

## Corporate Governance

### 1. Overview of corporate governance

#### (1) Basic corporate governance principles

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

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

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

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

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

Epson is structured as a company with an Audit & Supervisory Committee. It has a Board of Directors, an Audit & Supervisory Committee, and a financial auditor. It has also voluntarily established advisory committees for matters such as the Director nomination and compensation.

This governance system was adopted to further increase the effectiveness of corporate governance by strengthening supervision over management and by enabling the Board of Directors to devote more time to discussions while speeding up decision-making by management.

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

#### Board of Directors

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

The Board of Directors is composed of 12 Directors, including five Outside Directors described in “2. Officers.” Meetings of the Board of Directors are, as a rule, held once per month and as needed. In FY2019, the Company held a total of 13 meetings of the Board of Directors with 92.3% attendance by Director Matsunaga and 100% by all the other Directors. In accordance with the Regulations of the Board of Directors, Chairman of the Board acts as the chairman of the Board meetings.

The Board of Directors makes decisions on basic business policies, important business affairs, and other matters that the Board of Directors is responsible for deciding as provided for in internal regulations. Business affairs that the Board of Directors is not responsible for deciding are delegated to executive management, and the Board monitors these. To speed up management decisions and increase business agility as a company with an Audit & Supervisory Committee, Epson has expanded the scope of affairs delegated to executive management from the Board of Directors, including capital investments below a certain threshold; and has limited board deliberations only to the most important issues, including governance, capital policy, compliance, risk management and megatrend and medium- to long-term strategies. Corporate Governance Policy states that at least one-third of the board members should be outside directors.

## **Audit & Supervisory Committee**

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

The Audit & Supervisory Committee is composed of four Audit & Supervisory Committee members, three of whom are Outside Directors. It is chaired by a full-time member of the Audit & Supervisory Committee.

Meetings are held once per month and as needed.

## **Corporate Strategy Council**

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

## **Compliance Committee**

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

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

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

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

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

The overview of each of these Committees is as follows.

### *Composition*

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

Chairman: Yasunori Ogawa, President and Representative Director

Committee members: Hideaki Omiya, Mari Matsunaga, Yoshio Shirai, Susumu Murakoshi, Michiko Ohtsuka,  
Outside Directors  
Masayuki Kawana, Director in charge of human resources

\* Mr. Minoru Usui retired as the chairman and a committee member in March 2020.

\* Mr. Michihiro Nara and Ms. Chikami Tsubaki retired as committee members at the Ordinary General Meeting of Shareholders held in June 2020.

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

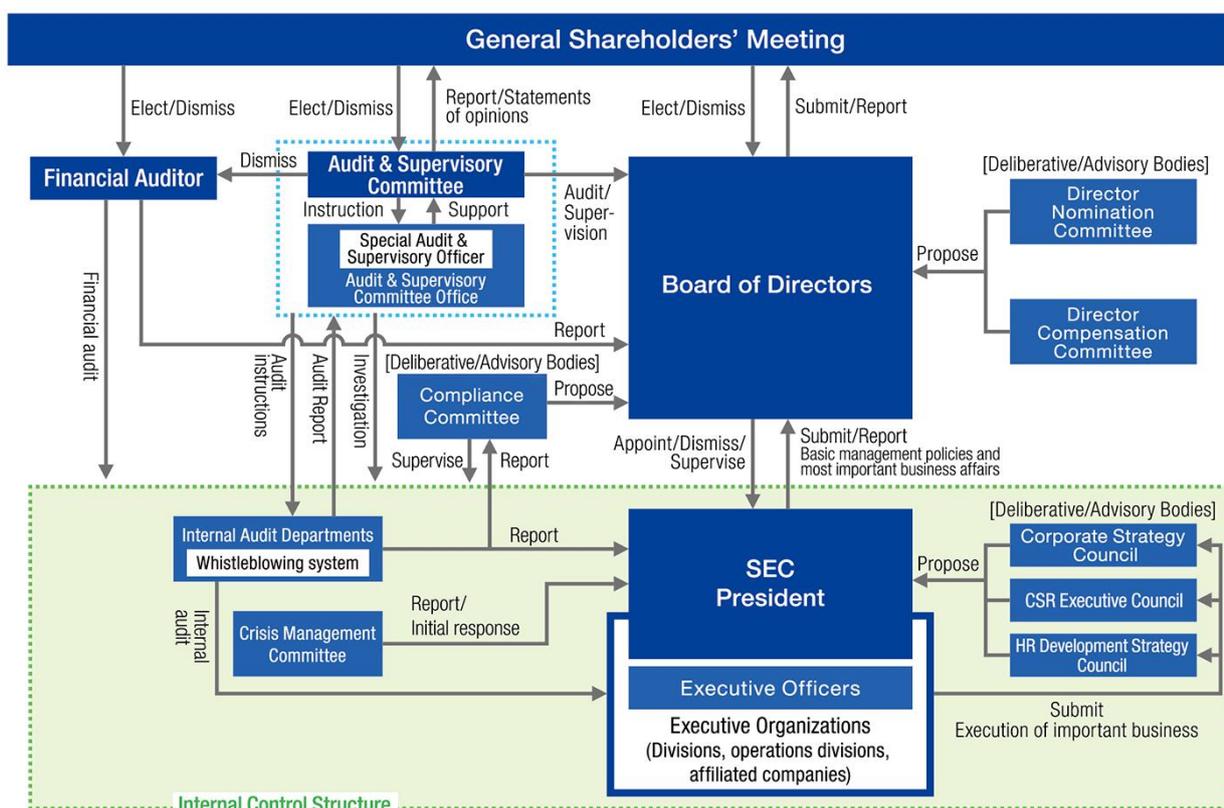
## Activities of the Director Nomination Committee

