

April 2004-March 2005



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Epson's Annual Reports

Each year, Epson publishes two reports that contain an overview of corporate activities, the *Annual Report* (AR) and the *Sustainability Report* (SR). They cover the following subjects:

- AR2005: Business vision, review of operations and financial statements (published July 2005)
- SR2005: Report on environmental and social performance
Corporate governance, compliance and risk management are discussed in both reports.

For questions and inquiries on AR2005, please contact:
Investor Relations Department, Seiko Epson Corporation.
Tel. 81-3-3343-5513

About This Report

- ◆ This report has been compiled based on the following basic policies:
Our highest priority is to provide a reader-friendly report with information that best meets the uncompromising standards of reliability that our diverse stakeholders have come to expect. To do so, we followed the *Environmental Reporting Guidelines (2003)* of the Japanese Ministry of the Environment and the *Sustainability Reporting Guidelines (2002)* of the Global Reporting Initiative (GRI) (see p.73).
- ◆ This report contains overviews of activities and data for Seiko Epson Group companies:
- Environmental Performance – Seiko Epson Corporation, 20 Group companies/affiliates in Japan, and 44 overseas companies that have acquired ISO 14001 certification and in which Seiko Epson has greater than 50% ownership.
- For Sanyo Epson Imaging Devices Corporation, only the data for the Matsumoto Head Office (formerly Epson's Toyoshina Plant) has been included for FY2004.
- Shanghai Epson Magnetic Co., Ltd. is no longer included.
- Social Performance – Seiko Epson Corporation and stipulated Group companies/affiliates.
- ◆ Because the environmental burden depends on the nature of the activities of a given business organization, we have indicated the business activity categories of each of our organizations (manufacturing/non-manufacturing), along with the location (country).
- ◆ Although this report primarily covers activities from April 2004 through March 2005, it includes some activities that took place after March 2005.

Past reports and next issue

Epson has issued the *Environmental Report* every August since 1999. In 2003, we added social performance to the *Environmental Report* and renamed it the *Sustainability Report*. Our next report is scheduled for August 2006.

Corporate Profile

■ Name	Seiko Epson Corporation
■ Established	May 18, 1942
■ Head Office	3-3-5 Owa, Suwa-shi, Nagano-ken, 392-8502, Japan
■ Capitalization	53.204 billion yen (as of March 31, 2005)
■ No. of Employees	Consolidated: 85,647; nonconsolidated: 11,811 (as of March 31, 2005)
■ Business Activities	<ul style="list-style-type: none"> ● IT equipment Printers and consumables, color image scanners, LCD projectors, large LCD projection TVs, mini printers, POS system products, personal computers ● Electronic devices Medium and small LCD displays, high-temperature polysilicon thin-film transistor LCD panels for LCD projectors, semiconductors, quartz devices ● Precision instruments Watches, plastic optical lenses, optical devices, factory automation equipment ● Other Activities: R&D, manufacturing, marketing and services
■ Sales/Ordinary Income (FY2004 actual)	Consolidated: 1,479.7 billion yen/85.3 billion yen Nonconsolidated: 995.8 billion yen/39.8 billion yen
■ Sales Breakdown (FY2004, consolidated)	<ul style="list-style-type: none"> IT equipment 61% Electronic devices 31% Precision instruments 5% Other 2%
■ Group Companies	116 (39 in Japan, 77 overseas as of March 31, 2005)
■ Membership in Environmental Organizations	Japan Electronics and Information Technology Industries Association, Japan Business Machine and Information System Industries Association, Communications and Information Network Association of Japan, Japan Environmental Management Association for Industry, Sustainable Management Forum of Japan, Nagano Employers' Association, Nagano Association for Conserving Environment

Epson Global Network

■ Major Sites

Hirooka Plant
Fujimi Plant
Suwa Minami Plant
Shiojiri Plant
Matsumoto Minami Plant
Ina Plant
Murai Plant
Shimauchi Plant
Hino Office
Matsushima Plant
Sakata Plant
Chitose Plant
Takagi Plant
Matsumoto Plant
Kanbayashi Plant
Shimauchi Plant Azusabashi Plant



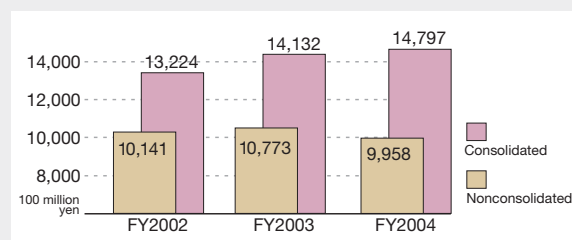
■ Major Group Companies/Affiliates in Japan

Sanyo Epson Imaging Devices Corp.
Epson Sales Japan Corp.
Epson Direct Corp.
A. I. Soft, Inc.
Epson Service Corp.

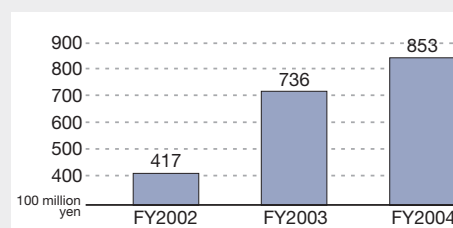
Nagano Epson Systems Sales Corp.
Tohoku Epson Corp.
Epson Atmix Corp.
Yasu Semiconductor Corp.
Seiko Epson Contact Lens Corp.

Seiko Lens Service Center Co., Ltd.
Orient Watch Co., Ltd.
Epson Intelligence Corp.
Epson Logistics Corp.
Epson Mizube Corp.

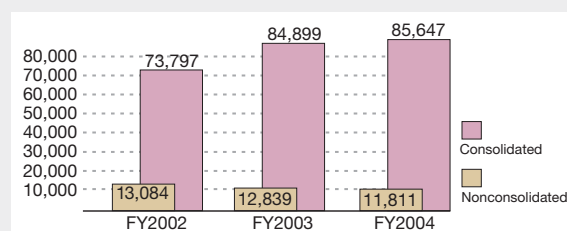
Sales Trends



Ordinary Income (consolidated)



Number of Employees



Message from Management



Maintaining a Long-Term Perspective in Our Corporate Activities

A company's fundamental goal is to consistently achieve profitability. When those profits are invested into the company's growth and its fulfillment of various responsibilities – returns to shareholders and investors, paying local taxes and creating employment opportunities – an ideal corporate existence is attained. By fulfilling these basic responsibilities, we build reliable relationships with our stakeholders and contribute to a better future. This is our idea of corporate social responsibility, or CSR.

Another of these significant responsibilities is the conservation of the earth's environment. If the environment were destroyed, we would lose the foundation for any societal or corporate economic activities. On February 16, 2005, the Kyoto Protocol took effect, ushering in the ecological century. At the same time, however, we are seeing more earthquakes, tsunamis, typhoons and other natural disasters, all of which seem to indicate that the earth is out of balance.

Epson has always prided itself on being a visionary company that engages in progressive activities. In 1988, for example, when most of the corporate world still believed that protecting the environment was a managerial burden, Epson announced its promise to eliminate CFC gas completely from its manufacturing processes. Four years later, it became the world's first corporation to do so. Our corporate culture has always encouraged us to meet challenges that seem impossible at the time and overcome them.

We are determined to maintain this visionary attitude: to be five or ten years ahead of other companies in implementing comprehensive eco programs, in our practice of trustworthy management and in nurturing the younger generations who will be carrying on many of these programs. We hope to continue being a progressive company that exceeds the expectations of our stakeholders.

Saburo Kusama
Chairman and CEO
Seiko Epson Corporation

Dynamic Development with CSR as Loadstar

Epson employs 12,000 people in Japan and 85,000 people globally. If we consider the total number of all of employees' family members, Epson's business affects the lives of more than triple those numbers. If we include business partners, the number is more than five times – a fact that solemnly reminds us of our serious corporate responsibility.

We also consider it a very important responsibility to build trusting relationships with our customers, shareholders, investors and other stakeholders. Guided by our ethics policy to keep promises, never lie nor mislead, and our core values to serve with trust and sincerity and pursue creativity and challenges, we have long been practicing trustworthy management. In FY2004, Epson participated in the United Nations Global Compact and established the CSR Promotion Department. We are committed to promoting CSR activities that are deeply rooted in trustworthy management throughout our global operations.

Tradition-breaking dynamism is essential to a company's survival and growth. However, such dynamism may make the company susceptible to violations of social and ethical norms. I believe managing such risks is the bottom line of CSR activities. By viewing CSR as our loadstar, we keep a check on ourselves as we boldly venture out in pursuit of growth. I hereby pledge that Epson will continue to create value that exceeds your expectations.

I look forward to hearing from you after you have had the opportunity to read this report.

Seiji Hanaoka
President and COO
Seiko Epson Corporation

Management Philosophy

(Issued July 1989, revised March 1999)

Epson is a progressive company, trusted throughout the world
because of our commitment to customer satisfaction,
environmental conservation, individuality, and teamwork.

We are confident of our collective skills
and meet challenges with innovative and creative solutions

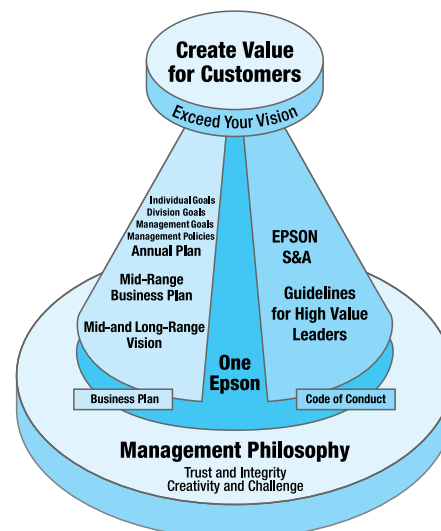
(This has been translated into 14 languages and is shared Groupwide)

Creating Value for Customers Through the One Epson Approach

At Epson, each individual employee is required to think quickly and act flexibly so that the company can operate in rapidly changing business environments and continue to create value for our customers. One Epson is an approach in which all employees can contribute to improving the management of the company.

Underpinning this approach are the Business Plan based on our management philosophy, and the Code of Conduct that guides our actions and our core values to assure that we serve reliably and sincerely as we pursue creativity and challenges. We have adhered to these since our founding.

With this solid base, the Epson Group will continue evolving into a stronger and more progressive corporation.



Global Tagline

EPSON
EXCEED YOUR VISION

The Meaning of “Exceed Your Vision”

- You have the potential to create something with Epson which exceeds your vision.
- We strive to offer products and services which exceed your expectations.

The Epson global tagline embodies our vision for our brand. It is a message to our customers as well as a shared Groupwide vision for our brand's future direction. In all aspects of our business operations, we would like to exceed expectations and to inspire our customers. Epson will strive to offer superior products and services and keep pursuing creativity and challenges.

Sustainability as Envisioned by Epson

Epson's Efforts to "Exceed Your Vision"

With the new global tagline "Exceed Your Vision," Epson announced its commitment to offer excitement and inspiration through its products and services. Deploying technological innovation to produce products that are unique and often the world's first has always been an integral part of the corporate culture of Epson, which has its roots in manufacturing. Long before it was expressed in the new global tagline, Epson was creating products that exceeded customers' expectations.

Epson's Namesake and the World's First Compact, Lightweight Digital Printer

In 1968, Epson announced the world's first compact and lightweight digital printer, the EP-101. Thanks to its size, simple structure, durability and reliability, the EP-101 became a global hit product. In the hope that similar products would follow, the brand became EPSON in 1975. The EP-101 was thus the driving force behind Epson's growth and a forerunner of the spirit of "Exceed Your Vision."



The Quartz Watch that Made Horological History

The Seiko Quartz Astron 35SQ, introduced in 1969, is another product that embodied the spirit of "Exceed Your Vision." For the world's first quartz watch, Epson integrated the electronic circuits and functions into a single hybrid module. Epson then successfully developed a hybrid IC that allowed a wristwatch to be entirely devoid of all mechanical parts except those needed to indicate time. The watch boasted extraordinarily high accuracy. Innovative thinking and precision processing technologies allowed Epson to produce a product whose name is permanently inscribed in the history of horology.



All Manufacturing Sites Made CFC-Free

Depletion of the ozone layer by CFC gases prompted not only specialists but the general public to become aware of environmental issues. Far ahead of other companies, Epson took the problem seriously and announced its CFC-free policies in 1988. Only four years after tackling the issue, CFCs were eliminated from all domestic manufacturing processes in October 1992. Seven months later, in May 1993, they were completely eliminated globally. The concerted efforts that led to rapid success also built the foundations of environmental management at Epson.



The World's First 720 dpi Color Inkjet Printer

Announced in 1994, the MJ-700V2C Epson Stylus Color inkjet printer elicited a delighted reaction from users for its outstanding high-quality printed images. By deploying the latest MACH print head technology, it allowed sharp reproduction of graphics and photographs and was very affordable; it sold for less than 100,000 yen in Japan. The printer triggered the popularity of color inkjet printers, and their multiplicity of uses has changed the way people communicate.

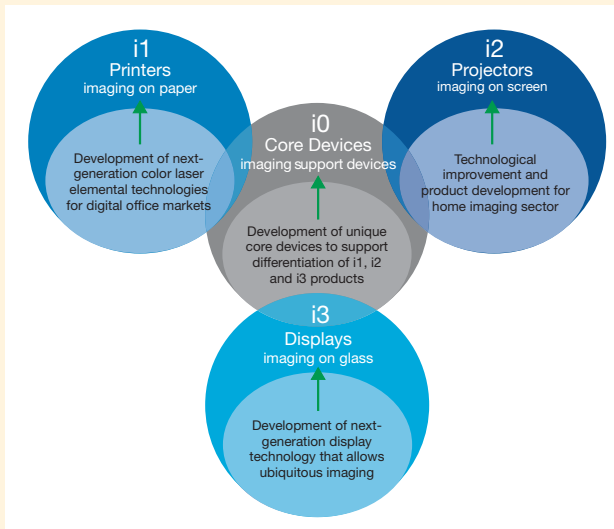


High-Temperature Polysilicon Thin-Film Transistor (HTPS TFT) LCD Panels Support Growing Projector Market

Epson was the first in the world to begin full-scale production of 1.3 inch VGA panels in 1994. The Company then established itself as a supplier of high-temperature polysilicon (HTPS) panels for LCD projectors. In October 2002, cumulative shipments reached 10 million units and in July 2004, 20 million. Epson's unique LCD projection system is employed by many corporate customers and the market is expected to grow further. With the HTPS panels and other devices, Epson is supporting the business of companies around the world.



Epson's Development Vision Based on the 3i Strategy



Basic Strategy for Realizing Our Vision

Epson is implementing its new 3i strategy to achieve its vision of Digital Image Innovation. In addition to the i0 imaging support, which concentrates on core devices such as semiconductors that provide value-added solutions for linking imaging products, management resources will be concentrated on what we call the 3i imaging fields - i1: imaging on paper (developments in printers and other imaging products); i2: imaging on screen (developments in projectors); and i3: imaging on glass (developments in mobile displays). Epson will focus on the 3i imaging fields, and will unite the unique attributes of each of its finished product and electronic device businesses to show the company's unique collective strength. With 3i at the core, the scope of Epson's current business structure will be expanded, resulting in comprehensive solutions for still and moving images that will open up new markets and business opportunities.

Continuing to create the new brand value system, "Exceed Your Vision"

With the goal of providing excitement and inspiration through our business activities, Epson strives to realize the vision of Digital Image Innovation outlined in SE07, our new medium-to-long-term corporate vision.

By deploying technological innovations in imaging and other fields, Epson will continue to offer excitement and inspiration.

Dynamic business operations call for greater social responsibility. We are engaged in various CSR activities to fulfill those responsibilities.

CSR Promotion Department established in April 2005 to further improve CSR's promotional structure

—————→ p.8

External efforts; participated in the United Nations Global Compact

—————→ p.8

Workshops for employees to promote CSR advocacy

—————→ p.9

Groupwide efforts, including overseas affiliates, to act as One Epson

—————→ p.9

Epson's Concept of CSR

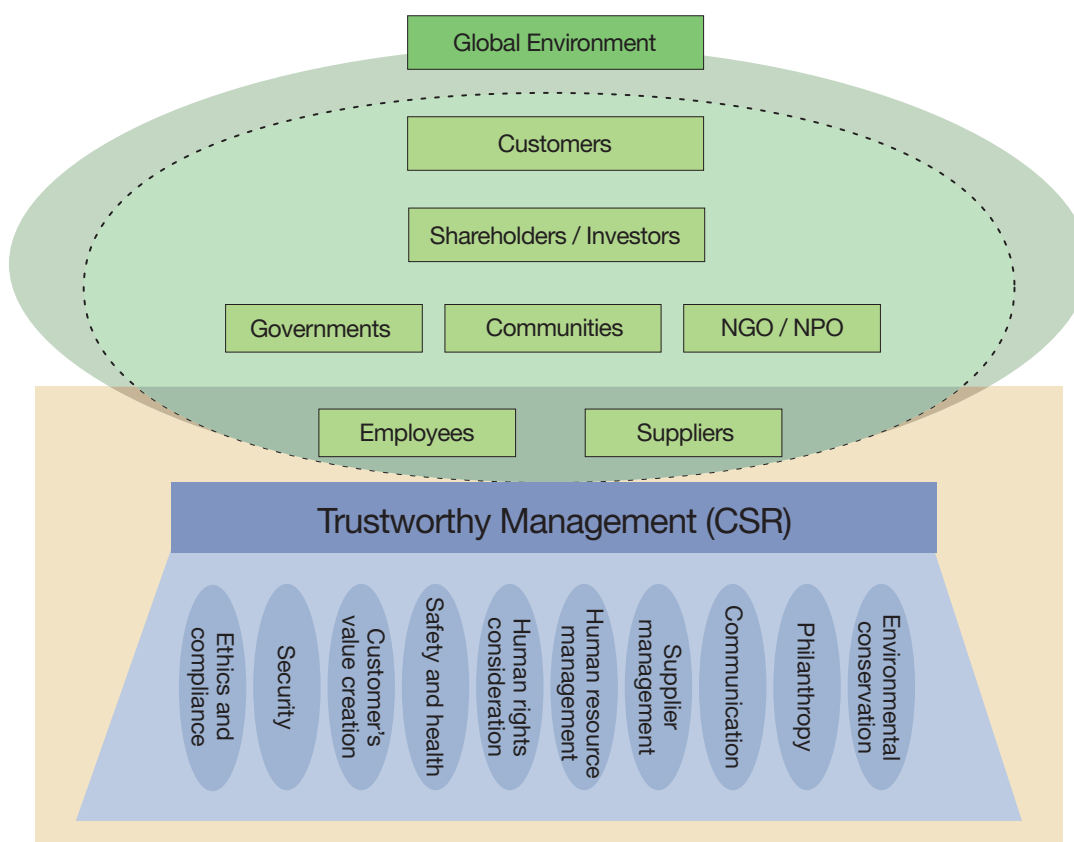
To fulfill its management philosophy, Epson is actively reinforcing its trustworthy management. The goal of our corporate CSR activities, which have recently been intensifying around the globe, are based on this trustworthy management. We are, however, keenly aware that there is still room for improvement. Epson is committed to integrating CSR more deeply into our business activities to further strengthen our relationships with our stakeholders.

Epson's CSR

Fulfillment of management philosophy = Practice of trustworthy management

In corporate activities, the importance of observing laws, regulations and corporate ethics are a given.

Epson believes that trustworthy management calls for much more; the crux of trustworthy management is to work hard to remain trusted by all stakeholders, prosper together with society, and contribute to building an even better society.



Foundation for generating continuous profit in perpetuity
Continue raising a fair profit by rolling out appropriate business strategies
and product strategies on top of this foundation

Straightforward Thinking and Proactive Behavior Benefit All of Us

Promoting CSR global activities based on trustworthy management

Epson set up the CSR Promotion Department in April 2005 to serve two purposes: communication with non-governmental organizations (NGOs) and other external parties regarding CSR activities, and Groupwide CSR education and advocacy.

Epson has a longstanding commitment to trustworthy management, which promotes the building of strong, trusting relationships with all stakeholders. Our efforts have resulted in a Groupwide consensus to value customers, quality, the environment, legislation and ethics. If we can steadily implement our activities in all of these areas, most of the CSR requirements can be covered. We believe practicing trustworthy management will fulfill CSR.

However, we have not been infallible in understanding the legal and cultural differences in all the locations in which we operate. For example, we are barely conscious of such practices as child labor and bribery in Japan because we do not witness them very often, but in some countries, they are rampant. In these cases, we must work toward transforming the legal and ethical consciousness not only of our local Epson employees, but also of the local communities, by working with local governments and business communities. From now on, with trustworthy management as our base, we must focus on each community to achieve improvements.

The establishment of the CSR Promotion Department marks our new commitment to taking on this challenging task, and our immediate goal is to establish an Epson style of CSR activity on a global scale.

Spreading CSR practices Groupwide by involving all employees in the communications

Epson has been a participant in the United Nations Global Compact since July 2004. This initiative is perceived slightly differently in Europe, the U.S. and Asia, and there is still debate about whether a corporation can be liable for the practices of its entire supply chain.

For Epson, as a promoter of trustworthy management, it was a natural choice to participate. Regardless of its commitment to the Global Compact, a company's credibility will be shaken if its suppliers or affiliates are found to be involved in illegal labor practices. Rather than evading this issue, we

have chosen to make efforts to be responsible for all our business operations.

Straightforward thinking and proactive behavior are deeply ingrained in Epson's corporate culture. For instance, Epson achieved complete elimination of ozone-depleting CFCs just four years after it announced its CFC-free policies in 1988, at a time when the entire business community thought it was impossible. To promote employment of the physically challenged, we established Epson Mizube more than 20 years ago, in 1983, and have since hired many physically challenged employees. By thinking and acting in this way, we benefit ourselves as well as society.

Currently, Epson is in the process of working out a plan to promote Epson-style CSR. For one year, we will hold Groupwide discussions to establish our basic policy on this. For CSR practice to become deeply ingrained in all employees, they should do more than embrace the unilateral decisions of the Company; they have to participate in communications and decision-making processes to build up the CSR structure themselves. It will be a long and deliberate process, but only after undergoing it can we expect to create an effective plan that will encourage expeditious advocacy and voluntary action.

Putting a basic plan in place is of course not the goal of our CSR activity. It will require more local meetings and training, and the use of the Internet, voice mail and video conferences to broaden our communications on a global scale.

We are convinced that the efforts of all 85,000 Epson Group employees will permanently contribute to stakeholder confidence in our Company.



Toshio Kimura
Executive Vice President
and Chairman of the Trustworthy
Management (CSR) Promotion
Committee

FY2004 CSR Activities

New department established to drive CSR initiatives

In May 2004, Epson launched a Trustworthy Management (CSR) Promotion Committee with the aim of promoting Groupwide CSR activities. Chaired by an executive vice president, it comprises the heads of departments in the Head Office. In July, the CSR & Global Environment Promotion Department was established under the CSR & Environmental Affairs Division, to act as a companywide secretariat for driving CSR activities. In April 2005, it was renamed the CSR Promotion Department, reflecting its exclusive responsibility for CSR initiatives, including establishment of the CSR vision and policies, Groupwide communications and external publicity.

Epson joins the UN Global Compact

On July 16, 2004, Epson joined the United Nations Global Compact, working to advance ten universal principles in the areas of human rights, labor, the environment and anti-corruption, all causes strongly espoused by the United Nations. With the acceptance of Epson's communiqué affirming its support for the Global Compact, presented to U.N. Secretary-General Kofi Annan, the company was officially acknowledged as a participant in the initiative.

Epson had long been considering formal participation in the Global Compact as a way to publicly underscore its commitment to strengthened CSR efforts. Moving forward, Epson will continue to make the ten principles of the Global Compact prevalent throughout the company and will proactively publicize its efforts related to these principles.

The Global Compact - The Ten Principles

Human Rights → p. 2, pp. 6-7, pp. 55-58, pp. 60-61

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labor Standards → pp. 56-58

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labor;
Principle 5: the effective abolition of child labor; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment → pp. 12-15, pp. 22-48, pp. 64-65

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption → p. 7, p. 11, p. 55

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Internal seminars to raise CSR awareness

With a specialist from E-Square Inc., Epson held a two-day seminar in July 2004 for the members of the Trustworthy Management (CSR) Promotion Committee to deepen understanding Groupwide of the expectations of a global corporation and of strategies to create sustainable values.

After a lecture on the global CSR movement, the attendees divided into small groups to discuss suitable future directions and high-priority areas Epson should be concentrating on to fulfill its social responsibilities.

Epson invited the same specialist in August 2004 to give a lecture on these topics to Epson's executives.



An internal seminar held in July 2004

Local advocacy to form Groupwide perceptions

Communications with employees in different locations are vital to concerted CSR activities within the Epson Group. Epson sends Head Office officials to overseas offices to elaborate on plans and policies for CSR initiatives, as well as to exchange opinions. Because of cultural and other differences, CSR priorities vary by region. Epson believes listening to diverse opinions will further improve the quality of its CSR activities.



Discussing CSR at an Epson office in China

We Are the Drivers of Epson's Sustainability Initiatives

Advancing CSR at Home and Abroad

The CSR Promotion Department was established as a dedicated body to drive Epson's CSR initiatives. Although CSR-related activities have already been implemented at Epson in different forms, our department aims to identify and initiate CSR activities most suited to Epson's makeup. To do this, we visit operations divisions and affiliates in Japan and overseas as often as possible to discuss current conditions and share opinions. I believe the participation of all employees will expedite the diffusion of effective CSR at Epson.



Yoshihiro Ono
General Manager
CSR Promotion Department

Practicing CSR in Partnership with Suppliers

Epson's business would not survive without the valuable contributions and support of our suppliers. For Epson to maintain the trust of its stakeholders, we believe our CSR activities must involve our suppliers. To solicit their understanding of Epson's procurement needs and to seek their cooperation, we are holding meetings to explain procurement guidelines at major production sites in Japan and overseas.



Kazuyuki Ito
Manager
Production & Procurement
Management Center

For details on Epson's relationships with suppliers, see p. 55.

Improving the Workplace Environment to Bolster Employee Confidence

Stakeholder confidence in Epson derives fundamentally from each employee's job satisfaction and sense of fulfillment. To support this in all our offices around the world, we work hard to eliminate all forms of discrimination and unfair labor practices. We also strive to improve human resource and educational systems to maximize each employee's uniqueness and capabilities, so that we can all share the Epson values and work as One Epson to realize trustworthy management.



Takao Ito
Manager
Human Resources Department

For details on Epson's relationships with employees, see pp. 56-61.

