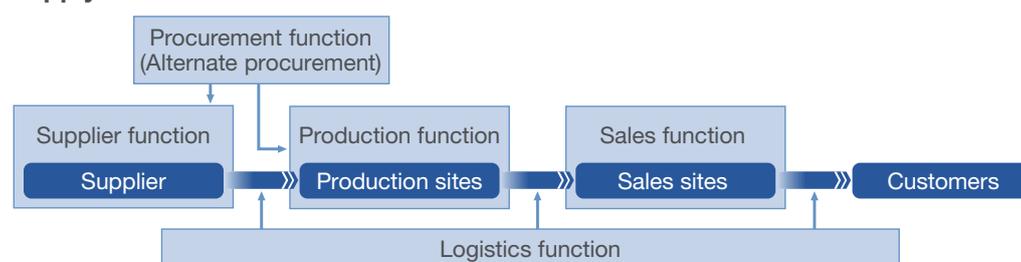
Evaluation of Emergency Response Capabilities

Epson is working to improve its ability to effectively respond to threats and to ensure business continuity. When a natural disaster or other unforeseen event strikes an Epson production site, the first thing we do after securing the safety of personnel is to act to restore the supply of products to our customers. It is essential for the entire supply chain to be able to effectively respond to emergencies so that we can fulfill our responsibility to customers by restoring the supply of goods within the target period if the supply should be interrupted by a disaster, accident, or epidemic. Epson therefore evaluates the emergency response capabilities of suppliers every year and helps them remedy issues as needed.

Supply Chain Business Continuity Management

To help manage business continuity and improve resilience throughout the supply chain, Epson operates in line with supply chain BCM guidelines. These guidelines are consisted of the five function, which are suppliers, production, sales, logistics, and procurement.

Supply Chain BCM



Epson is working with suppliers to ensure that they establish their own BCP systems so that the supply of parts to Epson is not disrupted. We ask Tier 1 suppliers to evaluate their own BCM capabilities every year, provide feedback, and help them remedy issues as needed.

	(Suppliers)		
	FY2016	FY2017	FY2018
Target	436	319	250
Result	414 95%	490 ^{*1} 154%	228 91%

^{*1} In FY2017, as a special action, self-assessment was conducted by Tier 1 and critical Tier 2 suppliers.

Safety Management Evaluation

Epson also conducts an annual safety management evaluation to evaluate the ability of suppliers to respond in the event of a fire or other emergency. After suppliers conduct a self-assessment covering things such as electrical hazards, hazardous materials, and fire prevention, members of Epson's safety management staff verify their answers on-site and discuss corrective actions.

Safety Management Evaluation Result

(Suppliers)

	FY2016	FY2017	FY2018
Target	357	1,353	481
Result	328 92%	1,906 ^{*1} 141%	449 93%

^{*1} In FY2017, as a special action, self-assessment was conducted by Tier 1 and non-Tier 1 suppliers.

Supply Chain Environmental Initiatives

As declared in the Epson 25 Environmental Statement, Epson seeks to contribute to the development of a sustainable society by leveraging its technologies to reduce the environmental impact of products and services across their life cycles. Reducing the environmental impact early in the life cycle, at the procurement stage, is a particularly important issue, and one that Epson is addressing in cooperation with suppliers.



GHG Emissions Targets

Epson has set greenhouse gas (GHG) emissions targets in line with an approach championed by the Science Based Targets initiative (SBTi). The SBTi has validated Epson's 2025 targets for scopes 1, 2, and 3 GHG emissions measured in accordance with the GHG Protocol. Epson's validated target for scope 3 emissions, which are emissions from an organization's value chain, is to reduce GHG emissions as a percentage of business profit out to 2025.

Response to Climate Risk

There is a shared global awareness that climate change poses serious and urgent business risks that must be addressed. Epson has suppliers across Asia, including in Thailand, where severe floods are a regular occurrence, and in China, where there is high potential water risk. Epson recognizes that interrupted or delayed deliveries from suppliers due to floods and droughts, two typical climate risks, could seriously impact the manufacture and sale of Epson products and need to be addressed to avoid inconveniencing customers.

Supplier Support Initiative

Under its supplier engagement program, Epson asks suppliers to complete a self-assessment questionnaire (SAQ). Suppliers are sorted by risk level based on their SAQ score and given feedback on the results. Epson helps high-risk suppliers improve through on-site verification and audits. Moreover, to encourage the pursuit of environmental sustainability, Epson selects the suppliers who account for 80% of the value of Epson's procurement spending and, in conjunction with a detailed CSR evaluation, asks them to report the amount of water and the amount of electricity, gas, and other sources of CO₂ emissions actually consumed for parts they sell to Epson. Epson shares this data with its suppliers and engages them to help drive production line improvements that reduce the amount of electricity and water used and improvements that will reduce the environmental impact of transport.