The Committee met four times during the period from April 2019 to the Ordinary General Meeting of Shareholders held in June 2020. The Committee deliberated on matters including policies for selecting Officers (Directors, Executive Officers and Special Audit & Supervisory Officers) and candidates proposal, successor plan, internal rules concerning Chairman and Director, and areas of expertise particularly expected of Directors. In particular, in preparation for the changeover of President and Representative Director in April 2020, the Committee carried out activities for that selection process, which included multiple successor candidates being interviewed by the Outside Directors, which form the majority of the Director Nomination Committee membership, deliberations being carried at the Director Nomination Committee, and the conclusion of the Committee being submitted to the Board of Directors.

## Activities of the Director Compensation Committee

The Committee met five times during the period from April 2019 to the Ordinary General Meeting of Shareholders held in June 2020. The Committee deliberated on matters including the amount of base compensation and bonuses for each Director, extension of the performance-linked stock compensation plan and a performance-based coefficient. Of the Committee members, Ms. Mari Matsunaga was absent once, but she was individually updated on details of the deliberations at a later date.

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



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

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

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

### **Compliance**

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

### **System for ensuring proper financial reporting**

- (1) The creation of proper financial reports is recognized as a critical issue. The Company shall build, on the orders of the president, a system that enables internal control over financial reporting to be properly arranged, implemented, and evaluated. The financial reports will not be limited in scope to evaluations and reporting required by the Financial Instruments and Exchange Act but will also include reporting over the scope deemed necessary by management.

- (2) A basic regulation and other regulations and standards pertaining to internal control over financial reporting shall be created, and their observance shall be obligatory across the entire Epson Group.
- (3) Continuously evaluate whether the internal controls that have been put in place for financial reporting are effectively and properly functioning, and take corrective action where needed.

## **Business execution system**

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

## **Risk management**

- (1) The Company has established a basic risk management regulation that stipulates the risk management system of the Company, including its subsidiaries, and that defines the organization, risk management methods and procedures, and other basic elements of this system.
- (2) Overall responsibility for risk management in the Epson Group, including subsidiaries, belongs to the president of Seiko Epson. Group-wide risk management is carried out by Head Office supervisory departments with the cooperation of the operations divisions and subsidiaries. Risks unique to an individual business are managed by the chief operating officer of that business, including at subsidiaries consolidated under them. The Company has also set up the risk management department, monitors overall risk management Group-wide, makes corrections and adjustments thereto, and ensures the effectiveness of risk management programs.
- (3) The Corporate Strategy Council strives to ensure effective management of serious risks that could have an egregious effect on society by agilely and exhaustively discussing and analyzing ways to identify and control risks. Also, when major risks become apparent, the president leads the entire company in mounting a swift initial response in line with the Company's prescribed crisis management program.
- (4) The president of Seiko Epson periodically reports critical risk management issues to the Board of Directors and formulates appropriate measures to respond to these issues, as needed.

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

- (1) The Group's management structure helps to ensure that operations in the corporate group, including subsidiaries, are conducted appropriately. Essentially, the Company is organized into product-based divisions. Each division is headed by a chief operating officer who owns global consolidated responsibility for that business. Meanwhile, supervisory functions within the Head Office own global responsibility. Responsibility for providing the framework for business operations at subsidiaries is owned by the head of each business. Group-wide corporate functions are the responsibility of the heads of Head Office supervisory departments.
- (2) The Company has business processes that enable business to be controlled on a Group level. This is accomplished by regulations governing the management of affiliated companies that require subsidiaries to report or acquire pre-approval for certain business affairs from the parent company, Seiko Epson, and by requiring issues that meet certain criteria to be submitted to Epson's Board of Directors for resolution. The Company has established regional head offices in certain regions to supervise local subsidiaries in order to ensure the suitability and efficiency of operations Group-wide.
- (3) Per the Basic Regulation for Internal Audits, internal audit departments serve as monitoring organizations that are independent from the management and supervisory functions of the operations divisions and the Head Office. Internal audit departments audit internal controls and the state of their implementation in all Epson Group companies, including subsidiaries. The findings of the internal audit departments are presented to the head of the audited organization along with requests for corrective action, where needed.