Building Communications Valued by Stakeholders

Epson's public relations departments around the world work in sync to communicate corporate values and activities through our Message Manual. Trust, the core of our Management Philosophy, is a universal value that contributes to the strength of our corporate reputation. Epson's focus on trust has led to an ethical approach that promotes the swift disclosure of negative information to the public.

Stakeholders now demand disclosure of corporate information on social contributions when making such decisions as purchasing, investing and applying for jobs. It is becoming increasingly important for Epson's overseas affiliates to publicize their corporate citizenship activities in their own communities to win more confidence as a global corporation.



Kenkichi Shibata
Manager
Public Relations & Brand
Strategy Department

For details on Epson's communications policies and activities, see pp. 66-69.

Practicing Trustworthy Management

Corporate governance

Epson's basic stance on corporate governance is encapsulated in its commitment to sustaining trustworthy management. Along with the ongoing pursuit of enterprise value enhancement, Epson has initiated a number of practices designed to reinforce management checks and balances and to assure corporate ethical compliance so as to ensure highly transparent and sound management in the eyes of its customers, shareholders, employees and other stakeholders.

Epson uses the statutory auditor system. At the core of this system are five statutory auditors. To further ensure the independence of audits and increase transparency, three of the five members of the board of auditors are external statutory auditors. Auditors attend each of the statutory auditors' monthly board meetings. They also attend meetings of the Epson Board of Directors, the Management Deliberative Committee, and other meetings vital to business execution. Statutory auditors are thus in a position to conduct their audits with the same level of information as directors. In addition, by holding regular meetings with other statutory auditors and with company directors, the statutory auditors are able to directly assess the status of business execution for themselves.

In contrast to the organizational separation of business execution and management oversight common to companies using a committee-based system of governance, Epson vests monitoring functions in the board of directors, which is underpinned by the statutory auditors. Epson's stance is that this system, whereby directors are responsible for business execution, is optimal for monitoring functions in light of the current configuration of Epson's business operations. The same reasoning prompted the decision to forego the appointment of external directors to the board.

With this stance in mind, Epson appoints suitably qualified

directors who have the ability to concurrently perform both business-related and management oversight roles, and is broadening the jurisdictional scope of the board of directors, as it maintains a governance structure backed by the statutory auditors. While strengthening the operation of this structure, the search for an optimized governance structure will remain an ongoing issue for management.

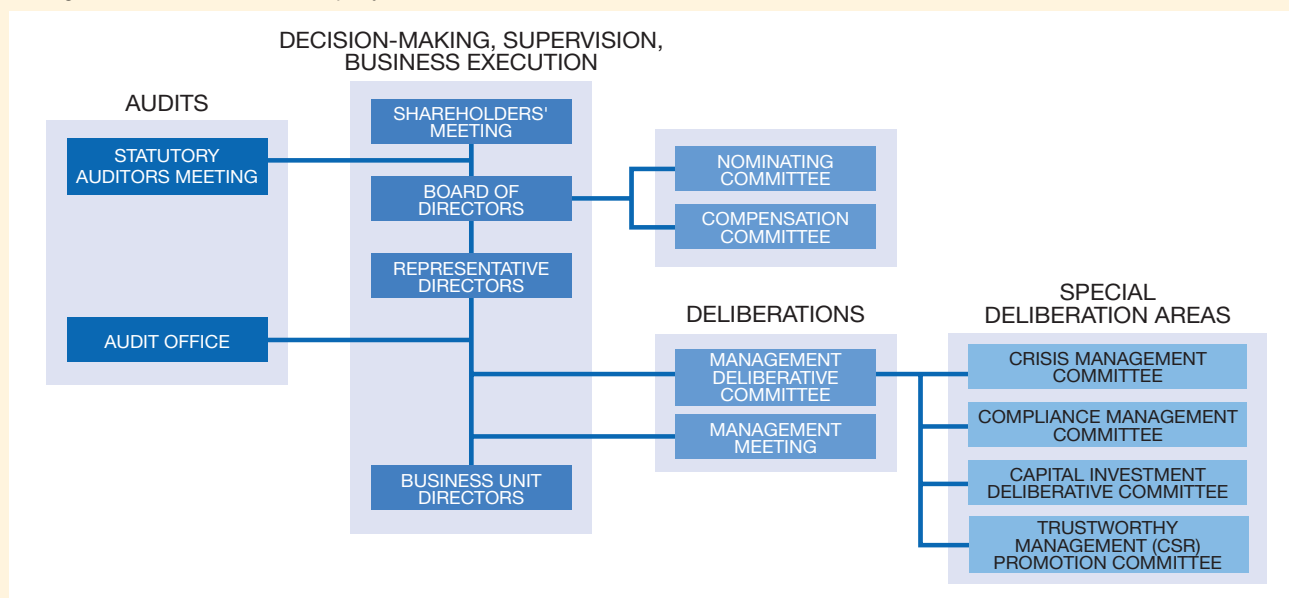
Epson is also increasing transparency in the appointment and remuneration of directors. Two committees specifically responsible for exploring these issues have been put in place. The Nominating Committee is responsible for setting nomination criteria and for selecting candidates. The Compensation Committee is charged with defining the parameters of the remuneration system and drafting policies governing directors' remuneration. These committees conduct extensive deliberations in their respective areas, ultimately presenting their conclusions for consideration by the board of directors.

Epson also has an internal compliance system in place that is designed to prevent any potential legal or internal regulatory violations within its operations. An internal audit office that reports directly to the president regularly audits operations, including those at Epson subsidiaries. The internal audit office evaluates the efficacy of governance processes, requests improvements where needed, and reports audit results to the president. The internal audit office regularly meets with Epson's accounting auditors and statutory auditors in an effort to heighten the efficacy of internal audits.

Compliance

Epson views compliance as a means of reducing management risk. In contrast to external risk factors such as accidents, natural disasters or social unrest, the management risk Epson addresses concerns risks directly associated with its corporate

Management Structure at the Company



activities; in other words, risks stemming from the actions of Epson employees.

To head off such risks, Epson has appointed a director who is responsible for compliance and has established a structure for promoting compliance.

Major points of this framework include:

- A Compliance Management Committee for building and maintaining Epson's compliance structure
- A Legal Compliance Promotion Office responsible for operating the internal Compliance Hotline for reporting compliance issues
- In-house compliance training, including a code of conduct manual and Web-based seminars

When it comes to compliance, Epson is aware that no framework alone is enough, since corporate activities are determined by the thoughts and actions of employees. For this reason, the company's senior management has developed a policy of not hiding difficult information, not cheating, and reporting bad news quickly.

For Epson, compliance of this kind is the cornerstone of its approach to corporate governance.

Risk management

To remain true to its management philosophy as a company "trusted throughout the world," Epson recognizes that creating a framework for preventing and addressing crises that could seriously jeopardize operations is a priority for management. To this end, Epson has constructed a Groupwide crisis management structure capable of swiftly responding to changes in its business makeup and operating environment. This structure enables the company to head off potential crises or to minimize the effect in the event of one.

The following policies guide Epson's actions concerning risk. To prevent crises, Epson works to (1) anticipate changes by reviewing its corporate structure to ensure optimal flexibility, and (2) task each division to devise "peacetime measures" for dealing with potential crises. When a crisis arises, Epson moves to (1) tackle the crisis with comprehensive capabilities beyond that of the normal corporate hierarchy, and (2) deal with it in a sensible, socially responsible manner as a good corporate citizen, disregarding corporate egoism.

Epson's risk management structure is designed to manage crises with a potentially material impact on the Group. Uniform risk management is then enacted by each organization across the Group. Should a crisis occur, Epson aims to marshal its comprehensive capabilities to swiftly meet the crisis head-on in an appropriate manner, while ensuring that its posture remains flexible vis-à-vis external changes. To ensure that information regarding significant risks is reported directly to the president, Epson has a Crisis Management Committee, composed of separate subcommittees responsible for risk management for each business unit, that is chaired by the company president. Epson has formulated a Crisis Management Program that defines seven categories of crisis (leakage of sensitive information,

damage from disasters, country risk, crimes against the company, computer system crashes, product liability, quality incidents, and factory-related environmental accidents), as well as the risk management organization, roles, preventative measures, and response for each crisis situation. Information about this program has been compiled into a comprehensive brochure distributed Groupwide to promote an in-depth awareness of crisis management. For stakeholders, Epson utilizes investor relations and public relations to proactively disclose facts in a timely manner regarding the status of risk management.

Security

At Epson, security of people and corporate assets (financial, tangible, intellectual, brand, etc.) and management of all types of information including customer information are ensured by stringent enforcement of internal regulations. Epson is also very sensitive to the rights of other parties concerning their assets and information. Regulations are shared Groupwide to eliminate any possibility of putting our people and assets at risk, or of becoming a security offender ourselves.

In FY2004, Epson focused mainly on security of information, especially the protection of information assets from IT risks associated with the growing popularity of the Internet, and on compliance to the Law Concerning the Protection of Personal Information. At the end of FY2004, Epson acquired Information Security Management System (ISMS) certification. In the acquisition process, Epson established its Basic Policy on Information Security to control emerging risks (see p. 54 for details).

Basic Policy on Information Security

To continue earning the trust of society and our customers, and to contribute to the growth of an Internet-enriched society, Epson has established the following policies on information security and hereby declares our full commitment to them.

1. Establish, maintain, improve and communicate our information security practices to foster safer, freer and closer relationships with our customers.
2. Proactively contribute to the establishment of order in the Internet-based society so that Epson will be appreciated by its members and protected from posing risks to them.
3. Always handle information assets sensibly and responsibly, with keen awareness that each of us plays a significant role in the security of information. Follow these guidelines:
 - a. Comply with legislation, contracts, internal regulations and other social imperatives
 - b. Adhere to a high standard of ethics to win the confidence of customers
 - c. Take preemptive measures against risks to assure safety for customer data
 - d. Take the utmost precautions and protective measures so as to avoid being taken advantage of or being made an offender
 - e. Report bad news more quickly and act swiftly to improve the situation
4. Establish an appropriate internal control system to support these policies.

In March 2005, an access policy was set to enforce strict control of admittance to Epson offices. This is to ensure the physical safety of visitors and employees, as well as the protection of company and other assets on loan from outside, and information security.

Feature Story-1

Preventing Global Warming

Electronic Device Production Process with Dramatic Energy Savings

To contribute to the prevention of global warming, the Epson Group is implementing various energy-saving measures to slash CO₂ emissions. Our highest priority is to improve the production process for electronic devices, which accounts for 70% of Epson's energy consumption.

LCD panel plant in Chitose, Hokkaido

The production processes for electronic devices require large-scale clean rooms and production equipment that consume an enormous amount of energy in their operation and management. For this reason, the construction of electronic device plants necessitates comprehensive designs for both an energy-efficient production process and an environmentally sound building/utilities (basic facilities for water purification, air compression, drainage and exhaust).

Epson's Chitose Plant, which began full-scale operations in April 2005, is our newest electronic device plant. It manufactures high-temperature polysilicon TFT LCD panels, a core device for LCD projectors and large-screen LCD projection televisions (Fig. 1).

The plant boasts forward-looking, eco-conscious designs. Zero waste emissions were achieved in the construction stage; construction materials that impose lower environmental impact were used; numerous safety measures are in place to prevent chemicals from being accidentally released outside the premises; rainwater is used to minimize the water fed into the plant; purified water is recycled and used for operations; and both electricity and natural gas are employed to lower CO₂ emissions.

Of all the measures implemented at the plant, energy conservation tops the list of priorities. In the production process, the size of quartz glass wafers was increased from 200 mm (8 inches) to 300 mm (12 inches) for the first time at Epson to raise production efficiency. Additionally, Epson developed a new process to further raise production and energy efficiency: the batch processing of wafers was changed to single processing; a mini-environment air-conditioning system that cools only the specific area of the clean room was adopted, and a fully automatic transport system was introduced.

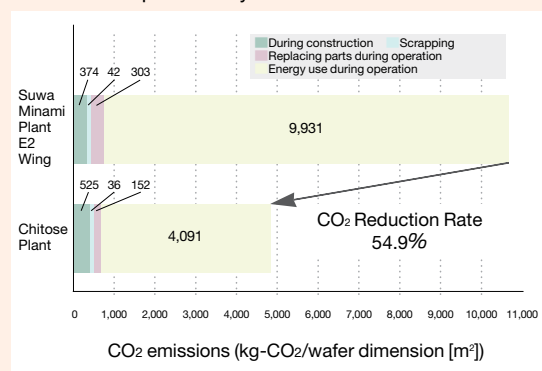
Measures taken in the building to cut energy use include a cooling system using outside air to take advantage of Hokkaido's cool climate; a system to cool water in a large-scale vertical thermal storage tank using nighttime power, and introduction of high-efficiency heat source equipment. In addition, Epson introduced an energy management system that help optimize plant operations.

Chitose provided Epson's first opportunity to incorporate the Life Cycle Assessment (LCA) method in assessing the environmental impact of each stage of an electronic device plant's life — from construction to operation to scrapping — for the purpose of reducing the overall environmental impact in terms of CO₂ emissions.

Fig. 1 Chitose Plant Concept



Graph 1 Comparison of CO₂ Emissions over the Complete Lifecycle for Two LCD Panel Plants



Comparing the environmental impact of the Chitose Plant with the Suwa Minami Plant E2 Wing built in 2000, a 54.9% reduction in lifetime environmental impact was achieved. Most of the reduction was attributed to the cut in energy use during operation (Graph 1).

Scalable Minimum Fab Concept

Epson is working toward an electronic device plant that poses even less environmental impact and requires minimum energy, materials, space and production time – a concept called Scalable Minimum Fab.

Once realized, the Scalable Minimum Fab will be a desktop factory in which a compact and standardized clean room is installed in a unit with one production line. As production demand fluctuates, fabs can be added or dropped to quickly accommodate the changes.

Epson believes that three gradual improvements can make this happen: 1. drastic streamlining of the production process (eliminate unnecessary processes, use sophisticated equipment and introduce new technologies); 2. innovation in flow patterns (the way wafers are processed/transported); and 3. innovations in utilities (Fig. 2).

In FY2004, excellent progress was made in production process innovation through a liquid film-forming technology using inkjets.

Conventionally, IC chips are produced through photolithography. First, a thin layer of film is deposited on a wafer. Then, it is coated with resin and photolithography is used to create a wiring pattern on the surface. Areas of the thin film that are not coated with resin are removed using a chemical solution and plasma. Finally, the resin is removed and the wiring is created on the surface. However, this method wastes material, requires about 300 process steps, generates a large volume of waste and consumes a lot of energy.

With a new method based on inkjet technology, a print head discharges ultrafine, picoliter particles ($1 \text{ pico} = 10^{-12}$) using a piezo element, which deforms when voltage is applied, to draw a high-precision image (Fig. 3).

When this method is applied to discharge liquid metal from the print head, a thin film can coat only the required areas. This is called liquid film-forming technology. It allows a circuit pattern to be drawn as easily as printing an image and thus achieves significant reductions in materials use, number of process steps, waste and energy consumption.

Using the same method, in May 2004 Epson successfully created the world's first prototype 40-inch full-color organic light emitting diode (OLED) display. OLEDs, dubbed the next-generation flat display, have high level of visibility but were considered too difficult to produce in large sizes. Epson was able to deposit organic layers on large-size TFT substrates using liquid film-forming technology.

Using a similar inkjet system, in November 2004, Epson succeeded in producing a 20-layer circuit board sample by using an inkjet system to alternately draw patterns and form layers on the board with two types of ink: a conductive ink containing a dispersion of silver microparticles measuring from several nanometers to several tens of nanometers in diameter, and a newly developed insulator ink. Because the patterns are drawn directly, advanced multi-layering was possible. The thickness of the circuit board is only 200 micrometers, excluding the base material (Photo 1).

In April 2005, Epson incorporated liquid film-forming technology in the manufacture of high-temperature polysilicon TFT LCD panels. By creating an orientation film (which orients liquid crystal molecules in certain directions), using inkjets, we were able to mass-produce high-resolution mini LCD panels.

Epson plans to advance production process innovations using inkjet-applied technology and to realize Scalable Minimum Fab by embarking on improvements in the Chitose Plant's building/utilities. Epson's journey to meet challenges continues, as we work to create products that are in harmony with the environment.

Fig.2 Scalable Minimum Fab

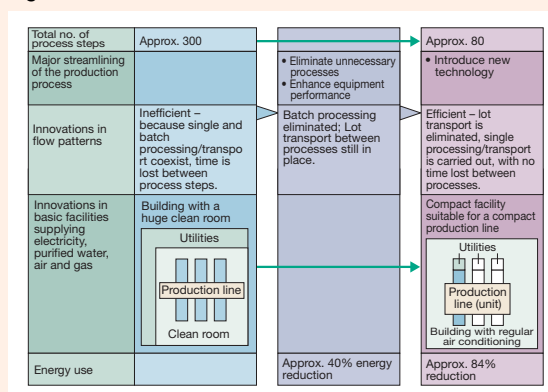


Fig.3 Inkjet Technology

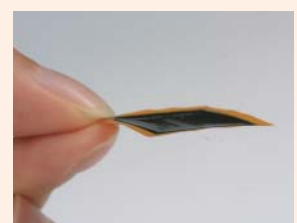
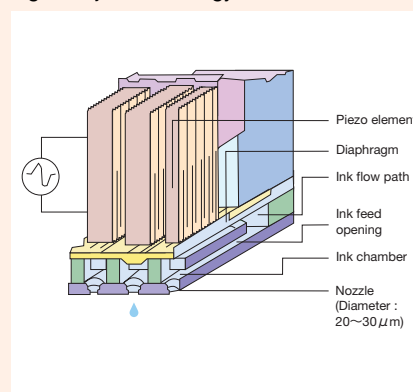


Photo 1 20-layer circuit board (side view)

Feature Story-2

Creating Eco-Friendly Products

Perfecting Products with High Eco-Performance, Low Impact

The EMP-740/PowerLite 740c mobile LCD projector, the world's smallest and lightest projector in the 2,500 ANSI lumen category, also features high energy efficiency. This product is an example of Epson's approach to creating eco-products, a process that begins at the planning and design stage. It also helps illustrate the Epson's program to quantify the environmental impact throughout product lifecycles using the Life Cycle Assessment (LCA) technique.

EMP-740 LCD projector demonstrates high environmental performance

Lightness and brightness are now expected features of business projectors, as they become more common at conferences, for presentations, in classes and on many other occasions.

Epson's EMP-740 mobile LCD projector is the world's brightest projector (2,500 ANSI lumens) under 2.0 kg. Weighing only 1.8 kg, the EMP-740 is portable yet delivers high-resolution images even in a well-lit room. Developed in response to demand for a lighter, brighter projector, it also boasts high environmental performance.

Compared to Epson's EMP-7100 / PowerLite 7000XI, released in 1997, the EMP-740 is four times brighter and requires only one-fourth the energy (per lumen), a significant improvement in energy efficiency (Graph 1). To achieve this, Epson worked with a lamp manufacturer to develop the Epson Twin Optimized Reflection Lamp (ETORL), which raises light use efficiency. This is also attributable to the Direct Power On feature, which enables immediate projection after power is turned on; the One-Touch Off function, which allows the user to stow the projector without cooling it down; and a

switch function that allows a choice of illumination intensities.

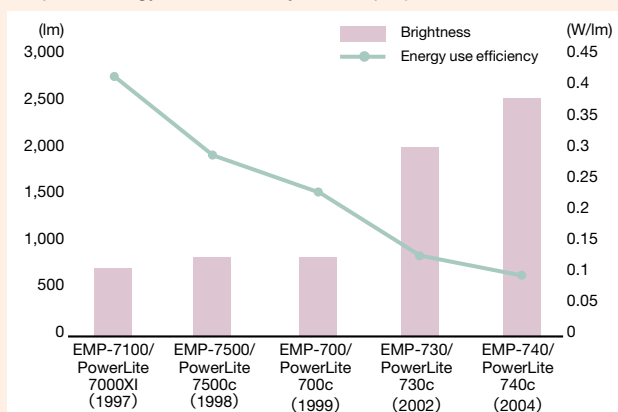
Conventionally, there was a loss of light due to the structure of projectors. Epson developed a new light focus system by changing the shape of the reflecting mirror from parabolic to elliptical, and by adding a supplementary reflecting mirror. By increasing the efficiency in use of light, Epson was able to use a low power-consumption lamp that generates less heat, without compromising brightness. This also allowed the projector to work without a costly cooling mechanism, extended the life of the lamp, reduced fan noise, slashed the projector size, and reduced the cost of production.

Another achievement was in resource savings. Compared to the EMP-7100, the EMP-740's volume and mass were reduced to one-fourth, and the efficiency in resource savings (dimension and mass per lumen) is fifteen times higher (Graph 2).

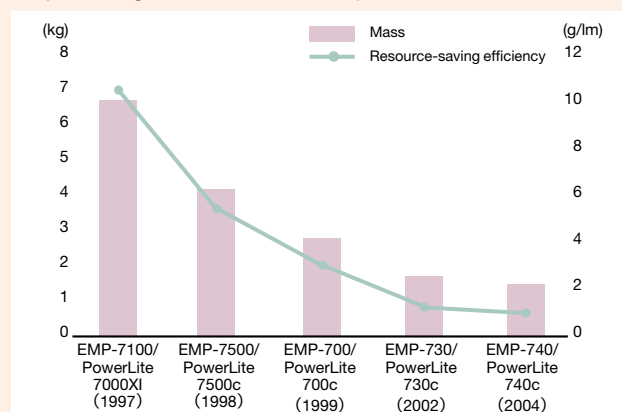
Incorporating environmental performance in the product's planning & design stage with the Epson Ecology Label program

The EMP-740 is an Epson Ecology Product compliant with the Epson Ecology Label program, a voluntary labeling program.

Graph 1 Energy Use Efficiency of LCD projectors



Graph 2 Weight and Size of LCD Projectors



This label is granted to products that achieve industry-leading levels (or demonstrate improved environmental performance over conventional models) in terms of in-operation energy savings, resource savings and elimination of hazardous substances. The label thus communicates a product's proven environmental performance to our customers.

Customers can also obtain environmental specifications through on the Epson Ecology Profile sheets that are part of the Ecology Label program. The EMP-740's profile is available on the Epson Sales Japan's website. Information disclosure is an important part of the Epson Ecology Label. In addition, it drives us to improve the environmental performance of all our products.

Development of eco-friendly products at Epson begins with identifying environmental performance specifications at the planning and design stage, based on the Epson Ecology Label standards.

These specifications drive the following steps: prototype creation, assessments, procurement of materials and parts, commercial production and disclosure of information to customers.

EcoLeaf: assessing environmental impact throughout a product's lifecycle using LCA

In addition to the Epson Ecology Label, the EMP-740 is also compliant with the Type III environmental label EcoLeaf, a program that quantifies a product's lifelong environmental impact using the Life Cycle Assessment (LCA) method, and information disclosure. The program is sponsored by the Japan Environmental Management Association for Industry (JEMAI).

Epson has been improving our products' environmental performance through the Epson Ecology Label program and assessing their impacts with LCA through the EcoLeaf program.

LCA first measures a product's inputs and outputs (raw materials, energy and environmental contaminants) for each

lifecycle stage (raw materials, production, transportation, use, disposal and recycling). These measurements are then multiplied by coefficients (EcoLeaf basic unit) provided by JEMAI

to calculate environmental impact in a phase called inventory analysis.

Results from the inventory analysis are then multiplied by the characterization coefficients to calculate and evaluate environmental impact in categories such as the level of global warming, ozone layer depletion and acidification (Fig. 1).

The data collected and calculated by LCA are presented in the Product Data Sheet (base data), the Product Environmental Aspects Declaration (LCA results) and the Product Environmental Information Data Sheet (summary). Upon receiving registered numbers from JEMAI, these sheets are certified as EcoLeaf labels and are made public through Epson Sales Japan's website and other communications means (Photo 1). The EMP-740's EcoLeaf label indicates that the product's global warming impact (CO₂ equivalent) totals 206.5 kg, and is largest when it is in use.

Verification of LCA data credibility and transparency is required for the EcoLeaf label to be registered and published. Such verification may be executed internally by a certified employee through JEMAI's System Certification program.

Epson has obtained System Certification for five of its businesses, including the projector business. The Company has 37 certified EcoLeaf labels, the highest number in the industry (according to research by Epson, as of March 31, 2005).

LCA methods such as EcoLeaf have helped Epson identify appropriate measures to reduce environmental impacts. Epson plans to deploy LCA Groupwide to perfect products with high environmental performance.

EMP-740 / PowerLite 740c



Display Resolution: UXGA to VGA
RF Characteristics: UXGA to VGA
Dimensions (in storage): W276 x D193 x H70 mm

Fig.1 LCA of a Product

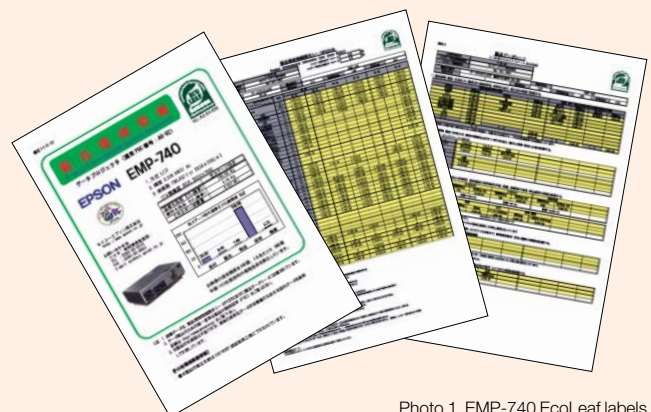
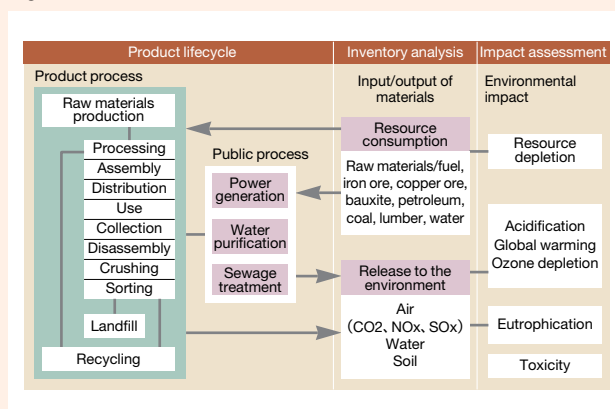


Photo 1 EMP-740 EcoLeaf labels

Feature Story-3

Customer-Centric Product Development

Activities to Improve Usability

The STYLUS PHOTO RX700 multifunction inkjet printer and the EMP-81 /PowerLite 81p projector are two products for which Epson has incorporated customer feedback and raised usability significantly. The improvements cover control panel operations, changes in operational steps, and the renaming of functions and their indicators. These are just a few examples of how Epson has been promoting customer-centric usability enhancements.