Partnerships with External Organizations

Epson is a member of the following organizations that promote sustainable procurement through industry cooperation:

- Responsible Business Alliance (RBA)



Responsible Business Alliance

Advancing Sustainability Globally

- The Japan Electronics and Information Technology Industries Association (JEITA), CSR Committee
- The Global Compact Network Japan, Supply Chain Subcommittee

Supply Chain CSR

Communication and Training

Communications with Suppliers

Annual Supplier Conference

In addition to its commitment to delivering quality products, Epson believes that maintaining human rights, labor standards and environmental conservation throughout its entire supply chain is an important part of its corporate responsibility. Epson therefore considers all suppliers as important business partners.

At an annual supplier conference, we explain our procurement policies. At the conference held in April 2019, we provided a general overview of our business situation and strategies, explained our initiatives and procurement policies, and asked for suppliers' understanding and cooperation in improving quality, reducing costs, keeping strictly to appointed delivery dates, participating in CSR initiatives, promoting business continuity plan, and reducing environmental impacts.

We consider annual supplier conferences to be valuable opportunities to capture supplier feedback. We host a separate social gathering to foster communication between suppliers and the Epson executive team, including the president of Seiko Epson.



Supplier Conference for CSR

At annual CSR procurement supplier conference (since 2016), we explain our CSR procuring activity and request to the supplier. In 2018, a lot of suppliers attended the CSR procurement supplier conference in various Epson manufacturing site such as Japan, China, and Indonesia.

In the conference, we request to comply the Sustainable procurement policy and the Epson Procurement Guideline. And we explain the guidance for self-assessment (SAQ) of CSR detail evaluation and emergency response capabilities. In 2018, we introduce Environment SAQ as a basic supplier evaluation to reduce the environmental impact of products. We also ask to strengthen emergency response capabilities and conduct in each supplier.

	Area					Total number of attended companies	Rate of attendance ¹
	Japan	China	Philippines	Indonesia	Others		
FY2016	489	135	-	-	-	624	76% (Japan)
FY2017	237	113	-	103	-	453	92% (Japan)
FY2018	447	222	70	168	225	1,132	67% (Japan)
Target of critical supplier attendance ²						FY2020 100% (Worldwide)	

¹ Rate of attendance = Number of attendance/Invited suppliers

² Target of critical supplier attendance: Rate = Number of attendance/Critical suppliers

Internal Training

The Epson Group's Management Philosophy champions respect for the individual and teamwork. Principles of Corporate Behavior, meanwhile, outlines conduct for creating a corporate culture by fostering employee independence and confidence through professional development. We believe it is particularly important to understand legal and other requirements to ensure compliance and sustainability in procurement. Epson thus provides general procurement training for all employees, as well as courses tailored to the needs of procurement staff.

Basic Procurement Training

Procurement compliance seminar

Course	Description	For		FY2016	FY2017	FY2018
Procurement compliance seminar			Achieved rate by persons	102%	97%	92%
Procurement compliance seminar	1. CSR/SDGs and procurement 2. Code of conduct for procurement 3. Laws and regulations 4. Operation process 5. Case studies	New procurement staff	Target			
			Times	17	26	21
			Persons	967	995	885
			Result			
			Times	29	36	33
			Persons	1,008	1,120	919
Procurement compliance seminar (updated)	1. CSR/SDGs and procurement 2. Law and regulations 3. Case studies	Procurement staff, every 5 years	Target			
			Times	44	30	22
			Persons	2,540	1,055	881
			Result			
			Times	55	33	22
			Persons	1,008	1,120	919

Basic online course

Description	For		FY2016	FY2017	FY2018
1. Code of conduct 2. Laws and regulation, case studies	All Epson personnel, staffing agency employees, and other partners	Achieved rate by persons			
		Target	85%	85%	85%
		Result	88%	86%	91%

CSR Procurement Professional Training

Course	Description	For
Sustainable procurement seminar	General training in sustainable procurement, by an independent consultant	1. Procurement staff of Seiko Epson and Group companies (Japan). 2. Head Office staff
Sustainable procurement seminar	Introduction to sustainable procurement, by an independent consultant (The basics of responsible procurement and detailed guidance for self-assessment questionnaires)	1. Procurement staff in Group manufacturing companies (Worldwide)
Worker interview training	Training for supplier audits, especially worker interviews (Lecture and workshop)	1. Procurement staff of Seiko Epson and Group companies (Japan).
CSR internal audit training	Training for conducting CSR audits (Lecture and workshop)	1. Audit staff of Group companies

Supply Chain CSR

Responsible Sourcing of Minerals

Conflict Minerals Action Policy

Policy for High Risk Minerals

Epson's procurement policies are designed to develop mutually beneficial trusting relationships with Epson's business partners around the world based on the concepts of fairness, coexistence, transparency, and co-prosperity. Epson has thus committed itself to exercising high ethical standards and a social conscience, and Epson has declared that Epson will conduct its procurement activities in strict compliance with both the letter and spirit of laws and regulations in every country and region in which Epson operates.