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

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

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

## **Audit system**

- (1) The Audit & Supervisory Committee can interview Directors who are not members of the Audit & Supervisory Committee, executive officers, and other personnel whenever they deem necessary in the performance of duties based on the Audit & Supervisory Committee Audit Regulation.
- (2) Audit & Supervisory Committee members can attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings that will enable them to conduct audits based on the same information as that available to directors who are not members of the Audit & Supervisory Committee. Members of the Audit & Supervisory Committee also routinely review important documents related to management decision-making.
- (3) An Audit & Supervisory Committee Office was set up to assist the duties of the Audit & Supervisory Committee. The head of the Audit & Supervisory Committee Office serves as the Special Audit & Supervisory Officer and assigns full-time personnel to the Audit & Supervisory Committee Office. The head and personnel of the Audit & Supervisory Committee Office discharge their duties to assist the Audit & Supervisory Committee, obeying the orders of the Audit & Supervisory Committee alone and not orders from Directors who are not members of the Audit & Supervisory Committee. Matters relating to the personnel of the office must be approved in advance by the Audit & Supervisory Committee.
- (4) To ensure that audits by the Audit & Supervisory Committee are systematic and effective, a framework has been created to secure close cooperation between the internal audit departments and the Audit & Supervisory Committee.
- (5) If a situation involving the Audit & Supervisory Committee or cooperation with the internal audit departments or other organizations is observed to interfere with the effectiveness of audits by the Audit & Supervisory Committee, the Audit & Supervisory Committee can ask the representative director or Board of Directors to take corrective action.
- (6) The Audit & Supervisory Committee receives audit reports from internal audit departments and can issue specific instructions to internal audit departments as needed. If the instructions issued to internal audit departments by the Audit & Supervisory Committee and the president are in conflict, the president will have the internal audit departments honor the instructions of the Audit & Supervisory Committee.
- (7) Per the Audit & Supervisory Committee Audit Regulation, the Audit & Supervisory Committee can ask Directors who are not members of the Audit & Supervisory Committee, the compliance management department, and the risk management department, as well as others to report or explain the state of management within the Epson Group, including subsidiaries. It can also view supporting materials. The Audit & Supervisory Committee can also ask, as needed, subsidiary company directors, corporate auditors, internal audit departments, and other organizations to report the state of management of the subsidiary. A system shall be put in place to protect reporters from reprisal for having made a report, and the identity of the reporter shall be protected even if the representative director or Board of Directors, for example, is asked to make corrections and so forth based on the report.
- (8) The Audit & Supervisory Committee shall strive to enhance the effectiveness of audits by holding regular discussions with financial auditors.
- (9) The Audit & Supervisory Committee and the representative director regularly meet to enable the Committee to directly assess business operations.
- (10) Funds required by the Audit & Supervisory Committee to perform its duties are properly budgeted for in advance. However, funds required to perform the duties of the Audit & Supervisory Committee in emergency or extraordinary situations will be promptly paid in advance or refunded on each occasion.

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

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

## **(5) Election and dismissal of directors**

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

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

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

### **Treasury share acquisition**

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

### **Interim dividend**

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

### **Director exemption from liability**

When liability falls under the requirements stipulated in Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation allow the Company to exempt the Directors from liability for damages in Article 423, Paragraph 1 of the Companies Act up to the amount remaining after the legal minimum liability is deducted from the total liability amount by resolution of the Board of Directors so that the Directors (excluding Executive Directors) to fully apply themselves to their expected roles.

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

The Company has executed agreements with non-executive directors Hideaki Omiya, Mari Matsunaga, Taro Shigemoto, Yoshio Shirai, Susumu Murakoshi, and Michiko Ohtsuka that limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the Act. The maximum amount of liability for damages under these agreements is limited to the amount provided for by laws and regulations. The liability of the non-executive directors shall be limited only if they have acted in good faith and without gross negligence in performing their duties.

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

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

## **(9) Basic policy regarding company control**

Epson's board of directors agreed on a basic policy governing persons who control our financial and business policy decisions (hereinafter the "basic policy").

### **1) Overview**

Endowed with a rich legacy of efficient, compact, and precision technologies, Epson will seek to continuously create game-changing customer value and play a central role in creating a better world as an indispensable company by forging innovations through challenges that are bold, imaginative, and exceed our own vision. Epson believes that its shareholders should be determined through free trade on the market. Therefore, the decision as to whether to accept a takeover offer that would allow another party to acquire a controlling share of

Epson and thus gain power over the Company's financial and business decisions (hereinafter referred to as "large-scale acquisitions") should ultimately be put before the shareholders.

However, shareholders' decisions on whether to allow large-scale acquisitions need to be made appropriately. In order to ensure this, Epson believes that information and opinions necessary for shareholders should be provided by both persons seeking to do large-scale acquisitions of Epson's shares and the Epson Board of Directors, and time necessary to examine the information and opinions needs to be secured.

Epson believes that persons who control its financial and business policy decisions need to fully understand Epson's businesses and sources of corporate value, and to understand the importance of Epson's directors, managers, and employees working as a team to create value, pursuing the Epson tradition of creativity and challenge, and earning and keeping the trust of its customers.

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

### **a. Specific actions in support of the basic policy**

The Company established in March 2016 the Epson 25 Corporate Vision, which describes what the company would like to achieve by the start of the 2025 fiscal year.

In the three years under the Phase 1 Mid-Range Business Plan (FY2016-2018) toward achieving Epson 25, we made significant progress towards future growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by changes in the business environment greater than anticipated, and the financial performance for the final fiscal year fell short of the targets set out in the Phase 1 Mid-Range Business Plan.

In the Phase 2 Mid-Range Business Plan (FY2019-2021), which was established in March 2019, we will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

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

The Company will request those who intend to conduct a large-scale acquisition of the Company shares to provide sufficient information necessary to properly judge whether or not to accept such acquisition, for the benefit of maintaining and increasing its corporate value and common interests of shareholders. The Company will also disclose its Board's opinions on such a large-scale acquisition in order to secure time and information necessary for shareholders to judge whether or not to accept such acquisition, while taking appropriate measures pursuant to the Financial Instruments and Exchange Act, the Companies Act and other applicable laws and regulations.

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

The above efforts are for contributing to maintenance and increase of Epson's corporate value and the common interests of its shareholders, do not undermine the common interests of its shareholders, and reflect the above basic policy. Moreover, Epson considers that these efforts are not for keeping its Directors in their posts.