Cross-divisional efforts to enhance usability

The STYLUS PHOTO RX700 inkjet printer (IJP) is a compact printer with photo printing, color copying and scanning capabilities. It allows the direct printing of images from digital cameras and mobile phones without a personal computer.

This most advanced model in the multifunction IJP group is a result of major usability improvements over that of its predecessor, the STYLUS PHOTO RX600/RX610, released in 2003.

Following the launch of a new IJP product, employees in the related division, sales company, CS/Quality Assurance Office and design center hold product review meetings to discuss customer feedback collected at retail shops and call centers.

Customers responded unfavorably to the control button on the STYLUS PHOTO RX600/RX610 that changes the LCD display menu, saying they often pushed the wrong buttons because all four directions are integrated into one button. They also complained that the rubber button had a strange texture and that its response was too slow. The IJP division conducted usability tests with various prototypes and decided to incorporate four separate buttons, each dedicated to one direction, with enhanced touch responsiveness (Photo 1).

The Visual Instruments Operations Division, which develops and manufactures projectors, is also involved in Epson's usability enhancement initiatives. It has built a database of customer feedback for use in product planning and

established the CS User Interface Guidelines for product design. Members of the product planning, design and quality assurance teams also jointly conduct usability testing, discuss problems and feed the results back to the initial development planning teams (Fig. 1).

The EMP-81 LCD projector underwent this enhancement procedure and as a result, incorporated improvements such as easier cable connection and image adjustments, frontal exhaust design and simpler stowing procedures. On the control panel, the most frequently used buttons were also enlarged. In the EMP-81's product brochure, Epson explained these enhancements at length, since communicating usability is an important part of usability enhancement efforts.

Progress in Ease of Use (PEU) is another undertaking Epson is supporting Groupwide to incorporate usability enhancement into the product's planning and design stage. Operations divisions share their best practices and promote internal education and knowledge sharing.

Enhanced customer satisfaction is the goal of Epson's customer-centric product development. At Epson, every employee strives to take a customer-centric approach in their work.

Photo 1 STYLUS PHOTO RX600/RX610 and STYLUS PHOTO RX700 Control Buttons

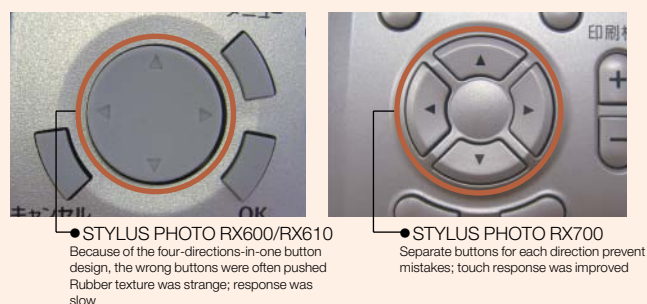
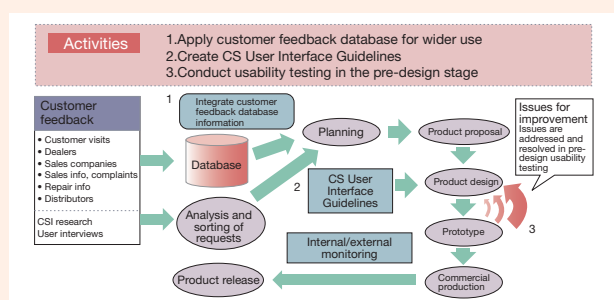


Fig. 1 PEU Initiative in the Visual Instruments Operations Division



Feature Story-4

Nurturing Employees for the Future

Passing on Intangible Assets at Product Workshops

Epson considers the nurturing of employees to be an important part of its social responsibility. We are convinced that by developing workers who are committed to quality manufacturing, we foster human resources. Thus, the Company is holding workshops to pass on technical expertise and to perpetuate the corporate culture of pursuing creativity and challenges.

Passing on the production expertise genes

Since its initial years as a watch manufacturer, Epson has focused on ultraprecision machining and mechatronics expertise, and passed on its production engineering genes to underpin today's manufacturing processes. Engineering expertise is an intangible asset, unlike plants and equipment, and it requires conscious effort to preserve through real-life experience.

Epson has been holding workshops since November 2002 to provide young engineers with the opportunity to experience the product-making skills of seasoned engineers. Young employees spend time in apprenticeships to study the art of product making, with 30 instructors who are in their 40s and 50s.

The workshop has three classes: efficiency, equipment maintenance and a master class. In the efficiency class, attendees work together to come up with solutions to raise efficiency and to resolve other real-life issues in the operations divisions.

In the equipment maintenance class, members disassemble, reassemble and service production equipment that is actually in use to study repair and maintenance. The equipment serviced by the attendees is sent back to the production line later.

The master class offers training for experienced engineers and highly specialized, intensive lessons to a selected few with the goal of passing on the expertise of legendary masters; expertise that has been preserved since Epson's inception.

The members selected for this class then participate in a National Skills Competition sponsored by the Japan Vocational Ability Development Association, where they demonstrate technical superiority in parts processing and machine assembly. Epson's participants undergo training to be in the top group of this competition. They are then posted to manufacturing positions to spread Epson-style manufacturing.

Hands-on experience for both newcomers and design leaders

Hands-on product-making experience is equally important for those who are not involved in the actual assembly of equipment at Epson. With the growing popularity of three-dimensional

CAD, equipment designers today have fewer opportunities to create products with their own hands. If they have not developed the sensitivity to understand error margins in machine tools, the parts may not match and the product might be subject to failure, even if the parts have been made according to the drawings. Because the quality of products is determined by the design, for the most part, it is critical that designers have first-hand experience and knowledge of product making.

At Epson, not only assembly line workers, but designers and new employees as well take files in their hands and work on machine parts, one of the most basic of parts processes, to raise precision levels. This experience helps them sharpen their perceptions of precision and quality.

The workshop also offers training for new employees and supervisors, training in production and quality management, and other programs on a daily basis. It is also open to teachers from technical high schools and members of affiliate companies of Epson.

In November 2004, Epson established a program to certify outstanding employees with highly specialized skills as Epson Masters. Takeshi Kitazawa was chosen as the first certificate holder in December.

Epson Masters will stay with Epson even after their retirement on a yearly contract basis to pass on their remarkable expertise. Epson will continue to ensure that the spirit of product craftsmanship, which glows brighter with maturity, is carefully preserved and handed down to the next generation.



Photo 1
Epson Master Takeshi Kitazawa
(right) with a trainee

Feature Story-5

Connecting Nagano and the World

Volunteering for the Special Olympics

For eight days from February 26 through March 5, 2005, the Special Olympics World Winter Games were held in Nagano Prefecture. As a locally headquartered company, Epson offered operational, financial and equipment assistance, as well as volunteers from among its employees.

Encouraged by athletes' performances

The Special Olympics is a global movement dedicated to providing sports training and competition opportunities to individuals with intellectual disabilities.

The 2005 Winter Games were held in different areas of Nagano, marking the first world games to be held in Asia. Some 2,700 athletes from 86 countries and regions, as well as 8,500 volunteers, gathered to support the further independence and social participation of its special athletes, and to show the world how sports foster barrier-free minds that transcend disabilities and national borders.

Epson's former chairman and current advisor, Hideaki Yasukawa, served as the Chairperson of the Games and the Nagano Chief of Games Operations. The Company took part as an official sponsor, offering various assistance including operational and financial assistance, equipment and employee volunteers.

A total of 47 volunteers were sent to the cross-country skiing course in Hakuba Village, of which five served as chauffeurs for Games officials traveling to and from the ski course, and 42 of them offered interpretation services for athletes at Hakuba Highland Hotel.

A chauffeuring volunteer, Koichi Toba, was inspired by the speech of Kayoko Hosokawa, Chairperson of the Special Olympics Nippon, to be a volunteer. "I was so moved by the passion Ms. Hosokawa has for the Games," said Toba, "and wanted to take part in the Special Olympics as a volunteer."

Toba and other volunteers were paired and drove two cars on shifts. Upon request, they chauffeured officials to cities far away from the course. Off duty, they cheered at the games. Toba commented, "Cheering is also an important part of volunteering. Watching the athletes, they put me to shame. They give 100% to the game and I wonder how much I am giving to my own life."

In the Special Olympics, all athletes are finalists and they all stand on the podium. They are applauded for doing their best in the games as individuals, rather than representing

countries or regions. Toba said, "Tears welled up in my eyes watching the athletes helping each other to get on the top podium. Such a warm feeling suffused the whole place."

Experiences that opened our eyes

Hiroimi Nishimura volunteered to support athletes at the hotel after learning about the Games' philosophy. Those who served as interpretation volunteers like Nishimura also helped participants eat and looked after sick athletes around the clock. "The athletes who stayed at this hotel were from Eastern Europe and other places where English is not the mother tongue," said Nishimura. "We communicated with them through coaches and assistants who did speak English. But more than the language, we needed determination to communicate."

Nishimura volunteered to teach English in Thailand for one month when she was a student. At the Special Olympics, she was able to experience the same joy of exchanging smiles. "When we had a bit of free time," she explained, "we spent it with the athletes. Just watching their innocent smiles made me feel warm inside. One day, they were giving a performance in the lobby and I was impressed at how well they were able to express themselves. It made me think about how I express myself."

Nishimura said another rewarding experience was meeting different people, such as university students, nurses and city officials, and listening to their experiences. "How far you want to go as a volunteer is entirely up to you. Once I get back to work, I would like to use this experience to actively make suggestions for improvements or hold discussions to resolve business issues."

Ikuko Masutani, another volunteer interpreter, thought it was very meaningful to have been able to support a world event held locally. Masutani lived in Los Angeles and admired its melting pot culture. "In Los Angeles," she said, "there was a spirit among local residents to support local events and people with disabilities. I want that to take root in Nagano, too."



Koichi Toba (Corporate Research & Development Div.): "Each time I volunteer, I feel there was more I could do. In the future, I want to do something for underprivileged children in Asia. We are rich but we may be poor inside. They do not have much but they may be rich in their hearts. I want to help these children."



Hiromi Nishimura (left, Sales Planning Dept., Imaging Products Marketing Div.) and Ikuko Masutani (Overseas Sales Dept., Semiconductor Operations Div.) spent busy days looking after athletes who got sick from cold, dry weather during the Games.



Kentaro Yamauchi (Development Dept., Imaging and Information Products Operations Div.): "There is another level of responsibility in volunteering, different from that of a paid job at the company."



Volunteers used digital cameras provided by Epson to take pictures at the Games, which were then printed on stickers with Epson printers. The stickers were presented to athletes and staff and were well received as mementos of the Games.

Masutani also interpreted for athletes at FESPIC, held in Kobe in 1989. She learned much about how to look after her daughter from the way coaches related to people with disabilities. "Coaches advised us to let the athletes do things themselves rather than restraining them by saying, 'don't do this, don't do that.' I agree with their attitude of encouraging their independence."

Kentaro Yamauchi heard about volunteering for the Special Olympics from his boss and made the decision to take part because it was a rare opportunity. "I was not thinking so much about the athletes being intellectually disabled," he explains. "There was a language barrier because they were foreigners, but it made no difference to me whether they had disabilities or not. I was concentrating on how to help them in changing situations."

The volunteers spent busy days resolving problems, but also caught the moving moments of awards ceremonies during their short breaks. Said Yamauchi: "We could tell that

the athletes were genuinely happy and that made us happy."

Yamauchi's job at Epson involves the development of projectors and other visual equipment. He says the experience at the Games would contribute to his work. "Epson's business is to create products that are used every day by our customers. If we have the heart for corporate citizenship in manufacturing, we can create better products."

Each employee who took part in the Special Olympics gained valuable experience that opened their eyes to local communities and the world. Epson will continue to promote employee participation in volunteer activities and strive to be a progressive company that prospers along with society.

Outstanding Performance of Floor Hockey Player from Epson Mizube

Epson Mizube is a special subsidiary of Epson that promotes the employment of people with disabilities. Its businesses include cleaning and embroidering protective garments used in Epson Group plants. In the Special Olympics, Kenji Kanai from Epson Mizube participated in floor hockey.

Kanai is a member of the Blue Bears, which won the silver medal. His hard practice paid off and he performed very well, scoring several goals. Kanai said, "I was happy that we won second place. I was

also happy that my coworkers came to cheer."

Kanai took up floor hockey after meeting his coach at a showing of a documentary film called "able," featuring a young man with intellectual disabilities. Kanai is determined to work out harder and practice more to tell others of the joys of playing floor hockey.



Kenji Kanai of Epson Mizube

Kanai in the game (in red uniform). In floor hockey, players hit felt pucks with sticks to shoot goals.



Many Epson employees came to cheer Kanai on in the floor hockey match.

Feature Story-6

Contributing to a Brighter Future

Epson International Scholarship Foundation Supports Asian Students in Japan

The Epson Group is engaged in various corporate citizenship activities around the globe to contribute to building a better society. One of our high-priority areas is education for young people. The Epson International Scholarship Foundation offers continuous support to Asian students studying in Japan.

Much more than financial assistance

Epson is committed to fostering educational opportunities for young people, actively promoting activities that support education, academic studies and culture, and development of local communities around the globe through foundations it has established.

These include the Epson International Scholarship Foundation, the Saito Kinen Foundation, the Korean Epson Young People's Educational Foundation in South Korea, the Epson Foundation - Institute of Technoethics in Spain and the Epson Foundation in Hong Kong. They offer scholarship programs to students and researchers, and promote personnel exchanges.

Based in Suwa City, Nagano Prefecture, the Epson International Scholarship Foundation was established in December 1997 to contribute to the development of human resources and academic studies in Asian countries, and to stronger ties between Japan and Asia. In the past seven years, the Foundation provided scholarships to 74 students from China, South Korea, Indonesia and Malaysia, and 55 have finished their studies. The Foundation does much more than grant scholarships; it is an organization with a special focus on the international fellowship of students. Opportunities to promote this include scholarship award ceremonies, visits to Epson, newsletters, a student hotline and interviews.

In FY2004, scholarships were granted at a ceremony on April 23 at the Shinjuku NS Building. In the seventh year of the program, five students in master's courses and seven students in doctorate programs received scholarship certificates from the Foundation's Associate Director, Toshio Kimura.

Afterwards, they enjoyed socializing together.

On September 3, 14 scholarship students took part in an overnight trip to visit Epson. At Epson's headquarters by Lake Suwa, students were first introduced to the Company's approach to enhancing its values, products, services and environmental conservation initiatives. At the Ina Plant (Japan/manufacturing) they were taken on a tour of solar power generation facilities and a crystal oscillator plant. During a social gather-

ing, they were treated to a performance of *Kiyariuta*, a song sung at the *Onbashira* Festival (a historical festival of the Suwa region during which four freshly cut logs from nearby mountains are erected at the corners of a shrine). It was a great opportunity for students to experience the culture, climate and history of nature-rich Suwa.

The fourth alumni reunion was held on November 3 in Shinjuku, Tokyo. Following a general meeting, alumni took turns singing songs from their homelands — China, South Korea, Thailand, Vietnam and Indonesia.

The Foundation also published the *Rainbow* newsletter to exchange information between scholarship students, alumni and Foundation officials. In FY2004, we asked students from the sixth and seventh years of the program to contribute their impressions of studying in Japan or news about their research to the feature story "Foreign Students Speak."

Through the story, they shared the struggles and joys of studying in a foreign land, as well as their cutting-edge environmental research on such topics as microorganisms that improve salt-damaged soil, waste power generation and microorganisms in organic waste, and on such IT-related topics as online data exchanges and online consumer behaviors.

Despite their difficulties, students from Asia are enjoying their studies in Japan and working toward building a better society. Epson is supporting their remarkable passion and aspirations.



Photo 1 Ceremony to welcome students into the alumni association



Photo 2 Foundation Associate Director Toshio Kimura gives the welcome speech

Environmental Performance

Epson is keenly aware that our global operations are closely connected with the environment worldwide, and impact the environment in a variety of ways. This section outlines our efforts to advance eco activities Groupwide, through environmental management, the manufacture of eco-products, and innovation of environmentally responsible production processes based on integrated global objectives and standards.

These photographs capture Group members participating in environmental initiatives.

1. At Ecology Center in Japan
2. Eco-Products 2004
3. Global meeting
4. Eco-Products 2004
5. At Ecology Center in Japan
6. Solar and wind-powered streetlights
7. Plant visit
8. Eco-Products International Fair 2004 in Malaysia
9. Studying the *Sustainability Report*



▲1



▲2



▲3



▲4



▲5



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Action07 — General Environmental Policy and FY2004 Results

The Epson Group's General Environmental Policy outlines our policy on environmental activities for FY2004 - FY2006 and is part of our mid-range business plan, Action07. High-priority objectives in this policy include more complete quantification of environmental impacts throughout a product's lifecycle and disclosure of information that meets the needs of local communities and customers.

	High-Priority Activities	Description
Eco-Products	1. Develop and produce products that impose less environmental burden throughout their lifecycles (increase resource and energy productivity)	a. New Epson Ecology Label program
		b. Resource savings <ul style="list-style-type: none"> ● Promote miniaturized, lightweight products ● Increase recyclability (start at design stage) ● Reuse recycled resources
		c. Energy savings <ul style="list-style-type: none"> ● Maintain industry-leading energy-saving performance for each product category
	2. Reorganize the structure to enhance environmental performance (quality)	a. Conduct product evaluations to keep environmental performance (quality) high
		b. Build and operate a product safety management structure for chemical substances in products
Green Factory	3. Effectively use environmental performance (quality) information in sales promotion	a. Comply with local green purchasing laws and qualify for local environmental labels (Type I, II, III)
	4. Recover/recycle used products	a. Build recovery/recycling systems based on regional plans
Environmental Management System (EMS)	1. Reduce global warming substances	a. Reduction of total CO ₂ emissions <ul style="list-style-type: none"> ● Reduce energy use (including process innovation) and reduce use of global warming substances (PFC and others) ● Reduce environmental burden from transportation
		a. Effectively utilize resources (raw materials, production materials) <ul style="list-style-type: none"> ● Reduce waste
	2. Promote resource-saving activities	<ul style="list-style-type: none"> ● Reduce environmental burdens from chemical substances used at business sites ● Reduce water use
Information disclosure Corporate citizenship	1. Transition to performance-oriented EMS	a. Upgrade to a performance-oriented EMS
		b. Introduce and implement Groupwide audits
	2. Disclose environmental information in the regions in which we operate	a. Disclose environmental information according to the needs of local communities
		b. Communicate with NGOs, NPOs and third-party organizations
Corporate citizenship	3. Implement effective corporate citizenship activities in each region in which we operate	a. Improve corporate citizenship activities by collaborating with environmental organizations (including NGOs and NPOs) in each region of the world
		b. Support environmental education for the next generation

Objectives	FY2004 Results	Evaluation
Finished products business: 20% of Epson's products to be top-selling, compliant products Device businesses: All products are to be compliant with the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive in FY2004	a. All businesses subject to the system introduced it	A
FY2006: 15% reduction (based on FY2002) FY2005: 75wt% (excluding thermal recycling), 85wt% (including thermal recycling) Targets set on per product basis	b. Achieved targets for major products	A
Targets set on per product basis	c. Achieved targets for major products	A
Implement evaluation	a. Finished products business: Laser printer and personal computer (notebook PC, desktop PC and LCD monitor) businesses obtained EcoLeaf System Certification and 34 EcoLeaf labels were released	A
Build and operate	b. Green purchasing rate for production materials — Japan: 99.7%/Overseas: 99.8%	A
Targets set on per business and region basis	a. Achieved compliance with various international environmental label standards, including Eco Mark, Blue Angel, Taiwan Green Mark, China Energy Conservation Product Certification label, ENERGY STAR Program, IT Eco, PC Green Label and EcoLeaf	A
	b. Increased the number of products compliant with the Law on Promoting Green Purchasing and registered with the Green Purchasing Network's database	A
Targets set on per region basis Establish system: Europe August 2005 Recycling rate as of December 2006: Japan 65% (excluding thermal recycling) Europe 65% (excluding thermal recycling) 75% (including thermal recycling)	a. Built recovery/recycling systems based on regional action plans US: Reviewed regional legislation in US and Canada and implemented compliance measures Europe: Reviewed regional status of legislation related to the Waste Electrical and Electronic Equipment (WEEE) Directive Japan: Recovered 5,072 units (corporate-use: 2,166 /home-use: 2,906) Recovered 70.0 t (corporate-use: 28.8 t/home-use: 41.2 t) Recycling rate 68% (PC: 68%/non-PC: 68%)	B
FY2010: 60% reduction in total CO ₂ emissions (based on FY1997) (Energy savings: 7% of use in the previous year)	Actual results 2.2% reduction Implemented measures for saving energy and reducing global warming substances 7.1% Achieved energy-saving targets (20,564 kl)	A
FY2004: Establish benchmarks and set targets	Target setting Set mid-range targets	A
FY2004: Plan activities FY2010: 40% reduction in total generation (based on FY2002) FY2004: Reduce usage according to promotional organizations' individual targets	3.1% reduction Defined Zero Emissions Level 2 Implemented by each promotional organization Operations divisions/Group companies/affiliates – worked toward individual targets (achieved 62 out of 92 targets) 64.1% reduction 64.1% reduction in use of PRTR chemicals, based on FY2002 levels (FY2010 targets achieved)	C B
FY2010: 60% reduction in use of chemicals subject to the Pollutant Release and Transfer Register (PRTR) (based on FY2002)	Substances prohibited by SEG found to have been used by 6 promotional organizations	A C
FY2006: Reduce to FY2002 level or lower	3.6% reduction	A
FY2004: Construction	a. System construction not completed. Implemented test EMS integration of TFT Operations Division and Head Office	C
FY2005: Begin audit	b. Groupwide audit system not completed. Studies done on current status of audits within the Group	C
FY2004: Status analysis and planning/implementation	a. Finalized Message Manual (environment-related publicity version)	C
FY2004: Planning/implementation	b. Communicated with environmental NGOs/NPOs	B
FY2005 and onward: Implement collaborative activities	Provided financial assistance to the Jackson Bottom Wetlands Education Center	B
FY2006: Implement in major countries	Kids' ISO in Japan: widened the scope to include children of employees and students of neighboring elementary schools, and reviewed the work done by 100 Tokyo children Kids' ISO overseas: assisted translation of beginner's workbook into French	A

Evaluation — A: Target achieved (over 80%) B: Target mostly achieved (at least 50%) C: Target partly achieved (less than 50%) D: Not implemented

Promoting Environmental Management

Because we at the Epson Group know that our business activities unavoidably impose an environmental burden, we work hard to achieve coexistence of the environment and economy, and the creation of a sustainable economy through good environmental management. To integrate our Groupwide efforts, we share these standards and objectives with all our sites.

Environmental Philosophy and Policy based on Management Philosophy

In keeping with our Management Philosophy of striving to be a progressive company trusted throughout the world and a company that places a high priority on environmental conservation, we established an Environmental Philosophy and an Environmental Policy to further our conservation efforts Groupwide.

Environmental Philosophy (Issued October 1994, revised June 1999)

The Group will integrate environmental considerations into its corporate activities and actively strive to meet high conservation standards in fulfilling its responsibilities as a good corporate citizen.

Major Activities

The following activities will be pursued in keeping with the Environmental Philosophy:

1. Creating and providing earth-friendly products
2. Transforming all processes to reduce the burden on the environment
3. Recovering and recycling used products
4. Sharing of environmental information and contributing to regional and international preservation efforts
5. Continually improving the environmental management system

Our approach to environmental management

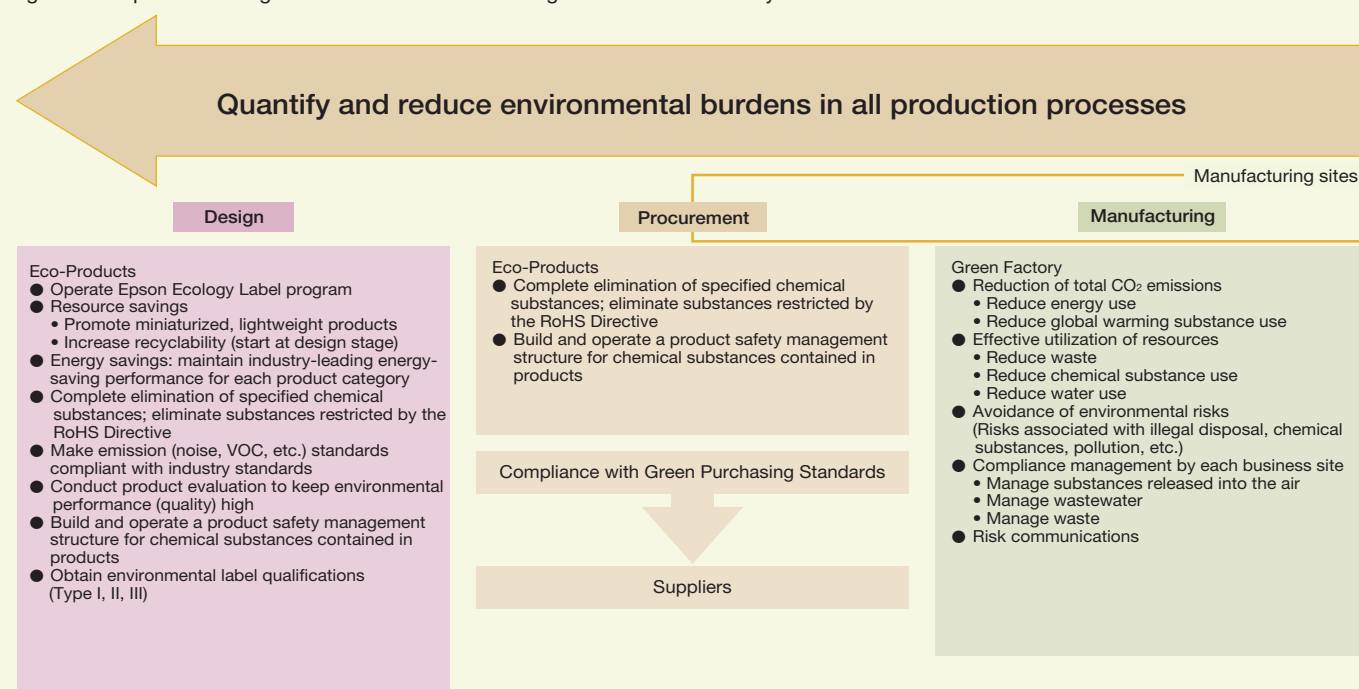
As a manufacturer, we consider it our responsibility to reduce the environmental burden of a product throughout its life-cycle. This not only includes Epson's production process, but also the parts and materials purchasing stages, during transportation, while the product is being used by the customer and during recovery/recycling.