Epson considers the conflict minerals problem to be a major issue in terms of socially responsible procurement. Consequently, Epson does not use conflict minerals, as they are tied to human rights abuses, environmental destruction, and the funding of armed groups in high risk areas.

Epson takes the actions below to exclude conflict minerals from Epson products.

1. Epson asks its suppliers to read and follow the Epson Group Procurement Guidelines and the Epson Supplier Code of Conduct.
2. Epson do survey its supply chain using a tool provided by the Responsible Minerals Initiative (RMI, formerly known as the CFSI), a group that is working with enterprises to promote responsible mineral procurement.
3. To ensure that minerals are procured only from smelters and refiners that have been found to be compliant with the Conflict-Free Smelter (CFS) Program of the RMI, Epson asks smelters and refiners to obtain proof of compliance through the supply chain.
4. To ensure compliance with tougher future European Union regulations, Epson will do its due diligence to avoid using conflict minerals from high risk areas, in accordance with OECD guidance.

Conflict Minerals Survey Program

To conduct practical and appropriate surveys throughout Epson's entire supply chain to check that Epson products are free from conflict minerals traced back to armed forces, Epson established the Epson Group Conflict Minerals Survey Guidelines as internal standards. These guidelines are based on Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas issued by the Organization for Economic Co-operation and Development (OECD).

Epson conducts surveys using the Conflict Minerals Reporting Template (CMRT) provided by the RMI to check for conflict minerals (tin, tantalum, tungsten, and gold), identify refiners on its supply chain, and confirms and assess the status of supplier initiatives related to conflict minerals. Epson then implements measures based on risk level.

Epson also use socially responsible procurement supplier briefings and various other opportunities to promote understanding of Epson policies, request initiatives to improve survey accuracy, and share information on conflict minerals response trends. Epson will continue working with suppliers to eliminate conflict minerals that are tied to armed forces.

Target and Results

	KPI	FY2016	FY2017	FY2018				
				Total	Gold	Tantalum	Tin	Tungsten
Number of identified smelters	-	314	312	314	150	40	81	43
Number of CFS ^{*1}	-	243	249	256	102	40	74	40
Rate of CFS	100% (by March, 2021)	77%	80%	82%	68%	100%	91%	93%
Response rate from suppliers	100% (FY2018)	95%	94%	92%	-	-	-	-

^{*1} For information regarding the details of the smelters we have been able to identify, please contact your local Epson sales company:

Partnerships with External Organizations

Epson is a member of the following organizations that are promoting responsible sourcing minerals, and fostering cooperation to promote the use of conflict mineral surveys in the supply chain:

1. The Responsible Minerals Initiative



2. The Responsible Minerals Trade Working Group of the Japan Electronics and Information Technology Industries Association (JEITA).

Supply Chain CSR

Green Purchasing

Green Purchasing

Foreword

Epson is working to promote green purchasing of both production materials and general supplies in order to fulfill its mission to create and offer eco-friendly products.

Epson promotes green purchasing of production materials according to the following guidelines.

1. Basic stance
2. Standards governing operations
3. Basic survey (Guidelines for Surveying Controlled Chemical Substance Content in Products/Survey response tool)
4. Additional survey (Explanation of chemical substances subject to elimination in products/Survey response tool)

Supply Chain CSR

Paper Products Procurement

Paper Products Procurement

The illegal logging of forests is a very serious issue for those seeking to protect the environment on the global scale and practice sustainable forest management. Around the world, greater efforts are being made to ensure legality and sustainability during the procurement of wood products.

Epson has a stated procurement policy that says, "In every region where we do business, we promote procurement initiatives compliant with each nation's law, international rules and the spirit of the same, cleaving to a high sense of ethics and acting for the good of society." In keeping with this policy, Epson encourages procurement of paper products with due consideration for the social, economic and environmental sustainability of forests.

Thus Epson manages its entire supply chain from the immediate supplier all the way back to the forest to ensure the legality, sustainability and environmental safety of the paper products we procure. We ask that suppliers fully understand the intent and nature of these initiatives and then give us their support.

Stance on Procurement of Paper Products

Epson has established a procurement policy for paper, the major forest product we procure. Under this policy, which is designed for the social, economic and environmental sustainability of the forest, Epson practices the following procurement whose conformity to this policy can be checked.

1. We make effective use of used paper and other recycled pulp.
2. When virgin is used as a raw material in paper goods we procure, we confirm its
 - legality
 - sustainability
 - chemical safety
 - environmental management

Scope of Application

At Epson, the Procurement Policy applies to the procurement of specialty paper for use in Epson printers.

Content of Conforming Procurement Management

Suppliers are asked to provide a Certificate of Conformity to Epson Paper Products Procurement Policy to confirm their compliance with the Procurement Policy.