Note: As a result of careful examination in light of the recent trends as well as opinions of institutional investors and other shareholders in and outside Japan, the Company resolved at its Board of Directors meeting held on May 14, 2020 to discontinue the countermeasures to large-scale acquisition of Seiko Epson shares (Takeover Defense Measures) and abolished the Takeover Defense Measures at the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2020.

## 2. Officers

### (1) List of Officers

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

Name	Position and current function
Minoru Usui	Chairman and Director
Yasunori Ogawa	President and Representative Director
Koichi Kubota	Representative Director, Senior Managing Executive Officer Chief Operating Officer, Printing Solutions Operations Division
Tatsuaki Seki	Director, Managing Executive Officer General Administrative Manager, Management Control Division
Masayuki Kawana	Director, Executive Officer General Administrative Manager, Human Resources Division General Administrative Manager, Health Management Office Chairman, Epson Sales Japan Corporation
Toshiya Takahata	Director, Executive Officer General Administrative Manager, Corporate Strategy Division General Administrative Manager, Sustainability Promotion Office General Administrative Manager, DX Division
Hideaki Omiya	Outside Director
Mari Matsunaga	Outside Director
Taro Shigemoto	Director, Full-Time Audit & Supervisory Committee Member
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member
Susumu Murakoshi	Outside Director, Audit & Supervisory Committee Member
Michiko Ohtsuka	Outside Director, Audit & Supervisory Committee Member
Motonori Okumura	Managing Executive Officer General Administrative Manager, Production Planning Division Deputy Chief Operating Officer, Wearable Products Operations Division

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

Name	Position and current function
Satoru Hosono	Executive Officer Deputy General Administrative Manager, Technology Development Division
Fuminori Suzumura	Executive Officer President, Epson Sales Japan Corp.
Akifumi Takei	Executive Officer President, Epson Precision (Philippines), Inc.
Junkichi Yoshida	Executive Officer Deputy General Administrative Manager, DX Division General Manager, P Strategic Planning Department, Printing Solutions Operations Division
Samba Moorthy	Executive Officer Managing Director, Epson India Pvt. Ltd.
Yoichi Yamada	Executive Officer Deputy Chief Operating Officer, Printing Solutions Operations Division
Sunao Murata	Technology Officer Deputy General Administrative Manager, DX Division
Tsuyoshi Kitahara	Technology Officer In Charge of Exploration for New Technology Development, Technology Development Division General Manager, Advanced Production Technology Development Department
Akihiko Toeda	Special Audit & Supervisory Officer General Administrative Manager, Audit & Supervisory Committee Office

## (2) Outside Officers

### The role of Outside Directors

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

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

### Principle of independence

The Company's Board of Directors has established a "Criteria for Independence of Outside Directors" and, in compliance with this standard, elects director candidates who are unlikely to have conflicts of interest with

general shareholders. All current Outside Directors satisfy the independence requirements of the criteria. The content of the amended standard is described below.

## Criteria for Independence of Outside Directors

The Company has established the criteria below to objectively determine whether potential Outside Directors are independent.

1. A person is not independent if:

- (1) The person considers the Company to be a major business partner<sup>1</sup>, or has served as an executive<sup>2</sup> within the past five years in an entity for which the Company is a major business partner;
- (2) The person is a major business partner<sup>3</sup> of the Company or has served as an executive within the past five years in an entity that is a major business partner of the Company.
- (3) The person is a business consultant, certified public accountant, or lawyer who has received a large sum of money or other forms of compensation<sup>4</sup> (other than compensation as an officer) from the Company or has, within the past three years, performed duties equivalent to those of an executive as an employee of a corporation or group, such as a union, that has received a large sum of money or other forms of compensation from the Company;
- (4) The person is a major shareholder<sup>5</sup> of the Company or has, within the past five years, been an executive or Audit & Supervisory Board Member of an entity that is a major shareholder of the Company;
- (5) The person is an executive or Audit & Supervisory Board Member of an entity in which the Company is currently a major shareholder;
- (6) The person is a major lender<sup>6</sup> to the Company or has been an executive of a major lender to the Company within the past five years;
- (7) The person has been employed by an auditing firm that has conducted a legal accounting audit of the Company within the past five years;
- (8) The person has been employed by a leading managing underwriter of the Company within the past five years;
- (9) The person has received a large donation<sup>7</sup> from the Company or, within the past three years, has performed duties equivalent to those of an executive as an employee of a corporation or a group, such as a union, that has received a large donation from the Company;
- (10) The person came from an entity with a relationship of reciprocal employment of Outside Director<sup>8</sup>; or
- (11) The spouse or other immediate family member of a person to whom any of items (1) through (9) apply.

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

## Notes

<sup>1</sup> A person (usually a supplier) considers the Company to be a major business partner if 2% or more of its consolidated net sales (consolidated revenue) has come from the Company in any fiscal year within the past three years.

<sup>2</sup> “Executive” means an executive officer, executive director, operating officer, or an employee occupying a senior management position of department manager or higher.

<sup>3</sup> A person (usually a buyer) is a major business partner if 2% or more of the Company’s consolidated revenue has come from that partner in any fiscal year within the past three years.

<sup>4</sup> “A large sum of money or other forms of compensation” means an average annual amount for the past three years that is:

- i) no less than 10 million yen for an individual; or
- ii) no less than 2% of the annual revenues in any fiscal year for a group.

<sup>5</sup> “Major shareholder” means a shareholder who directly or indirectly holds 10% or more of the voting rights.

<sup>6</sup> “A major lender” means a financial institution or other major creditor that is indispensable for the Company’s financing and on which the Company depends to the extent that it is irreplaceable in any fiscal year within the past three years.