For us, every factor involved at every stage of product manufacturing contributes to the product's quality. This is the foundation for making products that are trusted and enjoyed by our customers. Environment (E) therefore should not be excluded from business operations; it is a part of Quality (Q). By incorporating environmental activities into business, we can describe the basic concept of environmental

management as (Q+E)/C (Cost)/ D (Delivery).

We established the General Environmental Policy component of Action07 (see p. 22) after identifying the challenges and setting corresponding objectives that cover all stages of a product's lifecycle, as shown in Fig. 1. Moreover, we make efforts to quantify environmental conservation costs and effectiveness

Fig. 1 Concept of Reducing Environmental Burden Throughout a Product's Lifecycle



through environmental accounting. We do this to monitor overall activities and to incorporate the findings into our future activities.

There are three axes to our environmental management:

● Creating and providing earth-friendly products

Manufacturers like Epson earn profits through customers' purchases of products. To ensure that our products are increasingly earth-friendly, we are using the Life Cycle Assessment (LCA) method to quantify the environmental burden of a product throughout its lifecycle. We are also integrating energy-saving designs, resource savings and elimination of hazardous substances into our product cycle — from planning, development and design to procurement of materials and parts. For more efficient product recycling, we are introducing ways to improve recycling rates into product development as early as the development stage.

● Creation of products that impose less burden on the environment

Superior environmental products impose a lower environmental burden during production. We are working toward

minimizing environmental burdens such as energy use, wastes and chemical substances. At the plants that produce these products, where our business activities are based, we practice stringent management of the risks associated with plant management and constantly monitor plants' impact on air, water and soil.

● Promotion of product recovery/recycling

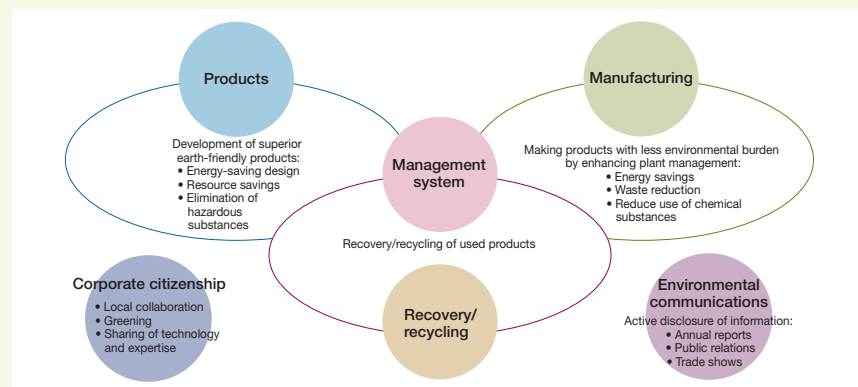
We are building the most suitable recovery/recycling systems for each country and region in which we operate, ahead of enactment of local legislation. We encourage this to move closer to achieving a

recycling-oriented society.

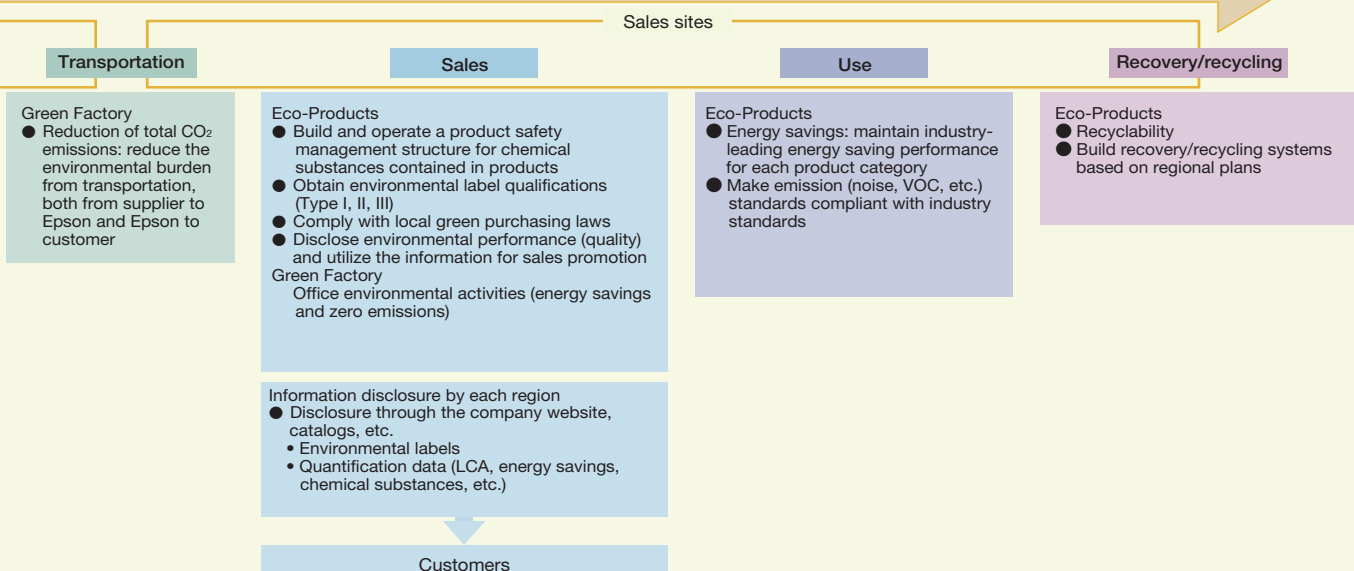
The environmental management system underpinning the above-mentioned three axes should continually improve to assure that they function efficiently and achieve positive results.

In addition, we are contributing to society through the promotion of local community activities and the sharing of environmental technologies and expertise. Disclosing information and communicating with stakeholders through annual reports and other media are additional important components of our environmental management process.

Fig. 2 Three Axes of Environmental Management



Life Cycle Thinking (LCT) Life Cycle Assessment (LCA)



Environmental management system utilizing ISO 14001

Epson sets annual/mid-range General Environmental Policy as a vital part of our annual management policy and mid-range business plans, which are drawn up every three years. Promotional organizations (operations divisions, Head Office and Group companies/affiliates) then create their own environmental plans (mid-range and fiscal plans) to undertake environmental activities as part of their business operations. Their efforts are audited internally once or twice a year, and appropriate corrective measures are taken at the promotional organization level (Fig. 3).

We continuously improve this system by following ISO 14001 guidelines and the Plan-Do-Check-Action (PDCA) cycle. All major manufacturing and non-manufacturing sites in Japan and overseas have acquired ISO 14001 certification. Newly established companies work toward achieving certification within three years of startup.

Groupwide effort to build promotional structure

The Executive Vice President, as the Senior Director of Environmental Activities, leads the Group's entire environmental operations. The Senior Director is supported by the Global Environmental & Safety Policy Department, which is the main organization for Groupwide environmental efforts. The Environmental Committee and the Meeting of Environmental Affairs General Managers decide the Groupwide direction for environmental operations. Serious issues identified from the General Environmental Policy are dealt with by a cross-divisional Expert Committee that supports each promotional organization.

Two expert committees, the Environmental Products Committee and the Green Factory Committee, pursue environmental measures in two areas, products and production processes/plant operations, respectively. Through these committees, we are strengthening the working relationship between the two areas, implementing

more effective measures and using them to encourage further integration of environmental activities into business operations (Fig. 4).

For overseas Group companies/affiliates, we hold global environmental conferences and area conferences (U.S., Europe and China). Sponsored by the Head Office and each area respectively, they allow participants to share information and discuss the directions and goals of our environmental undertakings. The FY2004 global environmental conference was held at the Head Office in December, while a manufacturing-related global environmental conference was held at Epson Engineering (Shenzhen) Ltd. in August.

Managing risk through unified regulations

The Epson Group complies with pollution-prevention legislation by adhering uncompromisingly to the Group's unified regulations and standards.

Each promotional organization practices ISO 14001 to identify all risks, such as potential failure to meet standards,

Fig. 3 Environmental Management System

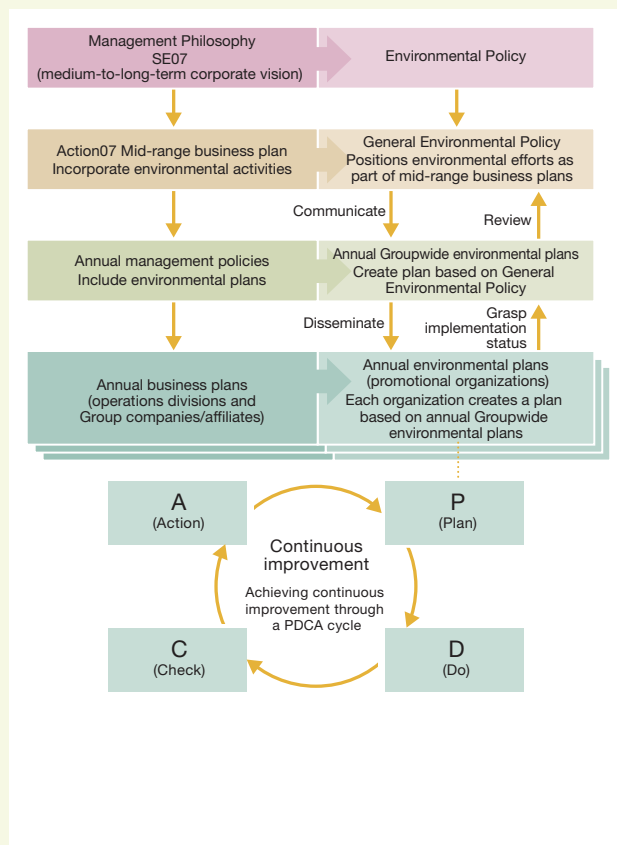


Fig. 4 Group Organization for Promoting Environmental Activities



complaints we may receive and accidents that may occur. For each potential risk, we take preventive measures based on the results of risk assessment and work continuously to minimize impact.

Table 1 shows cases of standards violations, complaints and accidents associated with the environment in FY2004. We are pleased to report that we did not receive any fines or penalties in relation to environmental laws or regulations, either in Japan or overseas, and that corrective measures have already been taken.

Improving environmental activities through in-house awards

Epson has established two in-house awards, the Environmental Management Award and the Environmental Award, to encourage improvement in ongoing environmental efforts and to raise environmental awareness (Table. 2).

Table 1 FY2004 Reports of Standard Violations, Complaints and Accidents

Failure to meet legal standards	Overseas	Failure to meet industrial complex wastewater standards	4 cases
		Failure to meet air quality standards	2 cases
Complaints	Japan	Complaints about noise	3 cases
Accidents	—	—	0 cases

Table 2 Environmental Management Awards and Environmental Awards

	Environmental Management Award	Environmental Award
Purpose	To encourage each promotional organization to fully incorporate environmental efforts into every area of business operations and to yield outstanding results.	To encourage employees to increase their interest in environmental activities and to motivate them to pursue new "Creation and Challenge" activities.
Basis of evaluation	Recognize overall environmental activities, especially the attainment of targets stated in the General Environmental Policy, as well as basic requirements, such as compliance with related legislation, and aspects such as improved organizational structure.	Recognize development of technology, products or systems that have contributed greatly to raising environmental performance, or activities in education and corporate citizenship that have made a difference in improving environmental awareness.
Recipients	Operations divisions, Head Office, Group companies/affiliates in Japan and overseas	Promotional organizations, teams or individuals
FY2004 results	[Environmental Management Continuity Award] · Epson Portland Inc. (US) · Tohoku Epson Corp. · Epson Engineering (Shenzhen) Ltd. (China) [Environmental Management Award] · Imaging and Information Products Operations Division · TFT Operations Division · Matsumoto Head Office, Sanyo Epson Imaging Devices Corporation · Epson Telford Limited (UK) · Semiconductor Operations Division · Akita Orient Seimitsu Co., Ltd. · Epson Direct Corp. · Epson Service Corp. · Tianjin Epson Company Ltd. (China) · Suzhou Epson Co., Ltd. (China) · (PLANT-1): Po Shen Industrial Factory (China) · (PLANT-2): Po Shun Industrial Factory (China) · E&G Electronic (Shenzhen) Ltd. (China) · Singapore Epson Industrial Pte. Ltd. (Singapore) · Epson Precision (Johor) Sdn. Bhd. (Malaysia) · P.T. Epson Batam (Indonesia) · Fujian Epson Start Electronic Co., Ltd. (China)	■ Grand Prix 2 awards Green Purchasing Subgroup Epson El Paso, Inc./Epson de Juarez, S.A. de C.V. (Mexico) ■ 1st Class 10 awards ■ 2nd Class 26 awards ■ 3rd Class 43 awards

Leading the Industry in Reducing Environmental Burdens Throughout a Product's Lifecycle

With the conviction that a product's environmental performance is an integral part of its quality, Epson is striving to reduce the environmental burden of our products throughout their lifecycle.

As more consumers base their purchasing decisions on a product's environmental performance, it is becoming very important to consistently communicate each product's environmental information.

In FY2004, Epson revised its ecology label program and launched a new system for products that demonstrate industry-leading environmental performance, certifying them as Epson Ecology Products and making this known to the public. Under this same system, all products are subject to disclosure of environmental performance information through Epson Ecology Profile data sheets. Also in FY2004, Epson made significant progress in the quantification of the environmental impact of products, through the LCA method, and in information disclosure, by acquiring EcoLeaf System Certification. Three businesses acquired the right to publish EcoLeaf labels for 37 product models — the largest number in the industry (as of March 31,

2005, according to Epson research).

Regarding green purchasing, which involves 2,500 suppliers around the world, Epson built a database of chemical substances, containing 130,000 production materials used by Epson. The database helped eliminate 98% of the usage of six chemical substances subject to RoHS Directives. Regarding recycling, progress is being made in a variety of locations by building recycling systems that comply with local legislation.

Regarding energy savings, the LCD manufacturing operation at the new Chitose Plant in Hokkaido uses nearly 50% less energy compared to conventional production methods (see p. 12 for details). Additional steps, such as the use of modularized clean rooms, has allowed an energy policy of "the required energy at the required place in only the required amount" to be promoted. Despite an expansion in the scope of business, total emissions of CO₂ decreased by 2.2% from the FY1997 level on a consolidated basis. Through Zero Emissions Level 2 activities, waste generation was kept at the same level as the previous year, in spite of increased production volume. Moreover, Epson achieved production process innovation utilizing inkjet technology to reduce energy use.

A mechanism has been constructed to collect

data on the environmental impact of domestic and international transportation. By altering transportation means and routes, we were able to reduce CO₂ emissions that result from transportation.

In terms of environmental management, 20 business groups received Environmental Management Awards, which are judged based on strict criteria, such as the achievement of 90% of the targets set in the General Environmental Policy. The number of awards shows significant progress over FY2003, when only seven groups received awards. In the area of information disclosure and corporate citizenship, overseas affiliates are gaining recognition from their local communities, proving that the Group is working steadily toward the goal of its members being recognized leaders of environmental activities in the regions where they operate.



Nobuo Hashizume
General Administrative
Manager
CSR & Environmental Affairs
Division

Environmental Education and Awareness Programs

Epson launched an environmental education program to give each employee an accurate understanding of environmental issues and to motivate employees to exercise conservation measures on their own initiative. Underpinning this program are education based on job role, education for specialists and education to promote awareness.

Three pillars of environmental education

Epson implements systematic and continuous environmental education to help each employee use environmental conservation as a basis for judgment and take action in environmental efforts, both at work and at home.

1. Job role-based program

This program offers training tailored to all job types, from entry to management level, to teach all employees how to approach environmental issues and take action based on their job roles.

Basic environmental education is a mandatory program for all Epson Group employees and is conducted through a web-based (intranet) educational system called Epson Global Campus. New manager seminars provide the opportunity to discuss environmental activity trends and Epson's efforts, as well as their relation to the General Environmental Policy. These seminars are conducted so that new managers can direct our environmental activities. A seminar for general managers, held during managerial training and led by the general manager in charge of environmental activities, focuses on the significance of environmental management.

Management directors (heads of overseas Group companies/affiliates) are trained to gain expertise in environmental management, including knowledge of legislation and eco activities in the countries to which they are transferred. Management-level and regular employees alike are provided with in-depth training, so that they fully understand the local environmental initiatives and are able to actively participate in local eco-activities under the leadership of the management directors.

2. Education for specialists

This program aims to provide skills training for environmental activities in certain job positions. This includes training of internal auditors and education on environmental legislation. In FY2004, 241 employees were newly registered as auditors.

3. Awareness promotion programs

This category is designed to raise the environmental awareness of all employees through such activities as provision of environmental information through the intranet, featuring related articles in the "For the Globe" section of the web-based company newsletter Harmony Online; displaying awareness posters; and running seminars and other events.

The intranet offers the latest news, categorized by activity, as well as by trends in related legislation, minutes of internal and external environmental meetings together with meeting materials, and a glossary of environmental terms.

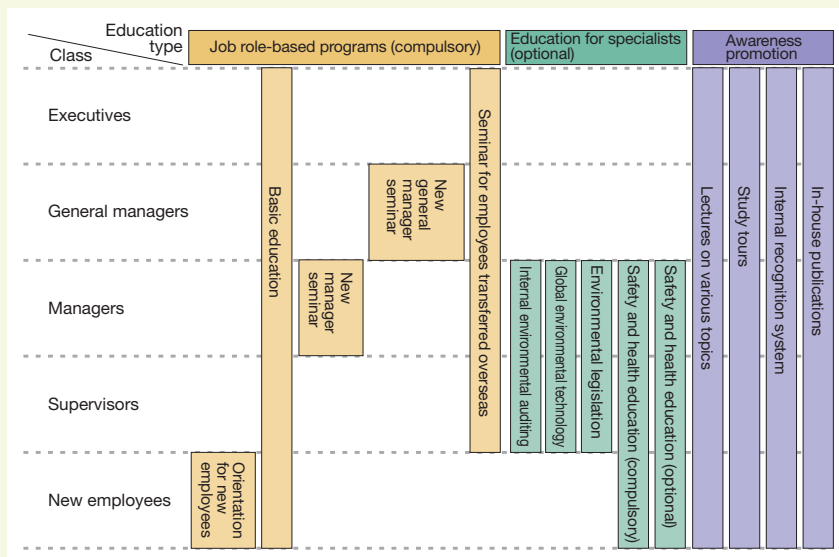
Kids' ISO 14000

Epson has joined with its labor union to cosponsor the Kids' ISO 14000 environmental education assistance program, developed by Japan's International Art & Technology Cooperation Organization (ArTech).

In FY2004, following a campaign to encourage the children of employees to participate in the program, 24 children signed up for the introductory and the primary levels. Since FY2002, a total of 63 children have become international certificate holders of the program's primary level. An invitation was extended to local elementary school students to take part and as a result, 130 fifth graders from Minowa Chubu Elementary School participated in the program.

ArTech also promotes the spread of the program overseas. In France, members of Epson Engineering Europe S.A. translated the English textbook into French and modified the content to suit the French lifestyle. Local elementary schools were asked to edit the textbook to make it friendly for elementary school students to use.

Fig. 1 Environmental Education System



Environmental Accounting

To enhance environmental management, we make quantitative assessments of our environmental costs and effects.

Our approach to environmental accounting

Epson's environmental accounting statements correspond to the categories in our General Environmental Policy to quantify the costs and effects of conservation activities, and to clarify the relationship between objectives and results. The scope of accounting covers Seiko Epson Corporation and 36 Group companies/affiliates (18 companies in Japan and 18 companies overseas)*.

(Figures for FY2003 and earlier used in the graphs and tables are not adjusted.)

* The companies included in the scope of accounting are ISO 14001 certified and more than 50% owned by Seiko Epson Corporation. For overseas non-manufacturing Group companies/affiliates, only three regional headquarters are included.

FY2004 results

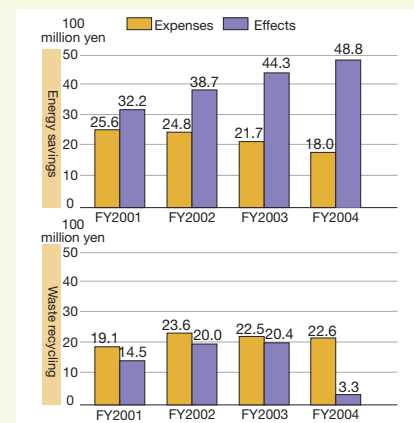
In FY2004, total investment amounted to 2.6 billion yen, up 61% from the previous year. This can be attributed to an increase in spending associated with resource- and energy-saving measures

for the new Chitose Plant, where TFT panels are manufactured. Thus, energy saving-related investments rose by 43% over the previous year (Graph 1).

Expenses totaled 17.1 billion yen, a 14% reduction from the previous year, owing largely to a 33% decrease in R&D spending, achieved through revamping of research activities to make R&D more efficient. Graph 2 shows a breakdown of R&D spending.

Recognized economic effects stood at 6.8 billion yen. Effects surpassed expenses in the areas of energy savings, reduction in the use of chemical substances that impose environmental burdens and reuse of water. Total economic effects declined due to the exclusion of one of two subcategories under waste processing/recycling effects — waste reuse — in the calculation, following the attainment of Zero Emissions Level 1. Graph 3 shows the change in the economic effects for energy savings and waste recycling.

Graph 3 Cost Effectiveness



Our environmental accounting method

Data is compiled using internal guidelines based on the environmental accounting guidelines provided by Japan's Ministry of the Environment.

- Accounting standards for environmental costs
 - Investments and expenses: based on categories used in financial accounting
 - Expenses: include depreciation (appropriated for six years), labor costs, overall expenses and R&D costs
 - Combined costs: costs of environmental conservation associated with production are allocated in differential accounting and apportionment
 - R&D costs: includes all research/development costs associated with environmental conservation, calculated by multiplying by an environmental contribution ratio
 - Contaminated soil cleanup costs: expenses are appropriated on a fiscal-year basis
- Method of calculating environmental effects

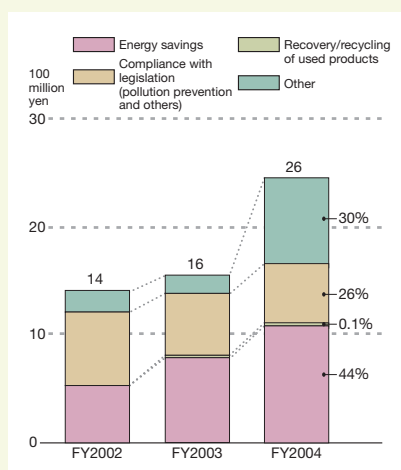
These effects are the sum of the effects of conservation measures. In principle, effects of energy savings and reduction of global warming substance emissions are appropriated for six years after implementation of the measures. For others, effects are appropriated for one year.
- Method of calculating economic effects

This is the amount equivalent to the sum of the effects of conservation measures.

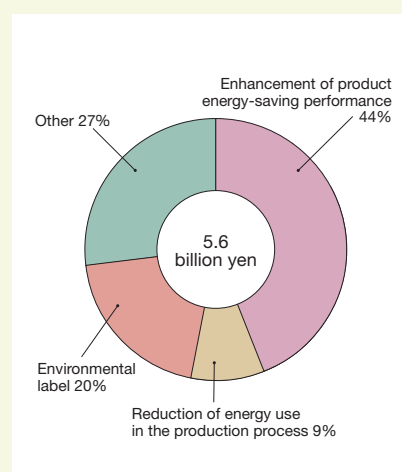
Results for FY2004 environmental indices

The eco-efficiency index and environmental cost-effectiveness index are calculated based on the cost and effect of conservation activities, and on economic effects. Graphs 4-7 on page 30 show how the indices changed. Only the production phase was used for data collection and calculation for FY2004 (Fig. 1).

Graph 1 Breakdown of Environmental Investments



Graph 2 Breakdown of R&D Expenses



● Eco-efficiency indices

1. Global warming substance emissions (Graph 4)

In FY2004, as a result of increased production, total emissions of global warming substances increased. However, measures to minimize the growth in global warming substance emissions proved effective and the index rose as a result.

2. Resource output (Graph 5)

In FY2004, the index rose due to efforts in keeping the total output nearly unchanged from the previous year.

3. Use of chemical substances (Graph 6)

Despite a decrease in chemical substance impact, the index remained unchanged from the previous year because of a decline in sales (on an unconsolidated basis).

● Cost-effectiveness index (Graph 7)

FY2004 will be the benchmark year for this index, as there was a change in the basis of the calculation following the attainment of Zero Emissions Level 1.

Future measures

Epson is creating an in-house system for utilizing data collected for calculating the cost and effect of conservation activities and economic effects, to enhance overall eco-activities. Together with our efforts to improve our current environmental accounting system, Epson is determined to practice more efficient and more effective environmental accounting.