- <sup>7</sup> “Large donation” means a donation whose annual average amount for the past three years exceeds either;
- i) 10 million yen or
  - ii) 30% of the annual expense of the group, whichever is higher.
- <sup>8</sup> “Reciprocal employment of Outside Director” means accepting an Outside Director from an entity that currently employs someone from the Company as an Outside Director.

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

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

a. Hideaki Omiya

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

As an Outside Director of the Company, he has monitored corporate management appropriately by expressing opinions actively including findings and proposals regarding overall managerial issues from a perspective of a corporate manager well-versed in the global corporate management in the heavy industry, a different business field.

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

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

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

b. Mari Matsunaga

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

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

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

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

Mr. Shirai has served as Directors at Toyota Motor Corporation, Hino Motors, Ltd. and Toyota Tsusho Corporation, and has considerable insight and a wealth of experience as a corporate manager, and achievements as an Outside Director who is Audit & Supervisory Committee member of the Company. Epson believes that he will continuously contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management.

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

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

d. Susumu Murakoshi (Outside Director who is an Audit & Supervisory Committee member)

Mr. Murakoshi has a high level of expertise as an attorney. Having served as the President of Japan Federation of Bar Associations and the President of Japan Attorneys Political Association, he has a wealth of experience in the legal community. Epson believes that he will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management. He has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that he can appropriately perform his duties as an Outside Director who is an Audit & Supervisory Committee member.

The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Mr. Murakoshi who is an attorney-at-law, and the law office to which he belongs. Epson has registered him as an Independent Director with the Tokyo Stock Exchange.

- e. Michiko Ohtsuka (Outside Director who is an Audit & Supervisory Committee member)  
Ms. Ohtsuka has a high level of expertise as a certified public accountant. She has a considerable insight and achievements as an independent officer of a listed company. Epson believes that she will contribute to monitoring management appropriately to achieve sustained growth and increase medium-to long-term corporate value, as well to ensure soundness of the management. She has never been involved in corporate management except as an outside officer. However, given the reasons above, Epson believes that she can appropriately perform her duties as an Outside Director who is an Audit & Supervisory Committee member. The Company has not entered into a consulting agreement, and has not conducted any consignment of business activities under any individual agreement, with Ms. Ohtsuka who is a certified public accountant, and there is no transactional relationship. Epson has registered her as an Independent Director with the Tokyo Stock Exchange.

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

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

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

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

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

The division in charge of whistleblowing regularly keeps the Audit & Supervisory Committee updated on compliance violation matters. The division provides the Committee with detailed reports especially on matters of material importance immediately after it is notified of such matters, and the Committee examines whether it should deal with the matter based on the detailed report. Also, controls are in place to protect whistleblowers from reprisal for having made a report. Allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee composed primarily of Outside Directors, and the Corporate Strategy Council in a way that whistleblowers cannot be identified; and the identity of the reporter shall be protected even if the president or a Board of Directors, for example, is asked to correct the matter based on the report.

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

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

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

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

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

(Structure of the Audit & Supervisory Committee)

Epson's Audit & Supervisory Committee is composed of four Directors, three of whom are Outside Directors. The three Audit & Supervisory Committee members who are Outside Directors have experienced serving as an attorney-at-law, certified public accountant and corporate manager, and each of them has a high level of expertise, a wealth of experience and considerable insight and has executed balanced audit and supervisory activities as the Audit & Supervisory Committee. Taro Shigemoto was selected to serve as a Full-Time Audit & Supervisory Committee member to help ensure that the Audit & Supervisory Committee works effectively, as it was concluded that it would be necessary for someone to prepare an environment to facilitate audits, attend important internal meetings to smoothly collect internal information, work closely with groups such as the internal audit department, and monitor the daily internal control system.

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

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

(Activities of the Audit & Supervisory Committee)

All Audit & Supervisory Committee members properly monitor decision-making on important matters, such as business strategies and corporate governance, and execution of business affairs by attending important meetings such as meetings of the Board of Directors, the Director Nomination Committee and the Director Compensation Committee, and regularly discussing with representative directors, among others. Moreover, Audit & Supervisory Committee members audit and supervise the state of legal compliance and results of execution of operations through regular hearing and conformation letters for execution of duties for each Director and Executive Officer.

In addition, Audit & Supervisory Committee members confirm the status of improvement and operation of the internal control system and other matters (including internal control over compliance system, risk management system, and financial reporting) through regular hearing from internal audit departments, supervisory departments for internal control, Head Office supervisory departments, audit & supervisory board members of the Group's subsidiaries, and others. In addition, the Audit & Supervisory Committee or individual Audit & Supervisory Committee members conduct on-site inspection of business offices and subsidiaries in Japan and overseas, and if it is considered necessary, they ask internal audit departments and the financial auditor for inspection and provide specific directions on the execution of the duties. Through these measures, Epson has secured the effectiveness of systematic audit performed by the Audit & Supervisory Committee.

As for appropriateness of audits of the financial auditor, the Audit & Supervisory Committee confirms the audit plan of the financial auditor after risk assessment is shared between each other at the beginning of the fiscal year, and checks the implementation of audits by regularly holding discussion during the fiscal year, while increasing effectiveness of audits of the both. In addition, the Audit & Supervisory Committee assesses multiple audit firms that have overseas network, including the current financial auditor, based on a wide variety of items such as audit quality, governance system, and global audit system.