● Environmental management indices formulae

Index	Formula
Eco-efficiency index	Sales
	Environmental burden in each category*
Cost-effectiveness index	Reduction of environmental burden in each category**
	Environmental cost in each category

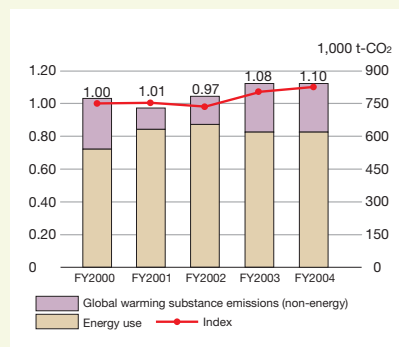
* Environmental burden in each category:

- Global warming substance emissions: Energy use (CO₂ equivalent) + global warming substance emissions (non-energy)
- Resource output: total output of waste (amount disposed of + amount recycled)
- Use of chemical substances: impact of chemical substance use

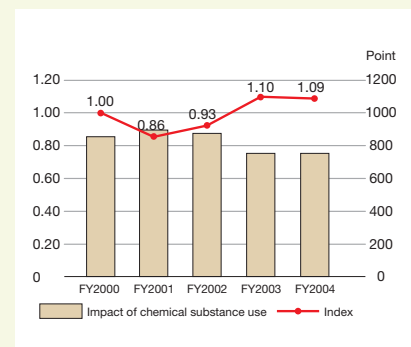
** Reduction of environmental burden in each category:

- Global warming substance emissions: energy savings + reduction in global warming substance emissions
- Resource output: reduction in total waste output
Starting in FY2004, the index is calculated based on reduction in total waste generation

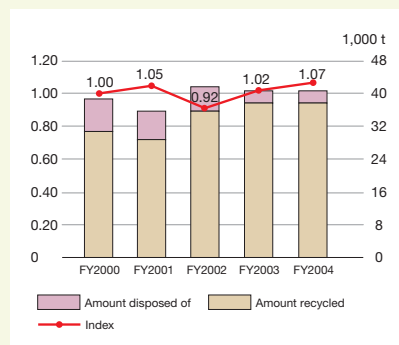
Graph 4 Global Warming Substance Emissions (Consolidated)



Graph 6 Use of Chemical Substances (Japan)



Graph 5 Resource Output (Consolidated)



Graph 7 Cost-Effectiveness Index

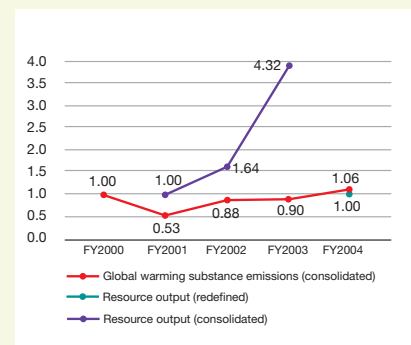
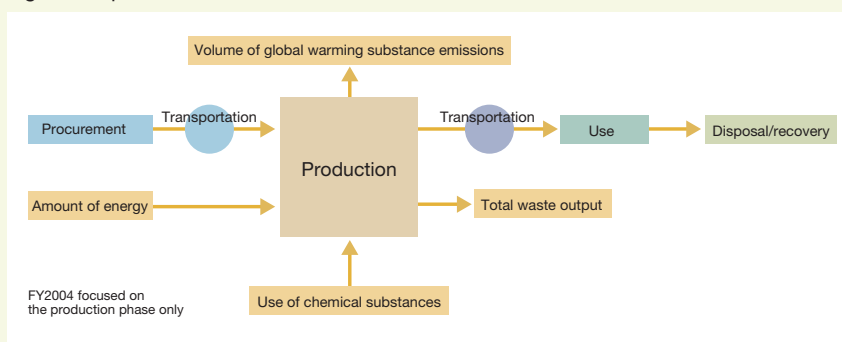


Fig. 1 Scope of Data Collection



Notes:

1. FY2000 is the base year for index figures (part of the cost-effectiveness index uses FY2001 as its base year).
2. Amount of xylene in fuels is included in use of chemical substances subject to the PRTR Law.
3. Overseas plants are included based on environmental accounting data (only Japanese plant data are included for use of chemical substances).
4. Impact of chemical substance use is measured using weighted hazard coefficients set for each PRTR substance.

Environmental Accounting Statement Scope: Seiko Epson Corporation, 18 Group companies/affiliates in Japan, and 18 overseas Group companies/affiliates (Unit: 100 million yen)

Strategy/activity			FY2003		FY2004							
			Environmental costs		Environmental costs		Economic effects		Balance ※3	Environmental/other qualitative effects		
			Invest-ments	Expen-ses	Invest-ments	Expen-ses	Content			Sum	Item	Unit
Creating and providing earth-friendly products	Eco-products/services											
	Green purchasing	0.0	5.7	0.0	9.9			9.9	Effect of energy-saving products on society	10,000 kWh	643	
	Elimination of prohibited chemical substances in products								Green purchasing rate (Japan)	%	99.7	
									Green purchasing rate (overseas)	%	99.8	
General Environmental Policy (mid-range high-priority activities)	Energy savings	6.7	21.7	9.2	18.0	Energy-savings effect	48.8	-30.8	Energy saved	kl	111,578	
	Global warming prevention	0.2	2.3	1.3	1.9	Reduction in use of global warming substances	1.4	0.5	Reduction in use of global warming substances	t	27	
	Reduction of substances that impose environmental burden in transportation	-	-	0.0	0.0	Reduction of substances that impose an environmental burden in transportation	0.9	-0.9	CO ₂ cut (energy savings + reduction of global warming substances)	t-CO ₂	675,260	
	Reduction of chemical substances that impose environmental burden	0.2	0.7	0.0	0.5	Savings as result of reduced use of chemical substances that impose environmental burden	6.2	-5.7	Reduction in CO ₂ emissions in transportation	t-CO ₂	12,181	
	Waste disposal/recycling	0.7	22.5	0.9	22.6	Waste-reduction effect	0.9	21.7	Reduction in use of chemical substances	t	3,335	
	Effective use of water resources	0.3	2.0	0.1	1.6	Water-recycling effect	4.9	-3.3	Reduction in waste volume	t	73,500	
	PRTR (chemical substance discharge/transfer registration)	0.0	0.4	0.0	0.2			0.2	Amount of water recycled	t	2,699	
	Other environmental conservation costs	1.3	5.5	7.7	4.3			4.3	Preparations for compliance with PRTR Law			
	Recycling products/consumables	0.1	10.1	0.0	10.7	Savings from parts reuse	2.1	8.6	Promotion of independent management by operations division using Hazard Evaluation Guidelines			
	Recycling containers/packaging								Increased recovery rate of used products and ink/toner cartridges			
	Environmental information disclosure (reports, public relations, etc.)	0.0	0.9	0.0	1.9	Public relations effect; information disclosure effect	0.4	1.5	Publishing environmental reports on our website			
	Contributions to society and donations								Greening and cleanup activities in local communities			
	Environmental education								Basic environmental education, internal auditor training and energy-savings education			
	ISO 14001	0.5	10.1	0.1	9.1	Savings as a result of internal education	0.6	8.5	ISO 14001 maintenance and management activities			
	Other environmental management activities											
	Eco-product development/production process development	0.0	85.5	0.0	56.7			56.7				
	Compliance with legislation (pollution prevention, others)	6.1	25.2	7.0	24.9			24.9				
	Soil and groundwater cleanup; others	0.1	6.4	0.1	9.5			9.5				
	Total			16.6	199.6	26.8	171.9	Total	68.0			
	Rate of environmental investment to total plant and equipment investment (%)			2.4	-	1.8	-					
Total amount of plant and equipment investment			687	-	※1 1,512	-						
Rate of environmental costs to sales (%)			-	1.4	-	※2 1.2	Estimated effect from CO ₂ reductions	※4	5.4 billion yen			

Material Balance Sheet Related to Business Activities

INPUT				
Item	Unit	FY2003	FY2004	Change
Amount of energy used	kl	289,232	294,795	5,563
Per unit of sales ※2	kl/100 million yen	20	20	-1
Chemical substances subject to PRTR ※8	t	1,473	1,343	-130
Amount of global warming substances used	t	74	58	-16
Amount of currently used chemical substances targeted for prohibition	t	0	1	1
Amount of water used	1,000 m ³	12,462	12,304	-158
Amount of used products recovered ※6	t	5,338	5,813	475
Amount of ink/toner cartridges recovered	t	2,603	3,425	823
Amount of IT equipment recovered	t	2,735	2,387	-348

※1 Represents Epson Group's consolidated investment.

※2 Calculated based on Group's consolidated sales.

※3 Represents net environmental expenses (total expenses-economic effects). Negative figures represent profit generated as result of measures taken.

 ※4 Monetary representation of effects resulting from energy savings and reduction of global warming substances (675,260 t-CO₂), using the average cost of the Activities Implemented Jointly (AIJ) project of the UN Framework Convention on Climate Change: 8,000 yen/t-CO₂

※5 Sections with a slash (/) represent items newly added in FY2004.

※6 Internally discarded products are included.

※7 BOD/COD discharge is calculated based on the amount released into rivers.

※8 Overseas Group companies/affiliates are not included in the FY2003 and FY2004 figures.

OUTPUT				
Item	Unit	FY2003	FY2004	Change
CO ₂ emissions ※9	t-CO ₂	833,945	789,479	-44,466
Per unit of sales ※2	t-CO ₂ /100 million yen	59	53	-5.7
Energy	t-CO ₂	671,895	662,969	-8,926
Global warming substances	t-CO ₂	162,050	126,510	-35,540
Transportation ※9	t-CO ₂		393,949	
NOx emissions	t	408	418	10
SOx emissions	t	244	241	-4
Wastewater	1,000 m ³	10,485	10,977	492
BOD discharge ※7	t	11.7	6.7	-5
COD discharge ※7	t	13.5	9.9	-4
Total waste generated	t	41,854	42,268	414
Per unit of sales ※2	t/100 million yen	3.0	2.9	-0.1
Total waste (landfill and incineration)	t	2,647	1,177	-1,470
Per unit of sales ※2	t/100 million yen	0.2	0.1	-0.1
Amount recycled ※10	t	39,206	41,090	1,884
Recycling rate	%	94	97	4

 ※9 Starting in FY2004, CO₂ emissions in transportation are being recorded. These, however, are not included in the CO₂ emissions in this table.

※10 Includes the quantity of valuable materials sold, which was 12,828 t in FY2004.

Development of Eco-Products

Epson believes that environmental performance and eco-consciousness in product manufacturing are integral components of product quality. Energy-saving design, resource savings and elimination of hazardous substances are incorporated from the start, at the planning and design phases, and followed through every step of the product's lifecycle.

Three basic policies for eco-products

1. Energy-saving design

A study of the environmental burden over a product's lifecycle reveals that a significant amount of electricity is consumed when the product is in use. At Epson, each operations division is responsible for setting its own energy-saving design objectives based on each product's features to achieve continuous improvements in environmental performance.

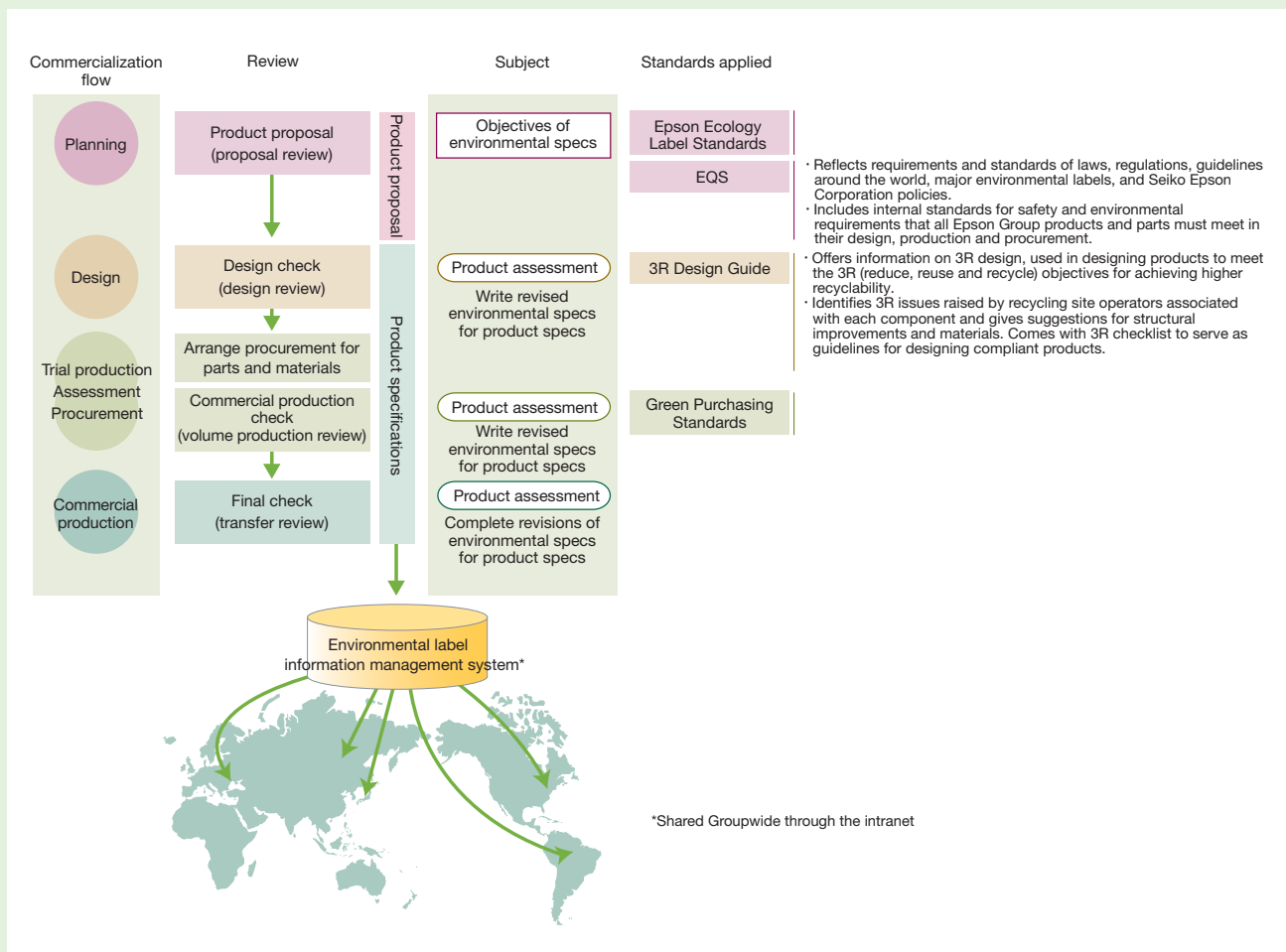
2. Resource savings

We set a recyclability objective for products, based on their calculated recyclable rate, assessed from their configuration and the materials used. We are also committed to reducing the cost of disassembly and sorting. To achieve these objectives, we reflect suggestions from operators at our recycling sites into the design of new products, using the *3R Design Guide*. We are focusing on creating smaller and lighter products to minimize use of materials.

3. Elimination of hazardous substances

Epson identifies prohibited or controlled chemicals through our internal Epson Quality Standards (EQS). We also strictly control chemical substances used in raw materials, parts, commercial production and all other aspects of the production process using a database. This ensures product safety and timely disclosure of information to customers.

Fig. 1 Commercialization of Eco-Products



Epson Ecology Label program

The Epson Ecology Label is a voluntary labeling (Type II) program applicable to all Epson products. We develop new products based on our own evolving set of eco-standards and disclose the products' compliance through the label. The label thus serves two purposes: support for continual improvements in earth-friendly products, and information disclosure.

In FY2004, Epson revised its ecology label program to further enhance product environmental performance and disclosure of environmental information. Under the new program, a product demonstrating industry-leading environmental performance in energy and resource

savings and elimination of hazardous substances, or achieving significant improvement in environmental performance over previous models, is certified as an Epson Ecology Product. This certification is publicized through a logo mark (Fig. 2).

Under the same program, all products are subject to the disclosure of environmental specifications through Epson Ecology Profile data sheets. For finished products, these data sheets show the environmental specifications of the product itself, the packaging and the consumables. For electronic devices, the data sheets include the quantities of chemical substances contained in the device.

Fig. 2 Epson Ecology Product logo



EcoLeaf LCA method

Along with our effort to enhance environmental performance, the Epson Group quantifies product environmental impact throughout the product's lifecycle using the LCA method and discloses this information. In FY2004, we acquired EcoLeaf System Certification in the notebook PC, desktop PC, PC display and black and white laser printer businesses, bringing the total of EcoLeaf labels to 37. This follows the certification acquired for the inkjet printer and projector businesses in FY2003. Information on EcoLeaf compliant products is available on the Epson Sales Japan website.

Epson made a proposal to EcoLeaf's sponsoring organization, Japan Environmental Association for Industry, regarding Product Specification Criteria (PSC) (standardized criteria used for comparison of products) for color laser printers and large-format printers.

In an effort to advance LCA-related activities, Epson is conducting a Life Cycle Inventory analysis for the electronic device business, through which the input/output of raw materials, energy and environmental contaminants for a product are identified and measured, to work out a basic unit for assessing environmental impact.

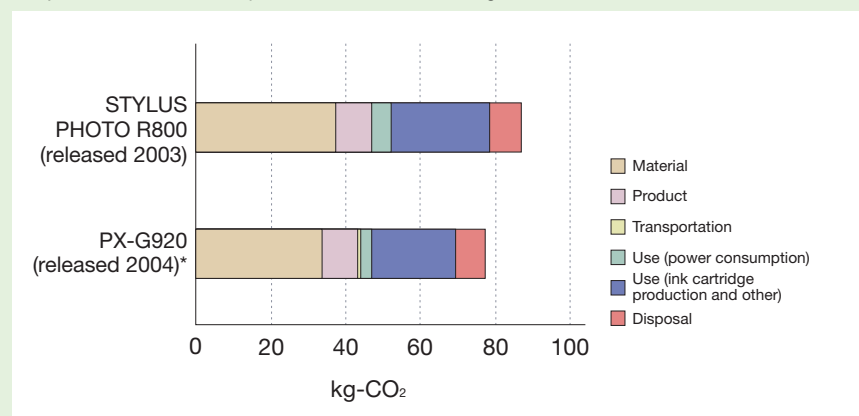
Integration of environmental impact assessments

To identify the balance between environmental cost and effect, and to provide information to assist us in making managerial decisions on environmental measures, Epson has been exploring integration of environmental impact assessments.

In FY2004, we used one of the integration methods the Lifecycle Impact Assessments Method Based on Endpoint Modeling (LIME), to compare new and old models of inkjet printers. We found that compared to the STYLUS PHOTO R800, the newer PX-G920* model achieved a 10% reduction in social costs and global warming impact (Graph 1).

Epson also participated in a meeting of the eco-friendly product subcommittee sponsored by the Nagano Society of Product Design Technology to explore Full Cost Assessment (FCA). FCA is one of the latest environmental impact assessment tools that incorporates economic assessments not accounted for in LCA through Life Cycle Cost (LCC) analysis. The tool analyzes and evaluates the overall costs paid by corporations and users, as well as those borne by society as a result of the environmental impact imposed by a product throughout its lifecycle.

Graph 1 Reduction in Inkjet Printer Global Warming Effects



*Marketed in Japan only

Qualifying for worldwide environmental labels

In addition to developing products that are compliant with the Epson Ecology Label and obtaining System Certification for the EcoLeaf Type III environmental

label, we are attempting to qualify for environmental labels in other countries (Table 1).

In China, the government has adopted a policy to give priority to products compliant with China's Energy Conservation

Product Certification in public procurement. Epson was recognized as a certified manufacturer in the first round of certification.

Table 1 Epson's Global Environmental Label Compliance

Type	Country/Region	Environmental label	Inkjet printer	Laser Printer	SIDM printer	POS printer	ink/toner cartridge	Paper	Projector	Large screen LCD projection TV	PC	Other
Type I	Germany	Blue Angel	●	●								
	Taiwan	Taiwan Green Mark	●	●	●		●		●			
	China	Energy Conservation Product Certification	●	●	●							
	South Korea	Energy Saving Mark	●	●	●							
	Japan	Eco Mark	●	●	●			●				
	Worldwide	ENERGY STAR Program	●	●	●					●	●	
Type II	Scandinavia	IT Eco Declaration	●	●		●						
	Japan	PC Green Label									●	
	Worldwide	Epson Ecology Label	●	●	●	●			●			●
Type III	Japan	EcoLeaf	●	● (B/W only)					●		●	

"Inkjet printer" includes multifunction printers; "PC" includes monitors; "Other" includes electronic devices.

Energy-saving, resource-saving design best practices

● STYLUS PHOTO RX700 multifunction inkjet printer

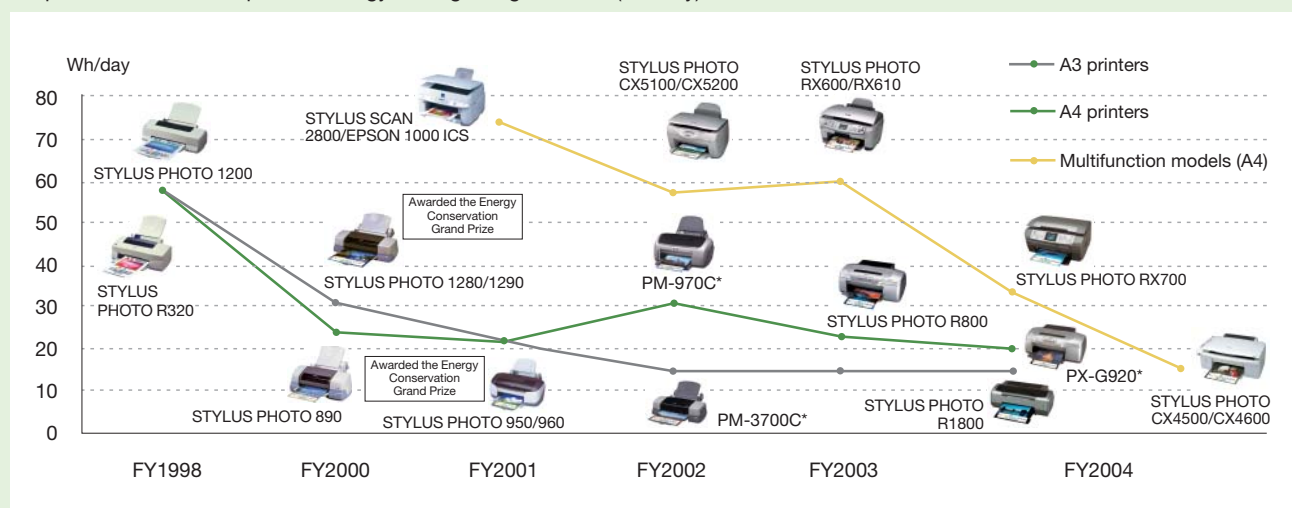
The Epson Group has made significant progress in lowering the power consumption of printers, while continuing to pursue high-quality printing (Graph 2).

This can be attributed to our product development focus on reducing power consumption not only during use, but also when the power is off or in standby mode.

The STYLUS PHOTO RX700, released in FY2004, is the flagship model of the All Photo Colorio series, with photo printing

capability using Epson's durable "Tsuyo-ink," as well as scanner and copier functions. Its total power consumption per day is 45% less than the STYLUS PHOTO RX600/RX610 released in FY2003 and 55% less than the STYLUS SCAN 2800/EPSON 1000 ICS released in FY2001.

Graph 2 Power Consumption of Energy-Saving Design Printers (Per Day)



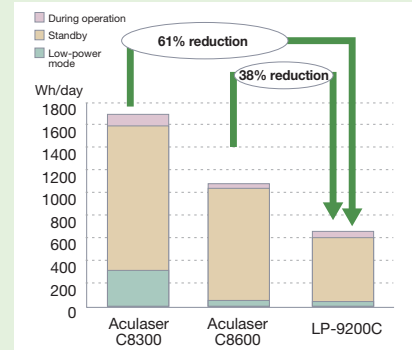
● LP-9200C color laser printer

While designing the LP-9200C*, Epson engineers focused on resource savings, achieving a compact, lightweight body that has 15% less volume than its predecessor, the LP-9000CZ*. Power consumption per day is also 38% less than the Aculaser C8600 released in FY2001 and 61% less than the Aculaser C8300 released in FY2000 (Graph 3).



Photo 1 LP-9200C*

Graph 3 Total Power Consumption of a Color Laser Printer Per Day



● LIVING STATION large-size digital LCD projection television

LIVING STATION represents a new concept in large-screen televisions, realized using Epson's cutting-edge digital LCD projection technology. The superfine image generated by the 3LCD system (high-temperature polysilicon LCD 3-panel system) is enlarged by a projection lens and reflected onto the screen by a mirror. One of the LIVING STATION

models, the 57V-inch LS57P1, has a power consumption of 180 W during use, which is less than half that consumed by a 50V-inch plasma television and the same as a 37V-inch LCD television. The television is only 40 cm deep and weighs 56 kg, about half the weight of a conventional CRT television.



Photo 2 LS57P1

● TM-J9000 integrated check scanner/receipt printer

Designed for large North American banks, the TM-J9000 is an integrated check scanner and receipt printer that uses 26% less space (volume) than a separate scanner and printer combination and 41% less energy per day. Checks can be processed digitally when the printer is installed at the teller line and

connected to a server in the processing center. The TM-J9000 features lower check transport costs and reduced CO₂ emissions. The product is named ThunderBird II in the U.S. market.



Photo 3 TM-J9000

● XV-3500CB vibration gyro sensor

The XV-3500CB is a subminiature angular velocity sensor designed for use in systems that compensate for vibrations in compact digital cameras and camera phones. By leveraging Epson's original crystal microprocessing technology (low-power analog circuit technology) and packaging technology, we were able to achieve the world's smallest gyro sensor with built-in drive circuitry.

● GRAND SEIKO autowind watch with Spring Drive movement

GRAND SEIKO is a luxury line of watches driven by Seiko's original Spring Drive movement. Not needing batteries, the watch uses the energy from the uncoiling of a wound spring to control the watch hands; the watch's accuracy is controlled by an IC and a quartz crystal. Winding is automatic, which makes this watch even more convenient.

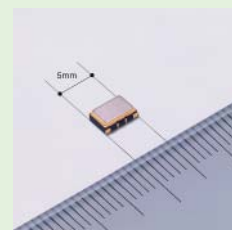


Photo 4 XV-3500CB



Photo 5 GRAND SEIKO

*Marketed in Japan only

Green Purchasing

In making earth-friendly products, every raw material and part must be chosen carefully and procured with the environment in mind, to achieve the highest environmental performance. Epson follows a set of strict Groupwide standards to effect green purchasing.

Green purchasing for production materials

Epson's global procurement standards for production materials (all parts and raw materials including packaging and OEM products used to create products) support our policy for creating earth-friendly products, starting from the initial stages of production.

Supporting our green purchasing effort is a process of review, and certification and registration of Green Vendors and Green Production Materials. This two-step process demonstrates the high priority we place on purchasing materials that impose a lesser burden on the environment from eco-conscious suppliers (Fig. 1).

In FY2003, we established the SEG Green Purchasing Standards to enhance the quality assurance of Epson products based on our existing purchasing guidelines. Under the standards, which provide prerequisites for qualification as a Green Vendor, we require our suppliers to guarantee that legally prohibited substances are not found in the production materials they supply or in their production processes. We have also added the disclosure of information on chemical substances found in production materials as a condition for qualification as a Green Production Material.

Global information system for managing chemical substances

Epson joined fellow manufacturers in founding the Japan Green Procurement Survey Standardization Initiative (JGPSSI). Using a research tool developed by the Initiative, Epson conducted a worldwide investigation into chemical substances found in production materials for a Groupwide database.

Currently, the database houses information provided by 2,500 participating suppliers on 500 chemical substances found in 130,000 production materials. The database can be searched for production materials that use prohibited

substances subject to complete elimination, and for information on corresponding alternative materials which can help product planners and designers create environmentally friendly products.

Throughout the second half of FY2004, Epson maintained a green purchasing rate of 100% in Japan and overseas, and as of March 31, 2005, achieved near-perfect elimination of chemical substances subject to the RoHS Directive. We will make further efforts to replace non-qualifying parts and achieve total elimination of prohibited substances (Graph 1).

Graph 1 Rate of Green Purchasing of Production Materials

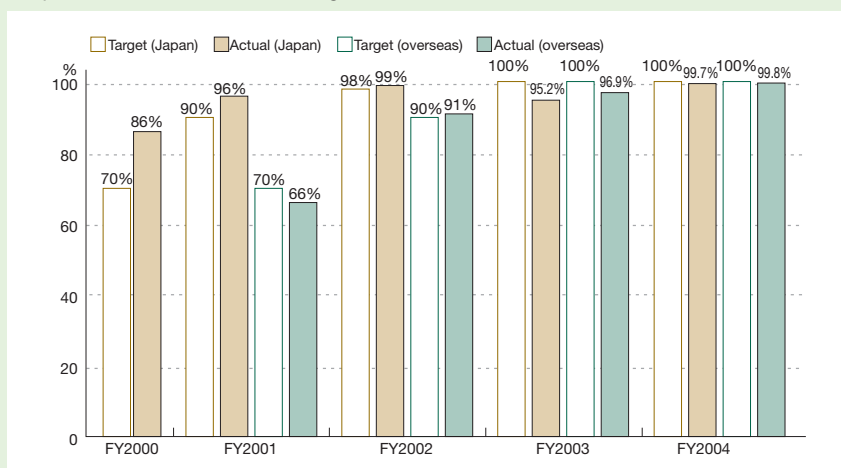
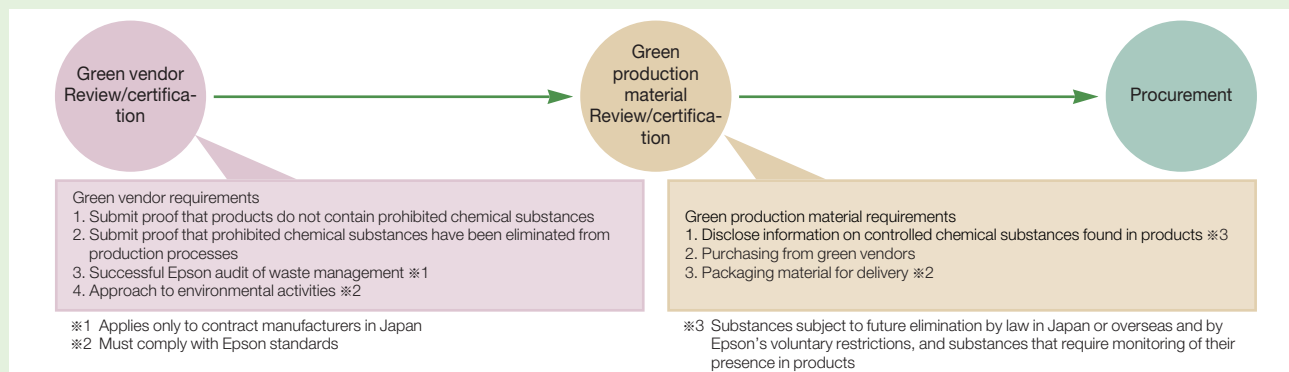


Fig 1. Green Purchasing of Production Materials



Improved green data processing

After using the JGPSSI research tool to collect data from each supplier on chemical substances contained in production materials, everyone concluded that there was too much manual work involved in the distribution, collection, checking and registration of data.

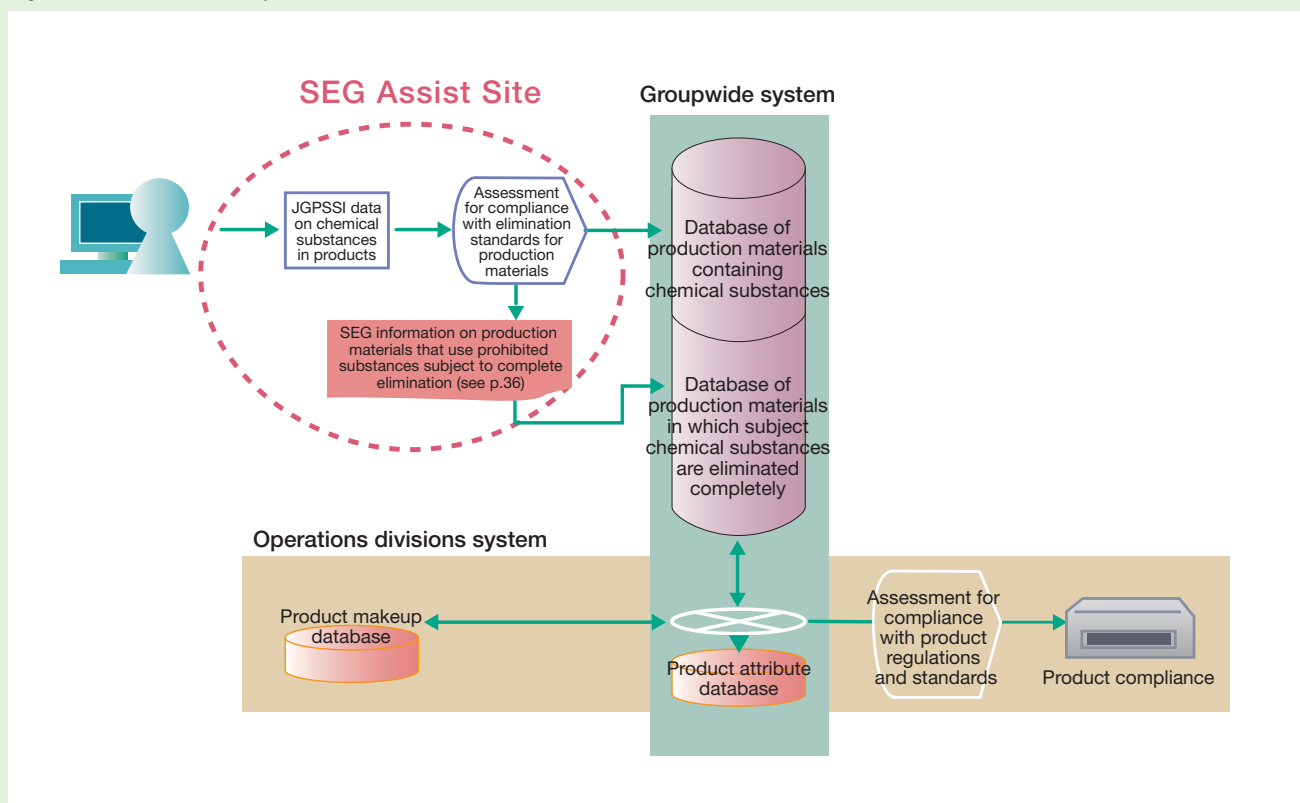
To boost efficiency, Epson added the

Seiko Epson Group (SEG) Assist Site to its external website in FY2004 so that suppliers could report the results of their investigations into chemical substances. With a function to alert users when there is insufficient data, the site has contributed greatly to efficient data input and collection. The site is available in three languages — Japanese, English and

Chinese — to accommodate suppliers in different countries (Fig. 2).

Epson proposed the Assist Site to JGPSSI as a way to achieve more efficient data processing. We hope to work together with our fellow manufacturers to build an efficient system for the entire industry.

Fig. 2 Global Information System and SEG Assist Site



New product assurance scheme

Epson is building a product assurance system to comply with very strict legislation such as the RoHS Directive in Europe.

At the end of FY2004, Epson introduced guidelines set by the Compliance Process Working Group of JGPSSI based on the management system for chemical substances in products recommended by Japan's Ministry of Economy, Trade and Industry. These were followed by Groupwide internal audits and establishment of a policy to audit suppliers in the

supply chain.

In March 2005, Epson conducted a pre-test for external audits of model suppliers. The Group plans to extend these audits to all suppliers around the world.

Green purchasing for general purchases

For general purchases such as office machines and supplies, we assess the priorities and look internally for idle stock first to avoid unnecessary purchases. We place the highest priority on purchasing green products compliant with our

standards. In FY2004, we achieved 100% green purchasing of general purchases in Japan.

We have been eliminating non-green products from our ordering system. For cases in which no green product is registered for the product we need, we have established a system for suppliers to recommend a replacement.

Product Recycling

Creating a sustainable society requires manufacturers to work together with governments and consumers, and to assume responsibility for used products. With a commitment to extended producer responsibility, the Epson Group is building recovery/recycling systems that adhere to local regulations and meet the needs of consumers in each region in which we manufacture and sell products.

Global movement to recover/recycle products

● Japan

Under the Law for Promotion of Effective Utilization of Resources, manufacturers are required to recover/recycle PCs. The Epson Group has already been recycling business IT equipment (printers, PCs and projectors) for some time. Following the revised law, we established a recovery/recycling system for home-use PCs in FY2003.

In its recovery/recycling system, the Group has been focusing on maximizing the reuse of recovered products, resulting in less than 3% (average across recycling sites) of recovered products being sent to landfills. We are also extending product life by reusing recovered products. Epson Direct has been running a take-back program for PCs since FY2002.

In FY2004, the recycling rate of recovered products in the Japanese market stood at 68%.

To request collection of business-use PCs for recycling, please visit:

http://www.epson.co.jp/ecology/consumer/index_business.shtml (in Japanese only)

To request collection of home-use PCs for recycling, please visit:

<http://www.epsondirect.co.jp/pcrecycle/> (in Japanese only)

● Europe

Following the enactment of the Directive of the European Parliament and of the Council on Waste Electrical and Electronic Equipment (WEEE Directive),

EU member states are required to establish legislation that requires recovery and recycling of used electrical/electronic equipment subject to the WEEE Directive. The manufacturers of these products must recover and recycle the products.

As of April 2005, the Netherlands, Greece, Finland, Germany and Spain had established local legislation, according to the Group's research.

We have been monitoring each country's recycling laws and have begun planning suitable recovery/recycling schemes under the leadership of our local sales companies in Europe.

Definition of terms

Definition of recycling rate

$$\text{Recycling rate} = \frac{\text{Weight of items directly reused as products or parts (units)} + \text{Weight of items recycled as materials such as iron, copper, aluminum, precious metals, glass and plastics*}}{\text{Weight of reused/recycled products}}$$

*For composite parts (circuit boards, motors, HDD, FDD, etc.), weight is calculated by multiplying the total weight by the fraction of the mass of precious metals recovered from the parts, both before and after sorting (starting in FY2003).

Fig. 1 Recovery/Recycling System for Used Products and Consumables



Consumables recovery/recycling

● Japan

Printer consumables, such as ink cartridges, are collected at recovery boxes installed in shops across the nation. For toner cartridges, we provide a toll-free number for direct recovery.

The number of recovery boxes reached 2,714 as of March 31, 2005, an increase of 132 from the previous year. As a result of publicity campaigns in newspapers, magazines, on our website and flyers packaged with products, Epson achieved recovery rates of 7.9% for ink cartridges and 74.5% for toner cartridges.

In FY2004, Epson joined the Bellmark program, which works as follows: Epson installs recovery boxes for used cartridges at homes and schools; users request Epson's Recovery Center to collect the cartridges when boxes are full; after pickup, Epson sends users a Bellmark points certificate; finally, when users send the certificate to the Bellmark Foundation, points are added to their

Bellmark savings accounts. In FY2004, Epson set up recovery boxes at more than 4,000 schools and 2,213 of them returned cartridges. Epson began recovering ink cartridges in September 2004 and toner cartridges in March 2005. Collected cartridges are recycled as materials for recovery boxes, printer parts, buffer materials and blast furnace reductant (Fig. 2).

To request collection of consumables in Japan, please visit:
<http://www.i-love-epson.co.jp/products/toner/> (in Japanese only)

● Taiwan

Epson operates a recovery/recycling system for ink and toner cartridges in Taiwan. We also set up a system using a toll-free number and a website to accept collection requests directly from customers to facilitate on-the-spot collection.

In FY2004, Epson cosponsored an event for consumables recovery with the

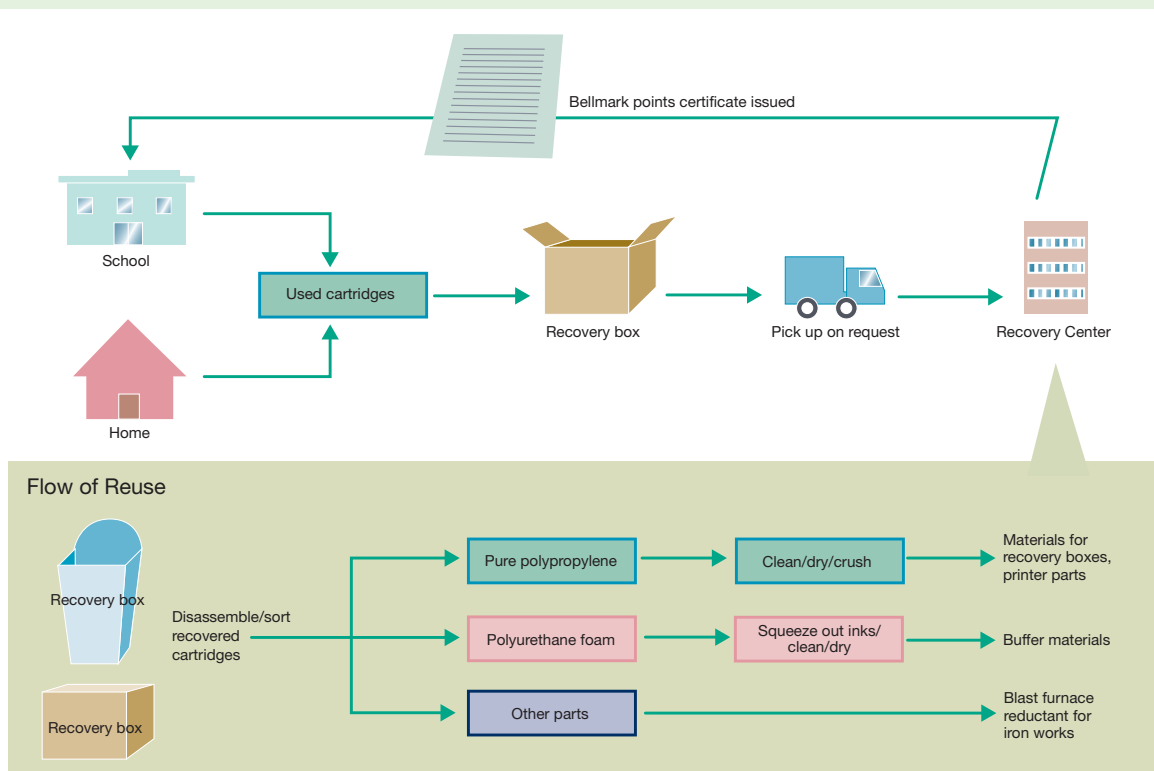
Taiwan Information Show and distributed discount coupons for Epson products to participants (Photo 1).

To request collection of consumables in Taiwan, please visit:
<http://w3.epson.com.tw/imaging/Consumable/recycle.asp> (in Chinese only)



Photo 1 Website promoting consumables recovery event (Taiwan)

Fig. 2 Bellmark and Ink Cartridge Reuse



Preventing Global Warming

The Epson Group aims to achieve an absolute reduction in global warming substance emissions of 60% in 2010 (based on FY1997, consolidated globally). To achieve this ambitious goal, we are cutting energy use to reduce CO₂ emissions, as well as cutting emissions of non-CO₂ substances that contribute to global warming.

Emissions of global warming substances

The Epson Group defines total global warming substance emissions as the sum of energy use and emissions of global warming substances other than CO₂ converted to a CO₂ emissions equivalent (10,000 t-CO₂). This sum is subject to an ambitious 60% reduction in absolute quantity by 2010 (based on FY1997, consolidated globally). The Kyoto Protocol obliges Japan to cut CO₂ emissions in 2008-2012 by 6% on average from the

FY1990 level. If the Group achieves its own reduction objective, it would be a 36.25% reduction from the FY1990 level. Toward this goal, the Group is improving management, raising the energy-savings performance of our plants' basic facilities and production equipment, promoting process innovations and introducing new sources of energy.

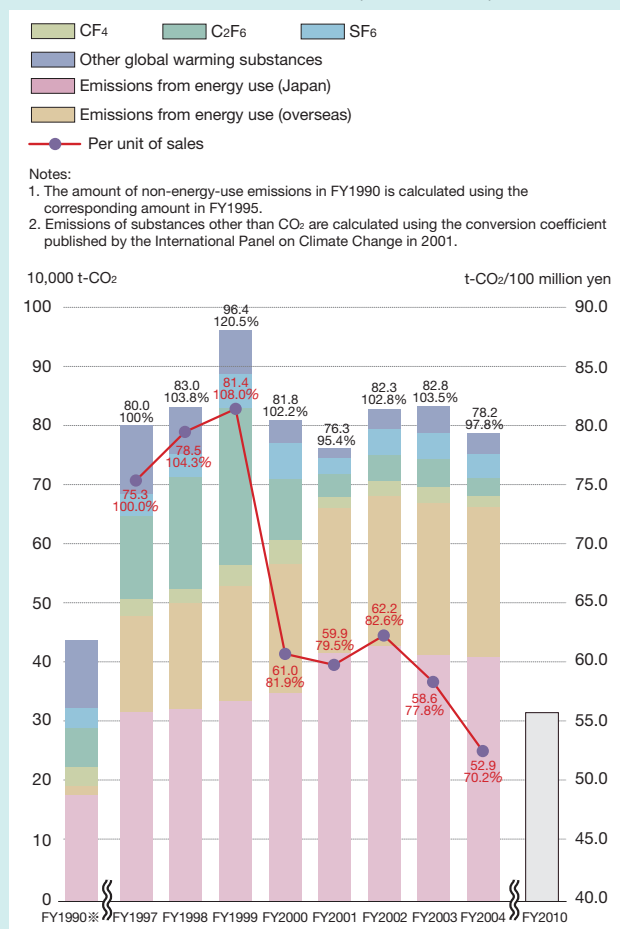
In FY2004, the absolute quantity of global warming substance emissions on a global consolidated basis was 780,000 t-CO₂, down 2.2% from FY1997, achieving our

target of a 1.0% reduction (Graph 1).

Emissions from energy use on a global consolidated basis amounted to 656,000 t-CO₂, down 1.7% from the previous year (Graph 2).

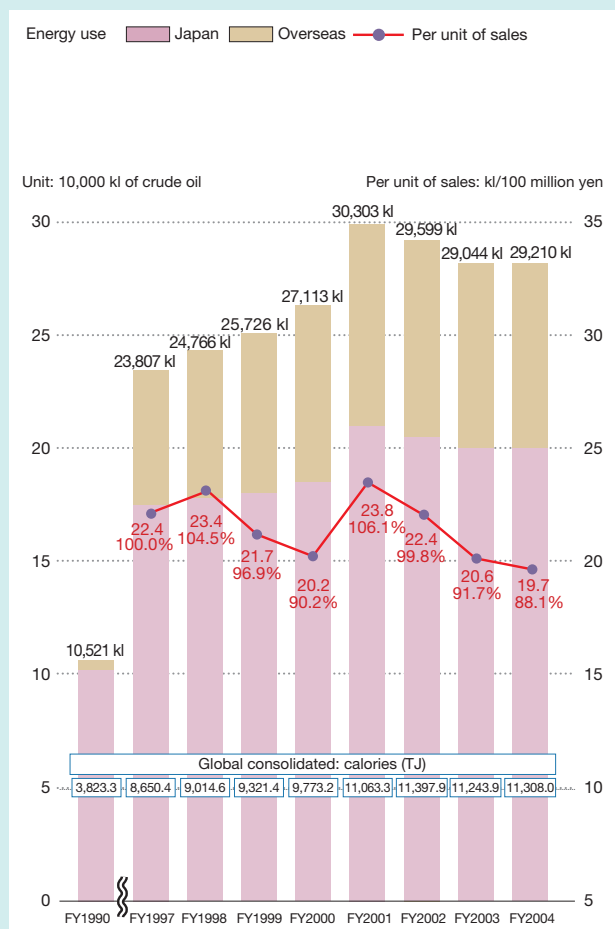
Energy savings (crude oil equivalent of the effects of energy-savings measures) amounted to 7.1% of FY2003 use on a global consolidated basis, with 4% in Japan and 15% overseas. Energy savings overseas met the target of 7.0%.

Graph 1 Total Global Warming Substance Emissions and Emissions Per Unit of Sales (Consolidated)



Note: Due to the changes in scope in FY2004, figures for FY1997 and after have been recalculated. Akita Orient Seimitsu Co., Ltd. was included and Shanghai Epson Magnetic Co., Ltd. was excluded from the scope.

Graph 2 Energy Use/Use Per Unit of Sales (Consolidated)



Energy-saving best practices

● China

At Epson Engineering (Shenzhen) Ltd. (China/manufacturing), employees in different printer assembly sections worked together to reduce the environmental impact from air conditioning. They lowered the ceiling of the plant to reduce the size of the air-conditioned space; made the dust-controlled room smaller and relocated the exhaust vent outside; replaced a large air conditioner with a

smaller model and changed the system to allow separate air conditioning controls in each room; changed to thinner uniforms and raised the room temperature by 2 degrees Celsius; and reviewed the areas and time periods that need air conditioning.

As a result, energy use at the plant decreased by 11%.

● U.K.

Epson Telford Ltd. (U.K./manufacturing) improved the efficiency of light use by replacing recessed fluorescent lights in the ceiling with the direct-mount style and optimizing the locations of lighting fixtures. As a result, the number of fluorescent lights was reduced from 3,080 to 871 units in three years. The employees worked on this project in their spare time during working hours.

Introducing new energy sources

Along with efforts to cut energy consumption, we are introducing new sources of energy in our global operations (Table 1).

In FY2004, the Suwa Minami Plant (Japan/manufacturing) switched the fuel for its CGS gas turbines from kerosene to natural gas. As a result, annual fuel consumption was reduced by 377 kl, equivalent to a reduction of 9,487 tons of CO₂ emissions. When we switch over from fuel oil to natural gas in FY2005 at additional plants, they will become Epson's first fuel oil-free device production plants.

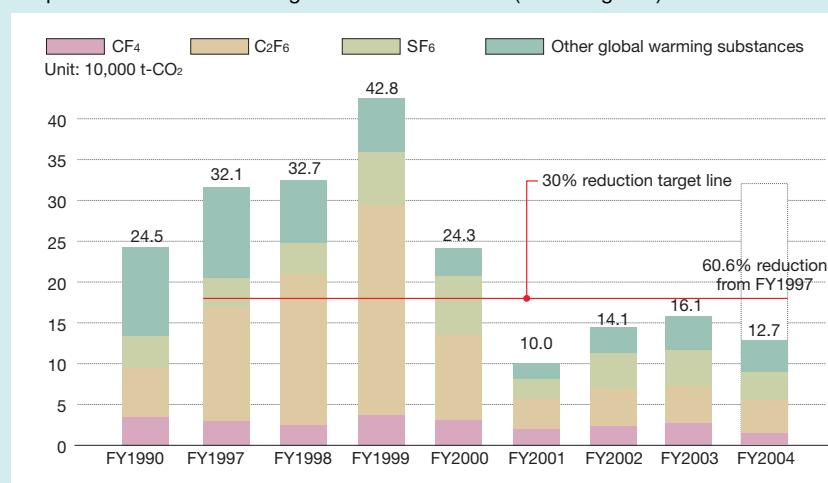
Table 1 Introduction of New Energy Sources

Type	Location	Details
Solar power generation	Ina Plant (Japan/manufacturing)	Max. power generation 50 kW
	Head Office (Japan/manufacturing)	Max. power generation 10 kW
Fuel cell (Cogeneration)	Sanyo Epson Imaging Devices Corp. Matsumoto Head Office (Japan/manufacturing)	Self-generation system, together with a cogeneration system that uses waste heat for clean room air conditioning. Introduced two units with max. capacity of 200 kW.
	Ina Plant (Japan/manufacturing)	Introduced two 200 kW phosphoric acid fuel cells powered by liquefied natural gas (LNG). Introduced two 250 kW molten-carbonate fuel cells supplied by First Energy Service Co., Ltd.
Gas turbine (Cogeneration)	Sakata Plant (Japan/manufacturing)	Kerosene-powered, with one of the largest capacities for a semiconductor plant in Japan: 36,000 kW.
	Suwa Minami Plant (Japan/manufacturing)	Introduced LNG-powered system with capacity of 7,200 kW.
Snow air conditioning	Sapporo Software Center (Japan/non-manufacturing)	The system stores 140 m ³ of snow during the winter, which drives the air conditioning in summer using a heat exchanger to extract energy.
Green Power Certification System (Wind power)	Seiko Epson Corporation	Japan Natural Energy Co., Ltd. provides wind power; by purchasing Green Power Certification we are recognized for replacing part of our power supply with wind power (equivalent to 2,000,000 kWh/year).
Green energy (Wind, hydro and solar power)	Epson Deutschland GmbH (Germany/non-manufacturing)	Contract with power companies to receive renewable energy that does not produce CO ₂ , such as wind, hydro and solar power.
Wind Power Program (Wind power)	Epson Portland Inc. (U.S./manufacturing)	Purchase wind energy covering 10% of total energy use from wind power company.

Reduction in global warming substance emissions

The Epson Group works to reduce global-warming substances other than CO₂, such as PFCs and SF₆, in two ways: by decomposing the gases and by reducing their use. In FY2004, use of CF₄ used for etching in crystal oscillator production was completely eliminated at the Ina Plant (Japan/manufacturing) by switching to a completely new production process. As a result, the total emissions of global warming substances other than CO₂ were 127,000 t-CO₂, a 60.6% reduction from the FY1997 level (Graph 3).

Graph 3 Total Global Warming Substance Emissions (Excluding CO₂)



Reducing the Environmental Burden of Transportation

Epson is dedicated to reducing emissions of CO₂ and air pollutants at the product distribution stage. Our efforts include switching to low-impact transportation and changing transportation routes. In FY2004, we built a data collection system to quantify the environmental impact from transportation in our effort to achieve “green transportation” that incurs lower costs and imposes less environmental impact (CO₂ emissions).

Data collection system for international and domestic transportation

FY2004 marks the year Epson began to act on the concept of green transportation, whereby costs incurred and environmental impact imposed by transportation are reduced at the same time.

Construction of a system to collect data on the transportation of raw materials, parts and products is underway as a joint initiative of divisions in charge of production materials purchasing (at each operations division and the Head Office, which manages them), distribution (Epson Logistics), environmental affairs (Global Environment & Safety Policy Department) and sales (Epson Sales Japan and other affiliates). For the system, the amount of environmental impact is calculated (CO₂ equivalent) by multiplying units of CO₂ that have been assigned to each means of transportation (air, sea, truck and rail) by the product of total mass (volume) of materials transported by the distance.