With regard to the effectiveness assessment of the Audit & Supervisory Committee, which has been implemented each year since FY2017 after the transition to a company with an Audit & Supervisory Committee, reporting to and sharing with the Board of Directors have been regularized from FY2019. In FY2019, the assessment result that effectiveness of the Audit & Supervisory Committee was ensured was shared at the Board of Directors meeting, and the recommendations for the Board of Directors on improvement in the Company's internal control and governance system, which were extracted in the effectiveness assessment of the Audit & Supervisory Committee, were made.

(Holding and attendance of the Audit & Supervisory Committee meeting)

In FY2019, the Audit & Supervisory Committee conducted discussions and examinations through the fiscal year, focusing on the improvement of global compliance system, deliberations on takeover defense measures, and implementation of measures and progress of the Epson 25 Mid-Range Business Plan, among others, as the perspective of important audit and supervision.

The Audit & Supervisory Board meeting was held 20 times from April 2019 to the Ordinary General Meeting of Shareholders in June 2020. The status of attendance by each Audit & Supervisory Committee member is as shown in the following table.

Name	Title	Attendance at meetings of the Audit & Supervisory Committee (Attendance rate)
Taro Shigemoto	Director, Full-Time Audit & Supervisory Committee Member	20/20 (100%)
Michihiro Nara	Outside Director, Audit & Supervisory Committee Member	20/20 (100%)
Chikami Tsubaki	Outside Director, Audit & Supervisory Committee Member	19/20 (95%)
Yoshio Shirai	Outside Director, Audit & Supervisory Committee Member	20/20 (100%)

### Internal audits

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

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

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

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

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

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

The division in charge of whistleblowing regularly keeps the Audit & Supervisory Committee updated on compliance violation matters. The division provides the Committee with detailed reports especially on matters of

material importance immediately after it is notified of such matters, and the Committee examines whether it should deal with the matter based on the detailed report. Also, controls are in place to protect whistleblowers from reprisal for having made a report. Allegations shall be reported to the Audit & Supervisory Committee, the Compliance Committee composed primarily of Outside Directors, and the Corporate Strategy Council in a way that whistleblowers cannot be identified; and the identity of the reporter shall be protected even if the president or a Board of Directors, for example, is asked to correct the matter based on the report.

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

#### (4) Accounting audits

- a. Name of accounting firm  
Ernst & Young ShinNihon LLC

- b. Continuous audit period  
36 years

(Note) Epson entered into an auditing agreement with Misuzu Audit Corporation (then named Chuo Audit Corporation) from 1984 to 2007 (including the period from July 1, 2006 to August 31, 2006 when a temporary accounting firm was selected to substitute for Misuzu Audit Corporation (then named ChuoAoyama Audit Corporation). Accompanying Misuzu Audit Corporation's dissolution, Epson entered into an auditing agreement with Ernst & Young ShinNihon LLC (then named Ernst & Young ShinNihon) from 2007. However, the certified public accountants who had been executing the auditing operations for Epson also transferred to Ernst & Young ShinNihon LLC (then named Ernst & Young ShinNihon), and they have been performing audit work for Epson continuously since their aforesaid relocation. Accordingly, as it can be considered that the same accounting firm has been continuously executing Epson's audit work, the audit period of the accounting firm before the relocation of said certified public accountants has been included in the continuous audit period.

- c. Certified public accountants performing audits

Name of CPA		No. of successive years performing audits
Designated and Engagement Partner, Certified Public Accountant	Makoto Usui	1
Designated and Engagement Partner, Certified Public Accountant	Yoshiyuki Sakuma	4
Designated and Engagement Partner, Certified Public Accountant	Yoshitomo Matsuura	7

- d. Composition of auditing team

The auditing team comprises 55 staff including 25 certified public accountants, 6 accountant examination passers, and 24 other accounting staff.

- e. Policy and reasons for selection of audit firm

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

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

In the event that any of the items set forth in the clauses of Article 340, Paragraph 1 of the Companies

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

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

## (5) Details of audit remuneration

### a. Remuneration for audits by certified public accountants

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	171	0	164	2
Consolidated subsidiaries	52	—	44	—
Total	223	0	208	2

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

### b. Remuneration for audits by certified public accountants belonging to the Ernst & Young network (excluding a.)

(Millions of yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit work	Remuneration for audit certification work	Remuneration for non-audit work
Filing company	—	18	—	31
Consolidated subsidiaries	572	187	492	159
Total	572	206	492	191

Details of the non-audit services performed for Epson and its consolidated subsidiaries consist mainly of various consultancy services, mostly tax related.

### c. Description of other fees for important audit certificate services

Other than the items applicable to a. and b. above, there were no significant items applicable to fees for audit certificate services of Epson and its consolidated subsidiaries in the previous fiscal year or fiscal year under review.

### d. Governing policy for audit remuneration and reason for the Audit & Supervisory Committee consenting to the fees, etc. of the Financial Auditor

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

compensation to the financial auditor, auditing time and auditing compensation, as well as the auditing plan and its results for the previous fiscal year, and examining the validity of quotation for the auditing.

### 3. Officer compensation, etc.

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

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

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

The overview of the Director Compensation Committee is as follows.

#### *Composition*

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

Chairman: Yasunori Ogawa, President and Representative Director

Committee members: Hideaki Omiya, Mari Matsunaga, Yoshio Shirai, Susumu Murakoshi, Michiko Ohtsuka, Outside Directors  
Masayuki Kawana, Director in charge of human resources

\* Mr. Minoru Usui retired as the chairman and a committee member in March 2020.