In FY2004, Epson completed a system for domestic transportation and domestically-arranged international transportation (transportation to and from Japan, and between overseas countries). We are currently collecting data on local transportation in other countries in which we operate (Fig. 1).

Switching to low-impact transportation

Research shows that international transportation accounts for 92% of the environmental impact associated with transportation (Graph 1). Of the two means used for international transportation, air and sea, air transport imposes a larger environmental impact and would require a shift to sea transport.

By product category, products larger in mass (volume), such as printers and other imaging products, are responsible for higher environmental impact than device products. For effective reduction of environmental

impact, we must place higher priority on reducing the burden of larger and heavier products.

For transportation in Japan, which accounts for 8% of the total environmental impact, we are switching from trucks and other automotive transportation to lower-impact sea and rail transport. Cooperative transportation is another alternative we are promoting.

Graph 1 CO₂ Emissions from Transportation

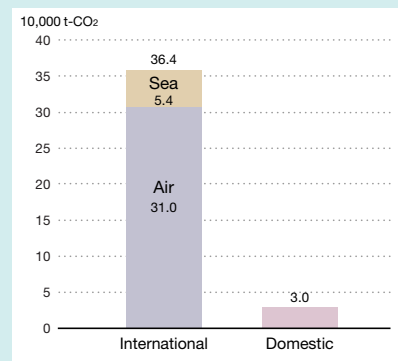
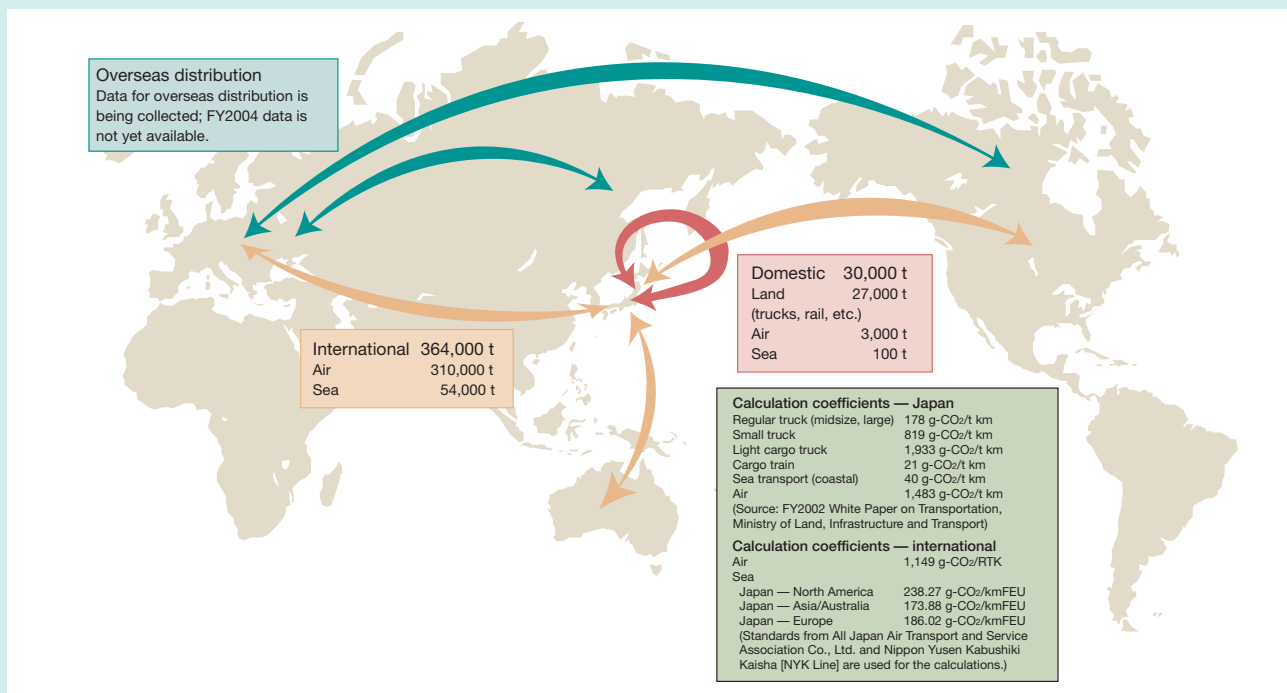


Fig. 1 FY2004 CO₂ Emissions from Distribution

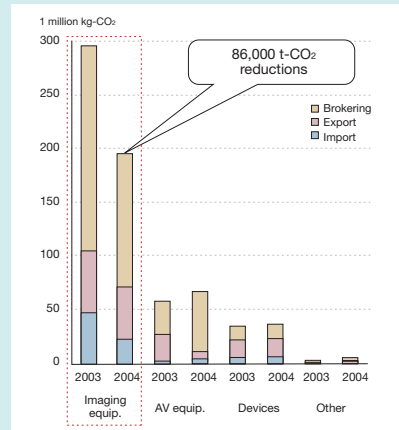


Reducing environmental impact from international transportation

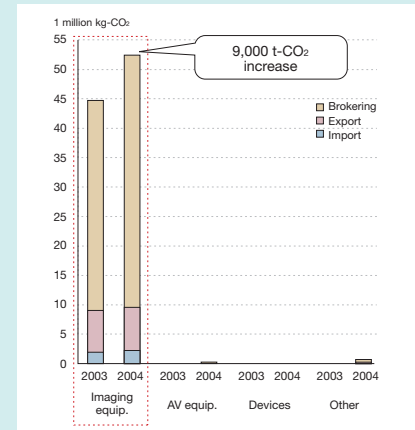
In FY2003, Epson began collecting data for international transport and implementing a modal shift from air to sea transport mainly for imaging products, which account for a large part of transport.

In FY2004, CO₂ emissions from air transport were reduced by 86,000 tons from the previous year and those from sea transport increased by 8,770 tons. As a result, Epson achieved a 77,000 ton reduction in CO₂ emissions from international transportation.

Graph 2 CO₂ Emissions from Air Transport (FY2003 and FY2004)



Graph 3 CO₂ Emissions from Sea Transport (FY2003 and FY2004)



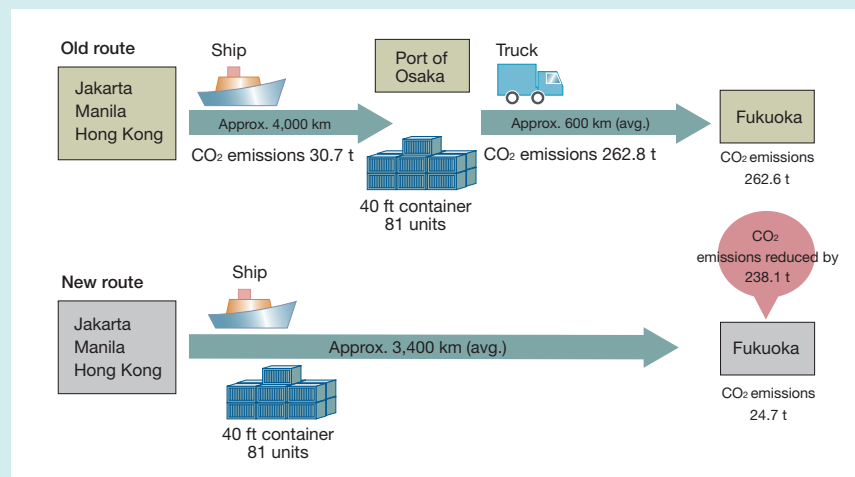
Changing routes for overall impact reduction

Conventionally, goods bound for Fukuoka and other parts of Japan from Southeast Asia were first transported to the Port of Osaka by sea and then on to Fukuoka by truck.

In FY2004, we separated the goods for Fukuoka at Southeast Asian ports and transported them directly. This route change reduced truck transport and subsequently cut CO₂ emissions. As a result, a 238.1 ton reduction in CO₂ emissions was achieved (Fig. 2).

Goods heading from Southeast Asia to Sapporo and Sendai are now transported via different routes as well. Some are sent directly to Tokyo, and as a result of reduced truck transport between Tokyo

Fig. 2 Route Change Best Practice (Fukuoka)



and Osaka, Epson achieved a 392.8 ton reduction in CO₂ emissions.

Reducing environmental impact from domestic transportation

Domestically, Epson is implementing modal shifts from air and large truck transport to sea, rail and small trucks, cooperative transportation, consolidation of transportation and a variety of other measures.

In FY2004, we adopted a mixed-load courier service to replace chartered transportation between Fujimi-machi, Nagano and Ome, Tokyo. This enabled Epson to reduce CO₂ emissions by 108.6 tons annually.

We replaced some mixed-load routes with cooperative, chartered transportation

to achieve 25.2 tons of reductions in CO₂ emissions annually. This is being implemented between Matsumoto, Nagano and Narita-Daiba.

Modal shifts were made from truck transport to Japan Railway container transport between Osaka and Tokyo and on other routes. As a result, an annual 82.8 ton reduction in CO₂ emissions was achieved.

Environmental efforts aimed at company-owned cars

Epson and Epson Sales Japan (Japan/non-manufacturing) own a total of 311 vehicles. We have been campaigning

for drivers to turn off their engines when the vehicles are stopped, to reduce environmental impact.

To enhance our efforts to lower the impact of company-owned cars, we are currently changing to hybrid and low fuel consumption/low emission cars. To date, Epson has purchased 14 hybrid vehicles and 29 low fuel consumption/low emission cars, while Epson Sales Japan has introduced 106 low fuel consumption/low emission cars.

Zero Emissions

The Epson Group has been making vigorous efforts to recycle all business waste and reduce total waste generation. Starting in FY2004, we have been focusing on reducing the volume of waste and achieving more sophisticated recycling through Level 2 activities.

Two levels of zero emission activities

The Epson Group's Zero Emissions initiatives are divided into Level 1 and Level 2. Level 1 seeks 100% recycling of business waste (excluding general waste) by routing all waste into a recycling channel. Level 2 aims to reduce the total volume of waste and achieve more sophisticated recycling. We do this mainly by minimizing resource input, as well as by rethinking the manufacturing process and improving internal reuse of materials. We are also purchasing recycled products. For unavoidable waste, we are seeking more sophisticated processes to utilize waste fully, such as recycling it into valuable materials that can be used within the Group.

In FY2003, all business sites and Group companies/affiliates in Japan, and overseas manufacturing companies achieved Level 1. We are working toward upgrading them to Level 2 activities while ensuring that Level 1 compliance is maintained.

One of our focuses in FY2004 was the

identification of waste generation through the creation of a Material Flow Diagram for major production processes. This also helped us reduce costs, resource input and waste volumes. As a result, total waste generation amounted to 20,188 tons in Japan and 22,079 tons overseas. We were unable to achieve our annual target of a 10% reduction from the FY2002 level, but were able to keep it nearly unchanged from the previous year despite an increase in production (Graphs 1 and 2).

At the end of FY2004, with the purpose of maximizing resources and reducing waste, we clarified the definition of Level 2 activities as: 1. more sophisticated recycling; and 2. recycling of waste into valuable materials and achieving continuous recycling. We are setting a quantitative target for controlled waste generation which we define as the total of waste generated minus the amount reused or recycled within the Group, the amount turned into valuable materials, and half of the amount of waste that is recyclable or

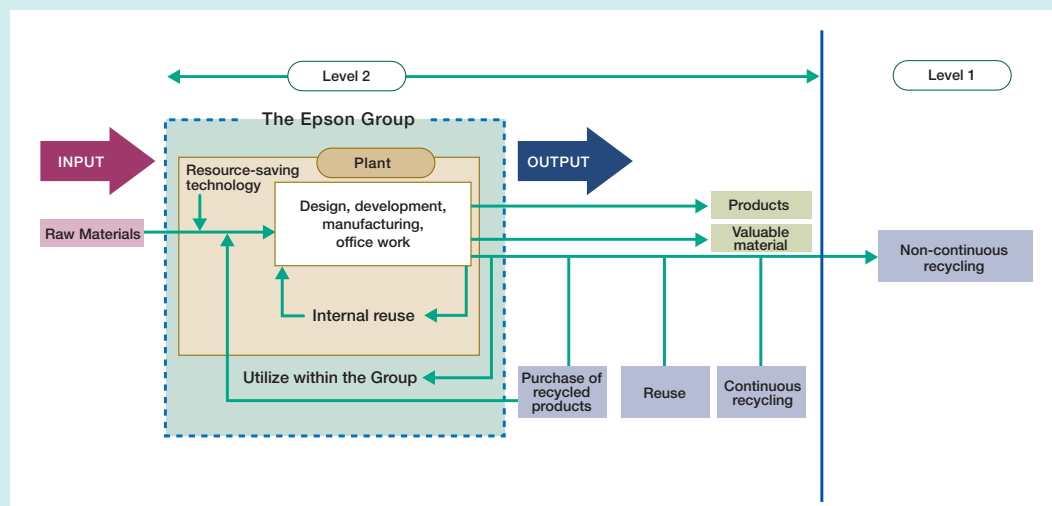
reusable externally (Fig. 1).

From FY2005, we plan to place special significance on reducing this quantitative target and pursuing more sophisticated recycling and conservation of resources (to manufacture the greatest possible number of products from the smallest possible amount of resources) to reduce total waste generation.

Definition of terms

- Total waste generation: total amount of all business waste
- Amount recycled: amount of waste routed into the recycling channel
- Amount disposed of: amount of waste that was not routed into the recycling channel (including combustible general waste)
- Waste sent to landfills for final disposal: estimated weight of waste not recycled and sent to landfills + estimated weight of residue generated in the recycling process and sent to landfills

Fig. 1 Zero Emissions Activities



● Level 2 best practice in Japan

In the printer head production process at the Hirooka Plant (Japan/manufacturing), dry films stuck to nozzle plates are removed using butyl acetate.

Conventionally, using a thin-film vapor recovery system, we recovered 70% of the butyl acetate from the used solution which contains molten dry film resins. To raise the recovery rate of butyl acetate

and reduce use of the chemical, the plant switched to a different vapor recovery system when the printer models changed, and achieved a 300 ton reduction (50 million yen cost cut) per year.



Photo 1 New butyl acetate recycling machine at the Hirooka Plant

● Level 2 best practice overseas

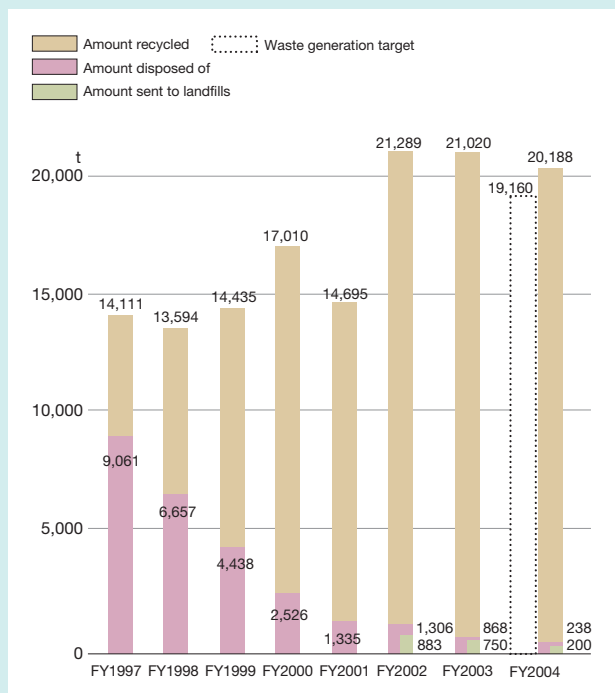
Tianjin Epson Co., Ltd. (China/manufacturing) has been recycling ink effluents generated by the ink cartridge manufacturing process at a cement factory. In FY2004, the company began turning the ink effluents into sludge on-site. In addition, jointly with a local company, Tianjin Epson identified a solvent that separates pigment ink effluents into water and

sludge, which was considered difficult, and created sludge. The company also decided to use the inks normally left in the ink manufacturing tanks by tilting the tanks. These efforts have enabled Tianjin Epson to reduce ink effluent by 150 tons per year.

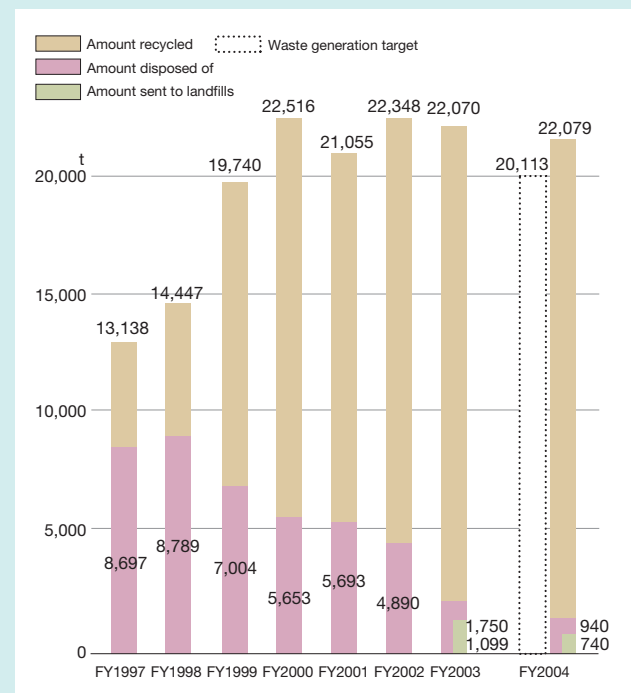


Photo 2 A separator at Tianjin Epson

Graph 1 Waste Generation in Japan



Graph 2 Waste Generation Overseas



Notes:

- Due to changes in the scope of reporting in FY2004, figures for FY2002 and after have been recalculated. Akita Orient Seimitsu Co., Ltd. was included and Shanghai Epson Magnetic Co., Ltd. was excluded from the scope.
- Due to changes in the scope of reporting, past targets (FY2001-FY2003 for Japan, FY2002 and FY2003 for overseas) are not represented in the graphs.

Integrated Management of Chemical Substances

Mindful that the use of any chemical substance is inherently risky and being acutely aware of future risks, the Epson Group established strict, independent guidelines to assure the proper use of chemicals. In FY2003, we established Regulations for Integrated Management of Chemical Substances to strengthen management of chemical substances throughout the entire Epson Group.

Regulations for Integrated Management of Chemical Substances

Management of chemical substances calls for an understanding of how these substances may affect us from safety, health and environmental standpoints. It is therefore important that they are managed at every stage — procurement, use, storage, content in products, equipment management, disposal and discharge/emissions.

The Epson Group's Regulations for Integrated Management of Chemical Substances define the framework of our chemical substance management, which integrates and administers pollution control, waste management, compliance with legislation and related processes. The Regulations are included in our ISO 14001 initiatives to achieve more efficient operations Groupwide and continual improvements in chemical substance management.

Disclosure of PRTR data

The FY2004 PRTR data required under the Pollutant Release and Transfer Register (PRTR) Law are available on the following website.

Environmental data
<http://www.epson.co.jp/ecology/>

Reduction initiatives of each promotional organization

The Epson Group closely studies the status of all chemicals used in the production process and assesses their harmfulness and other dangers. We also set rules and guidelines restricting chemical use, in which prohibitions and reduction guidelines are clearly stated.

Following the progress we made in Groupwide elimination of prohibited chemical substances, substances targeted for prohibition and global warming substances (see p. 40), each promotional organization (operations divisions and Group companies/affiliates) is independently carrying out risk assessment and reduction initiatives by setting its own targets and timeframes.

Each promotional organization follows these three steps toward reduction and elimination: list all uses of chemical substances based on the E-Chem chemical data management system; conduct risk assessments based on the Chemical

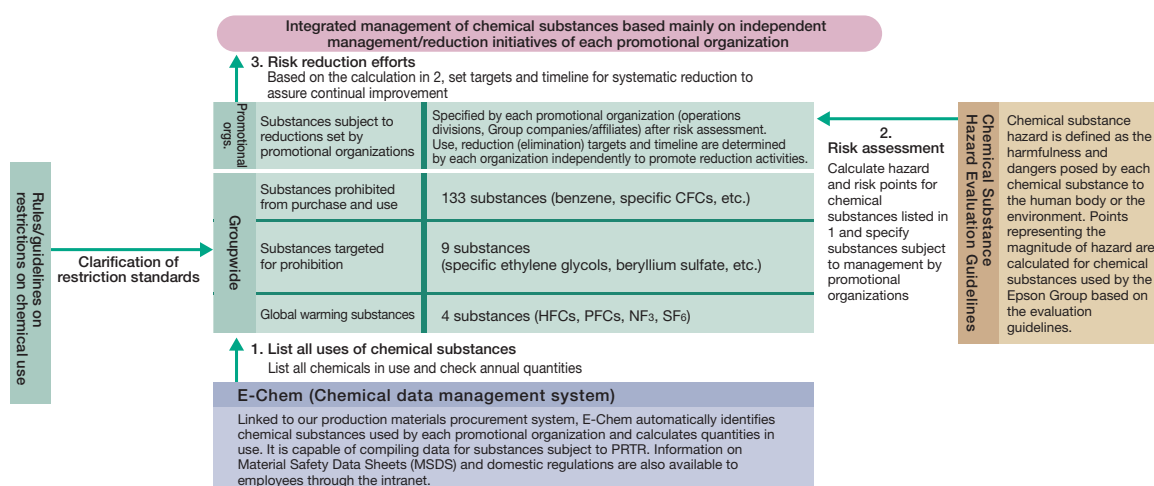
Substance Hazard Evaluation Guidelines; and based on the results, set targets and a timeline.

In FY2004, we extended the use of E-Chem overseas and constructed an intranet-based global data management system.

At the end of FY2004, we revised the Chemical Substance Hazard Evaluation Guidelines. Under the new guidelines, the results of assessments on a substance's toxicity, inflammability and environmental impact, as well as related legislation, are considered in the calculation of hazard points to achieve more realistic assessments. In FY2005 and onward, we plan to focus on reducing chemical substances with high risk points.

In FY2004, six business sites were found to have used prohibited substances or those targeted for prohibition. This was due to the increased number of companies in our consolidation scope and the introduction of E-Chem overseas, which required more sophisticated chemical management. In FY2005, we will strive to eliminate these substances.

Fig. 1 Our Approach to Chemical Substance Reduction



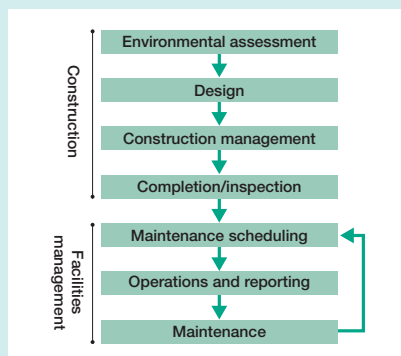
Office Locations and Factory Management

At the Epson Group, we decide where to build new plants only after extensively researching the local characteristics of potential sites. Once a plant is built, we operate it with the utmost care for the local environment, while ensuring a stable supply of utilities for plant operations and a safe working environment for our employees.

In-depth research for strategic site selection

The Epson Group operates internationally. We choose locations for our manufacturing and sales sites after comprehensive analysis of a variety of factors, assuring that they are strategically and optimally located to complement each other in their contributions to overall operations. The factors include infrastructure conditions, workforce availability, security, cost, environment, incentives and other local characteristics.

Fig. 1 Plant Operation



Thorough assessment before construction

Prior to designing a plant, we conduct extensive studies to assess its probable impact on the surrounding community, resource and energy-saving performance, and necessary safety and disaster prevention measures. Plants are designed and built based on the results of these assessments.

Improving plant operation and maintenance

Basic facilities are planned and laid out according to operations and maintenance plans that will assure stable utility supplies and plant operations. Being able to protect the environment in the local community is a precondition. To ensure this, we follow all related laws and regulations, in addition to meeting our own, stricter standards for air and water quality, and noise levels.

Facility management best practice

Philippines Epson Optical Inc. (Philippines/manufacturing) was established with the following considerations for safe operations.

For management of the plant's inputs, we ensured that the layout of building and equipment, electrical wiring, utility supplies (water, electricity, heat) and compressed air/vacuum, as well as temperature and humidity control, were designed so as to create the optimum environment for manufacturing. For output management, we took into consideration the structure and operation of the wastewater treatment facility, waste sorting and storage, and examined the qualifications of waste processing companies.

We also made sure that supporting functions, such as lighting, restroom and dining hall facilities, telecommunications (telephone and networks), janitorial services and greenery management, were adequate.

In respect to security, management of fire alarms, fire-fighting facilities, disaster and fire prevention equipment and broadcasting facilities were all checked.

We are committed to safe operation and management of these facilities to support uninterrupted plant operations.

Table 1 Plant Site Selection and Building Guidelines

Task	Guideline
1. Select production method, including procurement and distribution	Enhance effective use of management resources and streamline of distribution a. Direct connection to the market - production in location of consumption (mainly information equipment) b. Distribution in multimarkets - concentrated production (mainly electronic devices and small parts) c. Middle-cost production: between a and b
2. Set production mix ratio for each business site	Take measures against political turmoil, natural disasters and other risks → Set ratio for production volume for each product
3. Set workforce size	Take measures against political turmoil, natural disasters and other risks; improve management
4. Set number of main businesses	Establish system whereby operations divisions are responsible for plant operations and improving management → Keep number to three or less (imaging and information products, electronic devices, precision instruments)
5. Improve plant functions	Improve overseas sites to raise competitiveness, attain substantial globalization (localization) and establish a system whereby operations divisions are responsible for plant operations
6. Review basic conditions for site selection	Review site selection conditions for plant premises and status of infrastructure, security and environment



Photo 1 Philippines Epson Optical Inc.

Soil and Water Contamination Prevention Measures

Since 1998, Epson has been voluntarily conducting soil and groundwater surveys, and has conducted cleanups following these guidelines: never allow accidental release of contaminated groundwater outside the plant premises; take safe and effective measures for cleaning; and complete cleaning in the shortest time possible.

Contamination surveys stricter than legally required and advanced cleanup methods

Japan's Soil and Contamination Control Law requires soil surveys whenever plants that are using 25 specific substances subject to the Law terminate their operations.

For land we plan to purchase, sell, return or convert to other use, Epson conducts surveys for all 25 substances according to guidelines much stricter than those dictated by local legislation, regardless of whether the substances have been used. Results of ongoing surveys are available on Epson's website. Table 1 shows the result of a survey on trichloroethylene in groundwater.

Epson selects cleaning methods that are the safest and most suitable for the site's soil and groundwater, and conducts cleanup systematically.

Information on business sites and Group companies/affiliates:
<http://www.epson.co.jp/ecology/report/data.shtml>

Survey at Hirooka Plant

Upon construction of the Innovation Center at the Hirooka Plant (Japan/manufacturing), Epson conducted a soil and groundwater survey and found buried industrial wastes and soil contamination from fluorine, hexavalent chromium, boric acid and lead at the construction site.