\* Mr. Michihiro Nara and Ms. Chikami Tsubaki retired as committee members at the Ordinary General Meeting of Shareholders held in June 2020.

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

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

The Committee met five times during the period from April 2019 to the Ordinary General Meeting of Shareholders held in June 2020. The Committee deliberated on matters including the amount of base compensation and bonuses for each Director, extension of the performance-linked stock compensation plan and a performance-based coefficient. Of the Committee members, Ms. Mari Matsunaga was absent once, but she was individually updated on details of the deliberations at a later date.

#### **Policies**

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

##### Compensation for executive officers

- (a) Compensation shall provide incentive to improve business performance in order to increase corporate value in the near, medium, and long terms.
- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.
- (c) Compensation shall be commensurate with period performance so that directors and executive officers can demonstrate their management capabilities to the fullest during their tenure.

##### Compensation for non-executive officers

- (a) The composition of compensation shall guarantee independence so that these officers can suitably exert their general management supervisory function, etc.
- (b) Compensation shall be sufficient to attract qualified persons both from within the Company and from outside.

## Compensation system

Director and executive officer compensation system of the Company consists of base compensation, bonuses, and stock compensation. Non-executive officers receive base compensation only, a fixed amount, from the standpoint independent from business execution, because their role is to supervise general management. They do not receive bonuses and stock compensation, which are forms of compensation that are linked to performance and share price.

In FY2019, the base compensation accounted for about 66% (fixed compensation about 61% and variable compensation about 5%), bonuses for about 24% and stock compensation for about 10% of the overall compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors).

### Base compensation (fixed/variable)

Base compensation is a monthly-paid monetary compensation that is determined by taking into account all factors such as an individual's position and responsibilities. Of base compensation, the variable portion for officers with executive duties reflects the results of annual performance based on criteria set according to the individuals' roles. (Variable range:  $\pm 20\%$ )

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

### Bonus (variable)

An annual bonus is an annually-paid monetary compensation for officers with executive duties that is determined by the achievement level of the annual operating performance targets. The bonus may not be paid in cases where business profit failed to reach a certain threshold. The bonus reflects the results of annual performance based on criteria set according to the individuals' roles. (Variable range of months for bonuses:  $\pm 1.2$  months)

The amount of bonuses is calculated based on the calculation criteria predefined by the Board of Directors. However, given its nature as a short-term incentive, the final payment amount is determined at the General Meeting of Shareholders based on the level of annual business profit in consideration of non-recurring losses incurred, to ensure its transparency.

More recently, it was resolved at the Ordinary General Meeting of Shareholders held on June 25, 2020 that the amount of bonuses to Directors would be 85 million yen (the amount to be paid to six Directors excluding Outside Directors and Directors who are Audit & Supervisory Committee members).

### Stock compensation (variable)

Stock-based compensation system for officers with executive duties wherein Company's shares are delivered using a trust scheme. It is awarded depending on the level of achievement with respect to medium-term operating performance targets, such as business profit, ROS and ROE.

Epson has introduced a highly transparent and fair performance-linked stock compensation plan for the purpose of making clear the linkage between the compensation of officers and its stock value, showing its commitment to promoting sustainable growth and increasing its medium- to long-term corporate value, in addition to strengthening the sense of sharing common interest with its shareholders.

The stock compensation basically accounts for 10% to 22% of the base compensation commensurate with responsibility and position of each officer. The number of shares awarded varies depending on the achievement level with respect to the operating performance targets during the subject period (three years).

In this stock compensation plan, the Company has introduced the mechanism (malus/clawback) where, if a Director or Executive Officer conducted any act violating laws and regulations, and the Company's regulations and standards, and related internal rules, his or her right to receive the delivery of shares may be lost, and the Company may demand a return of the amount equivalent to delivered shares, among others.

The Company resolved, at the Ordinary General Meeting of Shareholders held on June 28, 2016, to introduce this stock compensation plan, and at the Board of Directors meeting held on May 16, 2019, to continue with the stock compensation plan for three years from FY2019 to FY2021. The formula for calculating the performance coefficient and the levels of achievements are as shown below. Performance-based coefficient for FY2016 through FY2018 was 0.90x. In continuing with the plan, the variance range of the performance coefficient was

expanded from “0.90 to 1.10” to “0.80 to 1.20” to increase elasticity of the targets, and “progress in ESG-oriented management” was added to qualitative evaluation items.

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

Quantitative evaluation				Qualitative evaluation (*)	Performance coefficient (times)
As at the end of FY2021		Average for three years from FY2019 through FY2021	Cumulative for three years from FY2019 through FY2021	As at the end of FY2021	
Business profit	ROS	ROE	Operating CF		
116.0 billion yen or more	10% or more	12% or more	390.0 billion yen or more	Far above expectation	1.20
106.0 billion yen or more	9% or more	11% or more	380.0 billion yen or more	Above expectation	1.10
96.0 billion yen or more	8% or more	10% or more	370.0 billion yen or more	Meets expectation	1.00
86.0 billion yen or more	7% or more	9% or more	360.0 billion yen or more	Below expectation	0.90
Less than 86.0 billion yen	Less than 7%	Less than 9%	Less than 360.0 billion yen	Far below expectation	0.80

\* Items and method of qualitative evaluation

The Director Compensation Committee makes a qualitative evaluation based on the progress of strategies towards achieving the operating performance targets for the “Epson 25” Phase 3 Mid-Range Business Plan, the amount of effect of exchange rate changes, progress in ESG management (environment assessment, CSR survey ranking and evaluation of the effectiveness of the Board of Directors, etc.) and other evaluation items.

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

Category	Total compensation (millions of yen)	Total compensation by type (millions of yen)				Number of individuals
		Fixed compensation	Variable compensation			
		Base compensation	Bonus	Stock compensation		
Directors who are not Audit & Supervisory Committee members (amount accounted for by Outside Directors)	389 (28)	250 (28)	17 (-)	85 (-)	37 (-)	8 (2)
Directors who are Audit & Supervisory Committee members (amount accounted for by Outside Directors)	81 (48)	81 (48)	- (-)	- (-)	- (-)	4 (3)
<b>Total</b>	<b>471</b>	<b>331</b>	<b>17</b>	<b>85</b>	<b>37</b>	<b>12</b>

Notes:

- The base compensation for Directors who are not Audit & Supervisory Committee members (excluding Outside Directors) consists of fixed compensation and variable compensation. Variable compensation refers to monetary compensation that reflects the results of annual performance evaluations based on criteria set according to their respective roles.
- 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.
- Upon the resolution at the Ordinary General Meeting of Shareholders held on June 28, 2016, the maximum base compensation was set at 62 million yen per month for Directors who are not Audit & Supervisory Committee members (Outside Directors account for 10 million yen of this amount) and at 20 million yen per month for Directors who are Audit & Supervisory Committee members.
- The amount above includes 85 million yen in bonuses to be paid to six Directors (excluding Outside Directors and Directors who are Audit & Supervisory Committee members), as resolved at the Ordinary General Meeting of Shareholders held on June 25, 2020.
- The Company introduced a performance-linked stock compensation plan (stock compensation) by employing a framework referred to as the officer compensation BIP trust, for the purpose of showing its commitment to promoting sustainable growth and increasing its medium- to long-term corporate value, in addition to strengthening the sense of sharing common interests with its shareholders. The stock compensation stated above represents the amount recorded based on Japanese Generally Accepted Accounting Principles (JGAAP) concerning the stock delivery points granted in the current fiscal year.
- Stock options are not granted.

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

Name	Total consolidated compensation (millions of yen)	Category	Total consolidated compensation by type (millions of yen)			
			Fixed compensation	Variable compensation		
			Base compensation	Bonus	Stock compensation	
Minoru Usui	109	Director	60	9	26	12

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

**4. Securities held by the Company**

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

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

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

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

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

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

	Number of issues	Balance sheet total (millions of yen)
Unlisted stocks	8	1,893
Stocks other than unlisted stocks	11	5,682

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

	Number of issues	Total acquisition price to increase shares (millions of yen)	Reasons for the increase of the number of shares
Unlisted stocks	2	983	Initial capital contribution to develop and strengthen new businesses
Stocks other than unlisted stocks	-	-	-

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

	Number of issues	Total sale proceeds from decreasing shares (millions of yen)
Unlisted stocks	2	9
Stocks other than unlisted stocks	-	-

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

Special investment securities

Company	FY2019	FY2018	Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares	Shares held by Epson
	Stocks (shares)	Stocks (shares)		
	Balance sheet total (millions of yen)	Balance sheet total (millions of yen)		
Mizuho Financial Group, Inc.	15,008,880	15,008,880	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services. The effect of holding the shares was examined at the Board of Directors' meeting (held in September 2019) based on the method in (2) a. above but its quantitative results are not disclosed here as the results fall under insider information on business operation (the same applies hereunder).	Yes
	1,855	2,571		
NGK Insulators, Ltd.	1,257,000	1,257,000	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	1,781	2,021		
Seiko Holdings Corporation	328,816	328,816	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	Yes
	573	866		
Otsuka Corporation	120,000	120,000	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Printing Solutions business segment.	None
	554	496		
The Hachijuni Bank, Ltd.	489,500	489,500	To maintain and strengthen the business relationship with a source of steady funding and a provider of financial services.	Yes
	191	224		
King Jim Co., Ltd.	221,980	221,980	To maintain and strengthen the business relationship with a major buyer of Epson products. Epson has a transactional relationship primarily with the Printing Solutions business segment.	None
	184	192		

# SEIKO EPSON CORPORATION

Company	FY2019	FY2018	Reasons for holding shares, quantitative effect of holding shares, and reasons for the increase of the number of shares	Shares held by Epson
	Stocks (shares)	Stocks (shares)		
	Balance sheet total (millions of yen)	Balance sheet total (millions of yen)		
Hakuto Co., Ltd.	190,000	190,000	To maintain and strengthen the business relationship with a major buyer of Epson products.	Yes
	183	222	Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	
Marubun Corporation	332,640	332,640	To maintain and strengthen the business relationship with a major buyer of Epson products.	Yes
	158	211	Epson has a transactional relationship primarily with the Wearable & Industrial Products business segment.	
Joshin Denki Co., Ltd.	65,000	65,000	To maintain and strengthen the business relationship with a major buyer of Epson products.	None
	135	165	Epson has a transactional relationship primarily with the Printing Solutions business segment.	
Nippon BS Broadcasting Corporation	33,200	33,200	To maintain and strengthen the business relationship with a company whose parent company is a major buyer of Epson products.	None
	33	34	Epson has a transactional relationship primarily with the Printing Solutions business segment.	
Pixelworks, Inc.	100,000	100,000	To maintain and strengthen the business relationship with a supplier of key parts used in Epson products.	None
	30	43	Epson has a transactional relationship primarily with the Visual Communications business segment.	

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

None