Although we were not responsible for these wastes, we decided to remove them and treat the contaminated soil to eliminate the future risk of groundwater contamination. In the groundwater survey, concentrations of arsenic that exceeded the legal standard were detected. This was reported to the authorities and an investigation was conducted. The Hirooka Plant does not have a history of using arsenic and the cause of the contamination is still unknown. We are continuing the investigation and holding briefings for local residents.



Photo 1 Soil and groundwater survey at Hirooka Plant

Completion of soil cleanup at former Epson Logistics Head Office site

Fluorine, hexavalent chromium, lead and arsenic and two volatile organic compounds, tetrachloroethylene and trichloroethylene, were found to exceed legal standards when Epson conducted a soil and groundwater survey on a lot it owned that was undergoing a land use change. The lot had been the site of the Epson Logistics Head Office (Okaya, Nagano Prefecture). Because Epson had no history of arsenic use and the government concluded that it was derived naturally, and also because trichloroethylene was found in the vicinity, we decided not to clean up these two substances and concentrated on the others. For the benefit of local residents, Epson disclosed the information and conducted the cleaning with the utmost care.



Photo 2 Soil cleanup at former Epson Logistics Head Office site

Table 1 Average Value of Trichloroethylene Concentration in Groundwater (Regulation: below 0.03)

Business Site	2000/6	2001/4	2002/4	2003/3	2004/3	2005/3	Methods currently in use
Head Office	380	290	121	87	107	113	Permeable reactive barrier, pump-and-treat, soil gas absorption, monitoring
Shiojiri	0.81	0.39	4.5	4.4	3.5	5.5	Permeable reactive barrier, pump-and-treat, monitoring
Fujimi	3.5	2.6	0.96	0.86	0.89	0.36	Permeable reactive barrier, pump-and-treat, monitoring
Suwa Minami	3.2	2.2	0.61	1.07	0.51	0.23	Permeable reactive barrier, pump-and-treat, monitoring
Matsushima	9.7	6.5	4.2	-	0.28	0.11	Monitoring
Epson Logistics Corp. Head Office	0.25	0.22	0.21	0.25	0.22	-	Monitoring
Okaya	0.084	0.064	0.039	0.078	0.067	0.06	Pump-and-treat, monitoring
Murai	0.036	Completed	-	-	-	-	Monitoring
Toyoshina	Completed	-	-	-	-	-	Monitoring



▲1



▲2



▲3



▲4



▲5



▲6



▲7



▲8



▲9

Social Performance

The Epson Group is committed to high standards of corporate ethics and social responsibility, with the goal of being a company that is trusted by stakeholders throughout the world. Underpinning this is a variety of mechanisms and systems, which we strive to improve to better serve our stakeholders. This chapter describes the way we approach our customers, business partners and employees, as well as our corporate citizenship activities and communications initiatives, which target all our stakeholders.

These photographs feature Group member social performance activities in each region and the people who met through these activities.

1. Resource recovery in the U.S.
2. Beach cleanup in China
3. Beach cleanup in China
4. Beach cleanup in China
5. Snow sculpting at a local event in Japan
6. Activities for the physically challenged in the Philippines
7. Construction of a primary school in Cambodia
8. Kids' ISO 14000
9. Support for the French team at the Special Olympics

For Our Customers

Staying true to the commitment to customer satisfaction cited in our Management Philosophy, each employee of the Epson Group strives to meet customer needs. We have implemented a variety of activities based on our Quality Philosophy, which defines our policy of giving top priority to the pursuit of quality from the customer's point of view.

Our top priority: quality from the customer's perspective

Epson's idea of quality goes beyond the individual product — it is a crystallization of all of our business activities, including the behavior of our employees and their personal approach to customer needs. To earn our customers' confidence, we give top priority to integrating the customer's perspective into the quality assurance of our products and services.

To further promote this idea, our Quality Philosophy was established in September 2002, which has now been translated into 14 languages and is shared Groupwide.

From "CS from security" through to "CS from delight and excitement"

Customer satisfaction (CS) is achieved when our customers are satisfied with our products and services, and quality encompasses the entire process required to make that happen.

To guide each employee in his/her pursuit of the Quality Philosophy, Epson created the Direction for CS/Quality Management (Fig. 1) which defines three types of CS: "CS from security," "CS from

Quality Philosophy (Issued September 2002)

Keeping the customer in mind at all times, we make the quality of our products and services our highest priority. From the quality assurance efforts of each employee to the quality of our company as a whole, we devote ourselves to creating products and services that please our customers and earn their trust.

Quality Policy

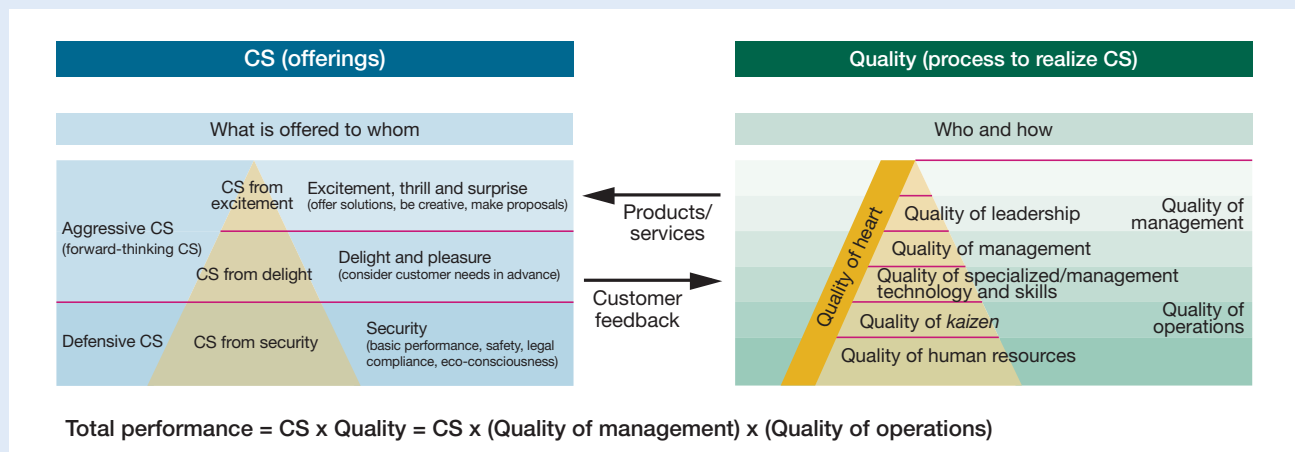
1. We will solve problems by directly observing all of our operations and processes.
2. We will quickly complete the Plan, Do, Check & Act (PDCA) cycle in all situations.
3. We will thoroughly analyze any failures, and establish procedures based on that analysis, so that mistakes are never repeated.
4. We will proactively consider our customers' satisfaction so they will genuinely prefer purchasing Epson products and feel confident using them.
5. We will seize the opportunity presented by customer comments and complaints to inform our decisions when designing new products.
6. We will readily report even negative information.
7. We will foster a climate in which attention is paid to even the most commonplace events.

delight" and "CS from excitement." "CS from security" is satisfying our customers by ensuring the basic performance, safety, legal compliance and eco-consciousness of our products; "CS from delight," by considering the customer's potential needs and meeting them in advance; and "CS from excitement," by offering unexpected and pleasantly surprising experiences with our products and services.

Underpinning these three types of CS

is an awareness or "Quality of Heart" that each of our employees possesses. We believe that by ensuring that all employees kindle within themselves the desire and devotion to continually improve their contribution to customer satisfaction, we can also elevate the level of quality embodied in our products and services.

Fig. 1 Direction for CS/Quality Management



Quality assurance system

As a corporation that operates globally, Epson strives to maintain a uniform level of quality in products and services wherever we operate. With a strong desire to practice quality assurance that meets international standards, we began seeking ISO 9001 certification at business sites in Japan and overseas in 1990 and established an ISO 9001 compliant quality assurance system.

Currently, heads of operations divisions and Group companies/affiliates in Japan and overseas are showing strong leadership in quality management and quality assurance of products based on the Groupwide Quality Assurance

Guidelines and Product Safety Management Guidelines.

Epson aspires to be a global leader in initiatives for ensuring product safety and eco-consciousness; our Groupwide Epson Quality Standards (EQS) are stricter than local safety guidelines and legislation. EQS guides our effort to create products that customers feel safe using. We are also improving the management of chemical substances contained in products under the leadership of quality assurance-related departments and the Global Environmental & Safety Policy Department.

If a quality assurance failure should occur for one of our products, we will

immediately disclose information regarding the failure, recall the product and take appropriate measures based on our Product Safety Management Guidelines.

At the end of FY2004, we began constructing a quality assurance system encompassing the entire supply chain, including our procurement partners, to comply with ever-stricter legislation, such as the RoHS Directive in Europe.

Quality Crisis Management system

Because we believe "CS from security" is the foundation of customer satisfaction, Epson operates a system whereby all quality assurance failures, accidents and other incidents that may affect customers are reported, regardless of how little or how great the damage.

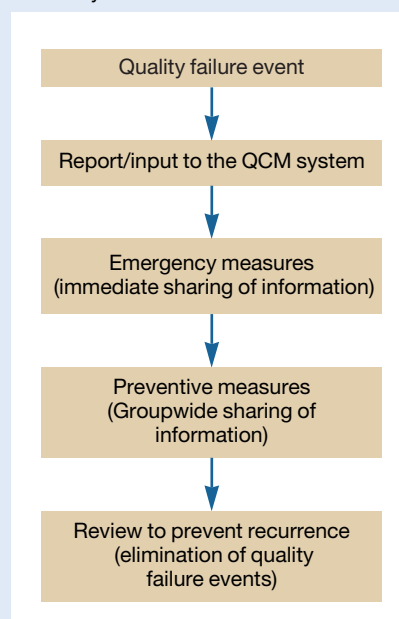
The Quality Crisis Management (QCM) system (Fig. 2) is an intranet-based system designed to speed up the process of reporting to management.

Heads of operations divisions and Group companies/affiliates in Japan and overseas, including sales companies, are responsible for first reporting serious incidents that require Groupwide attention to the QCM system. These incidents, such as quality failures that pose a physical or financial risk to the customer, legal violations, customer complaints and leakage of personal information, are then reported immediately to the chairman, president, directors and operations divisional officials via e-mail. Based on this report, management and related departments work together to take action quickly.

The QCM system also serves as an archive for interim and final incident reports, to allow sharing of the entire crisis management process by management and related parties.

After the incident is dealt with appropriately, a quality assurance department at the Head Office conducts a review (inspections and patrols) to make sure adequate preventive measures are taken, and shares the results Groupwide.

Fig. 2 Quality Crisis Management (QCM) System



Important Notices to customers

When Epson needs to inform customers of important precautions, defects or safety measures for products on the market, we publish Important Notices.

In FY2004, we made three such notifications for the following products:

- Black and white laser printers
LP-8300S/F, LP-8400, LP-8600 series
- Color inkjet printers
PM-3700C
- Range finder/digital cameras
R-D1

Important Notices can be viewed on the following website.

Support & Services
http://www.epson.co.jp/sup/juyo_index.html

Quality improvement initiatives by employees

As expressed in our Quality Philosophy, Epson values each employee's contribution to quality made through personal effort. E-KAIZEN is one of our CS and quality improvement activities that focuses on employee-led initiatives.

E-KAIZEN activities raise conventional quality improvement initiatives and QC Circle activities to a new level. It is practiced Groupwide to serve the following purposes:

1. To share best practices Groupwide (to make them corporate assets and knowledge)
2. To make improvement efforts a part of the daily routine (raise *kaizen* awareness in the Group through reforms at the individual level)
3. To contribute to improving business results (to make it an activity directly connected with business operations)

The ultimate goal of E-KAIZEN is to support a personal *kaizen* experience and awareness, so that disciplined individuals can drive Groupwide improvements and such improvements can continue perpetually.

E-KAIZEN activities include initiatives to improve day-to-day operations (including policy change) by individuals and teams at each operations division, presentations of best practices, study groups, and recognition of those who make constructive proposals through a suggestion system.

In FY2004, 15 overseas teams and 23 Japanese teams took part in a worldwide conference to share best practices.

In FY2005, worldwide conferences are planned for China and Southeast Asia to further disseminate E-KAIZEN activities within the Group.

Customer feedback

Offering prompt and adequate service at our call centers and repair operations is a prerequisite to earning customer confidence. Our sales and service companies around the world are implementing a variety of measures to better serve customers.

Call centers around the world operated by the Group's sales companies collect customer requests, questions, suggestions and complaints. Each center is also responsible for conducting customer satisfaction surveys to understand the needs of the customers in each region.

Initiatives at Epson Sales Japan

In FY2004, the customer support department at Epson Sales Japan Corp. revised the FAQ section of Epson Sales Japan's website to improve usability. The top page of the upgraded FAQ now contains a product operation guide and a one-step search function, which used to take four steps. The company updates a list of the 10 most popular questions on a daily basis according to the number of accesses and troubleshooting rates. To enhance readability, the company also uses a unified layout for each page. As a result, the number of troubleshooters using the FAQ rose by 17% to 55%.

Epson Sales Japan also runs a program to feed back suggestions for improvement based on the results of customer-centric usability assessments to operations divisions. It also runs a program to improve customer relationship skills, for which it received in-house recognition in the form of a Grand Prize in the CS/Quality Awards.

Initiative in Taiwan

In FY2004, Epson Taiwan Technology & Trading Ltd. (Taiwan/sales) decided to add a "One-click service program" to printer drivers, which automatically displays an icon on the task bar that accesses a website for support information. The information includes the warranty period, repair reservations, location of repair centers and contact information for checking the status of repairs. As a result, the number of inquiries by telephone decreased by 20%, and 86.3% of users in a customer satisfaction survey responded favorably to this program. For this innovation, the sales company received a Grand Prize in the CS/Quality Awards.

PEU initiative

Progress in Ease of Use (PEU) is an undertaking Epson has been supporting companywide since 1999 to incorporate usability enhancements into a product's planning and design stages. Led by employees from the operations division in charge of the PEU effort, the CS/Quality Assurance Office and the design center (for details, see p. 16), PEU activities include:

1. Sharing of divisional best practices
Employees leading PEU efforts meet twice a year to report best practices and share knowledge companywide. In FY2004, the following activities were reported:

- Inkjet Printer Operations Division
Setting of design objectives based on customer feedback
- Visual Instruments (Projector) Operations Division
Sharing of customer feedback

- Business System Operations Division
Utilization of anthropometric data

2. In-house education

A usability enhancement curriculum was added to the companywide quality control education program.

3. Companywide knowledge sharing of usability enhancement

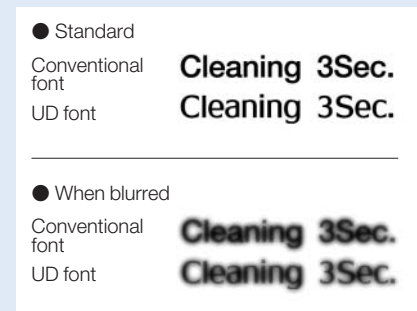
The CS/Quality Assurance Office and design center built a database housing such basic information as human scale (anthropometric) data by country and hardware icons to be shared companywide through the intranet.

Other companywide initiatives to enhance usability include the creation of guidelines for manual production in Japan and the design of universal design (UD) fonts.

For the UD font design (Fig. 3), elderly testers took part in the usability assessment of control panels. This activity

received in-house recognition, receiving the First Class Design Award in the CS/Management Awards.

Fig. 3 Legibility Comparison of Conventional and UD Fonts



Usability Enhancement Efforts Resulting in Design Awards

● iF Product Design Award

In FY2004, the PX-A550 multifunction printer (Photo 1) was selected as one of the 50 recipients of the prestigious International Forum Product Design Awards (iF Product Design Award) Gold Selection 2005.

Established in Hannover, Germany, in 1953, the iF Product Design Award was established with the purpose of revitalizing industrial design. Over the decades, the award has gained international recognition as one of the world's leading design awards. At the 2005 iF Product Design Awards, 2,200 products created by 800 companies from 31 countries around the world participated in the competition of which 543 received awards, including six from Epson.

The Epson PX-A550 multifunction printer was highly rated for its functional and operational superiority, as

well as its compact body and simple design.

● Good Design Award (G-Mark)

Twelve Epson products were awarded the Good Design Award (G-Mark) in FY2004. The Good Design Award is a comprehensive industrial design award established in 1957 based on a system created by Japan's Ministry of International Trade and Industry to recognize well-designed products.



Photo 1 PX-A550

Award-Winning Models

iF Product Design Award

PX-A550 multifunction printer
PM-A900 multifunction printer
P-2000 photo viewer
E-100 inkjet printer
LP-V500 color laser printer
L-500V digital camera

Good Design Award

P-2000 photo viewer
GT-8400UF scanner
ES-7000H/10000G A3 scanners
L-500V digital camera
F-3200 film scanner
E-100 inkjet printer
PX-A550 multifunction printer
PM-A900 multifunction printer
LP-9000C/7000C color laser printers
PX-6000 inkjet printer
PM-D1000 inkjet printer
Epson PiezoGraph (for technique and execution)

Information Security

Our approach to information security and management

After setting our policy on information security in 1998, Epson has been engaged in a variety of improvements, such as establishing regulations and standards, taking measures against computer viruses and unauthorized access, protecting information assets, and complying with laws and information ethics. Furthermore, we have been tightening companywide information security by placing a system expert in each business site and in each work section.

Keenly aware that each employee plays a significant role in the security of information, we conducted security training for all employees and distributed network ID cards after the completion of the training. To ensure that trained employees keep upgrading their security awareness, we hold annual e-learning training, where employees must pass the final test in order to keep their network ID cards. We also have a designated Security Month in which we focus on enhancing security initiatives.

Protection of personal data

Protecting customer data by establishing rules and standards has always been a high priority for Epson. In FY2004, we revamped our compliance program to reinforce the protection of personal data for our stakeholders, who include customers, shareholders, business partners, employees and residents of the communities in which Epson operates, in anticipation of the introduction of the Law Concerning Protection of Personal Information on April 1, 2005 in Japan.

In October 2004, Epson announced the Personal Data Protection Policy to guide efforts in improving rules and standards associated with the protection of personal data. To manage these efforts, Epson appointed the Executive Vice President as Chief Privacy Officer (CPvO) and designated the heads of operations divisions as senior administrators and general managers as administrators under the CPvO.

Epson Sales Japan Corp. (Japan/

Qualifying for ISMS certification

In FY2004, Epson sought Information Security Management System (ISMS) certification for its information system management department. ISMS is a Japanese (JIS) standard-compliant approach to managing information security, encompassing different aspects of security management, from anti-virus measures to personnel and organizational management. The BS7799 standard of the British Standards Institution sets out the requirements for ISMS.

Epson began implementing ISMS at our major Head Office-managed data centers in November 2004. Following a verification process, we obtained certification at the end of FY2004.

Concurrently, Epson established its Basic Policy on Information Security (see p. 11) in November 2004, to elevate the level of information security. Two major points covered in the new policy are:

1. Foster acute awareness of corporate social responsibility

For our stakeholders to have a secure relationship with Epson, we must make sure

sales), which handles a large volume of customer personal data, together with three other sales/service companies, sought Privacy Mark certification and Epson Sales Japan has achieved it. Privacy Mark certifies the operation of personal data protection programs. (Privacy Mark is sponsored by the Japan Information Processing Development Corporation, an affiliate of Japan's Ministry of Economy, Trade and Industry.)

Other Group companies/affiliates in Japan jointly developed and put into operation a simpler compliance program for midsize enterprises.

Because Epson considers customer data to be an asset on loan from our customers, each Group company/affiliate in Japan set

our stakeholders' assets are protected. Each employee must be trained to be constantly aware of the potential of unknowingly becoming an offender and of the security blind spots that pose significant risk.

2. Establish a security model in the age of dynamic corporate tie-ups

Strengthening our relationship with our clients while protecting ourselves from emerging risks is a challenging task, especially when major shifts are taking place in the way corporations do business and products are developed.

Companies are forming cross-industry large-scale tie-ups, collaborating, merging and establishing joint ventures, while the line between computers and non-computers continues to blur in the area of IP telephony and "smart" home appliances. However challenging this may be, Epson will continue to seek effective security models that accommodate the changing realities of the world economy.



Fig. 1
ISMS
Certification
Mark

up a hotline and online support to respond to customer inquiries and complaints.

Education for personal data protection

In FY2004, training on personal data protection was offered to 230 department heads, who also received qualification to conduct internal audits for compliance programs.

Epson also published a textbook to train employees who handle personal data and offered an e-learning class for 15,000 Group company/affiliate employees in Japan. This class requires the employees to take a test, and to sign a pledge to comply with the rules and regulations, which is submitted to the president of each company.

Personal Data Protection Policy

1. Epson abides by its Compliance Program on Personal Data Protection under strict management when collecting, using and disclosing personal data.
2. Epson adheres to laws and other restrictions on personal data protection.
3. Epson strives to prevent unauthorized access, loss, destruction, alteration and leakage, and to keep personal data accurate.
4. Epson continuously improves its Compliance Program on Personal Data Protection.

Together with Our Business Partners

At the Epson Group, we strive to grow and prosper together with our business partners worldwide. That is why we make regulatory compliance a prerequisite for becoming one of our business partners and ask our suppliers of raw materials and parts to meet the same strict standards we apply to ourselves.

Basic procurement policy and guideline revisions

The Epson Group values partnership with suppliers in each region we operate in and we foster relationships with them to prosper and grow together. We practice fair trade and compliance with legislation, and ask the same of our suppliers as a prerequisite for becoming our business partners.

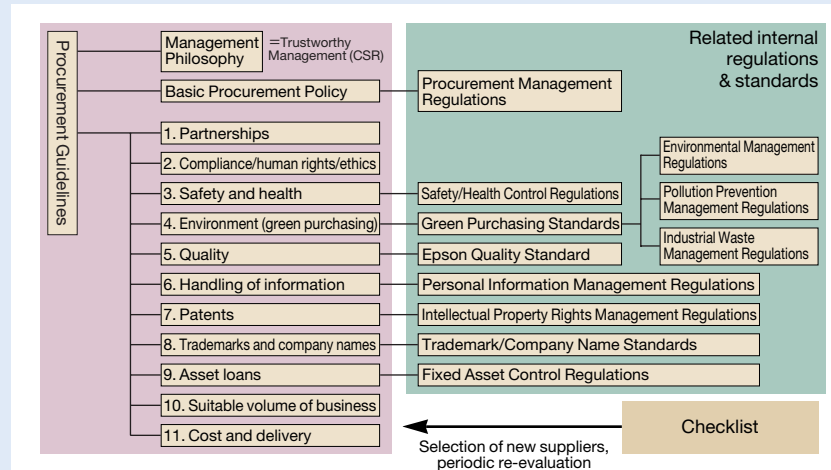
In FY2004, the Group set the Basic Procurement Policy, which is designed to support the CSR efforts of both the Group and suppliers. We also revised the Procurement Guidelines, which spell out specific requirements that suppliers must fulfill in 11 areas. These include compliance with legislation and social imperatives; protection of human rights; improvement in levels of ethics; consideration of employee safety and health; environmental conservation efforts; and customer-centric quality assurance.

On April 22, 2005, the Group invited suppliers for a briefing of our new procurement policy and guidelines. The policy and guidelines are also being communicated to the employees at new manager meetings, meetings of employees transferred overseas, seminars on production management, training for new buyers and on other occasions.

Basic Procurement Policy

1. We will build good partnerships with suppliers, based on mutual trust and the principles of fairness, coexistence and co-prosperity.
2. Exercising high ethical standards and a social conscience, we will conduct our procurement activities in strict compliance with both the letter and spirit of laws and regulations, both national and international, in every region where we operate.
3. While focusing on promoting green purchasing, we will constantly strive to achieve reasonableness as well as stable quality, cost, and delivery.

Fig. 1 Basic Requirements of Procurement Guidelines and Standards



The Procurement Management Compliance Committee

As part of a concerted effort to comply with legislation globally, the Procurement Management Compliance Committee ensures that procurement procedures comply with legislation. Under the Committee, the Head Office's procurement division collects information on domestic legislation trends by participating in Fair Trade Commission seminars and shares the information Groupwide through Committee meetings and operations divisions' production manager meetings.

Supplier selection and regular evaluation

Selection and evaluation of suppliers is done based on the Group's unified standard to achieve fair assessment and to

foster good partnerships.

Starting in FY2005, we will be adding the 11 basic qualifications specified in the Procurement Guidelines to the standard areas of evaluation (MEQCD: management, environment, quality, cost and delivery) for selection and evaluation of suppliers.

For new candidates, we first ask them to conduct a self-evaluation in basic evaluation areas (including the 11 basic qualifications) and request that sub-par suppliers improve. The suppliers who rated themselves as qualified are evaluated by Epson, as the next step in starting a business relationship.

We also regularly conduct the same evaluation for qualified suppliers, to ensure consistent improvement in our procurement activities.



A briefing in Japan in April 2005



A briefing in China in May 2005

Together with Our Employees — HR Policies and Working Conditions

Epson's policy of valuing people remains unchanged since our founding years, when we mainly produced watches. With the conviction that each employee is an asset on loan from society and that they drive the growth of the company, we promote personal growth and greater self-reliance for each and every employee, and create an organization where individuality is nurtured.

Human Capital Vision as a foundation for growth

For any company, human resources (HR) are a valuable asset that generates new ideas, technology and expertise that brings forth consistent profit. The capabilities of a company's employees, or the "human value," determine the value of the company.

The Epson Group has grown into a multi-business, global corporation. The business environment surrounding the Group has also been changing dramatically, with rapid advancement of technology and intensifying global competition. In this day and age, to achieve growth while quickly adapting to the changes in the global market, it is critical that the Group leverage the technological genes that we have preserved since the Group's founding, and that all employees adhere strongly to our value system.

The Epson Group's technological gene together with our core values, that assure

that we provide reliable and sincere service as we pursue creativity and challenges, are translated into various guidelines upon which we base our actions. These include Epson S&A: Start Together Achieve Together and Guidelines for High-Value Leaders.

To lead our employees and the Group to grow and to nurture employees to realize our core values, we established our Human Capital Vision in FY2004 (Fig. 1). The key concepts supporting this vision are: 1. changes at the individual and organizational levels drive the vision of the corporation; and 2. boosting morale, encouraging personal growth and nurturing each employee's individuality eventually drive the overall growth of the company.

Under the Human Capital Vision, we focus on the following HR measures:

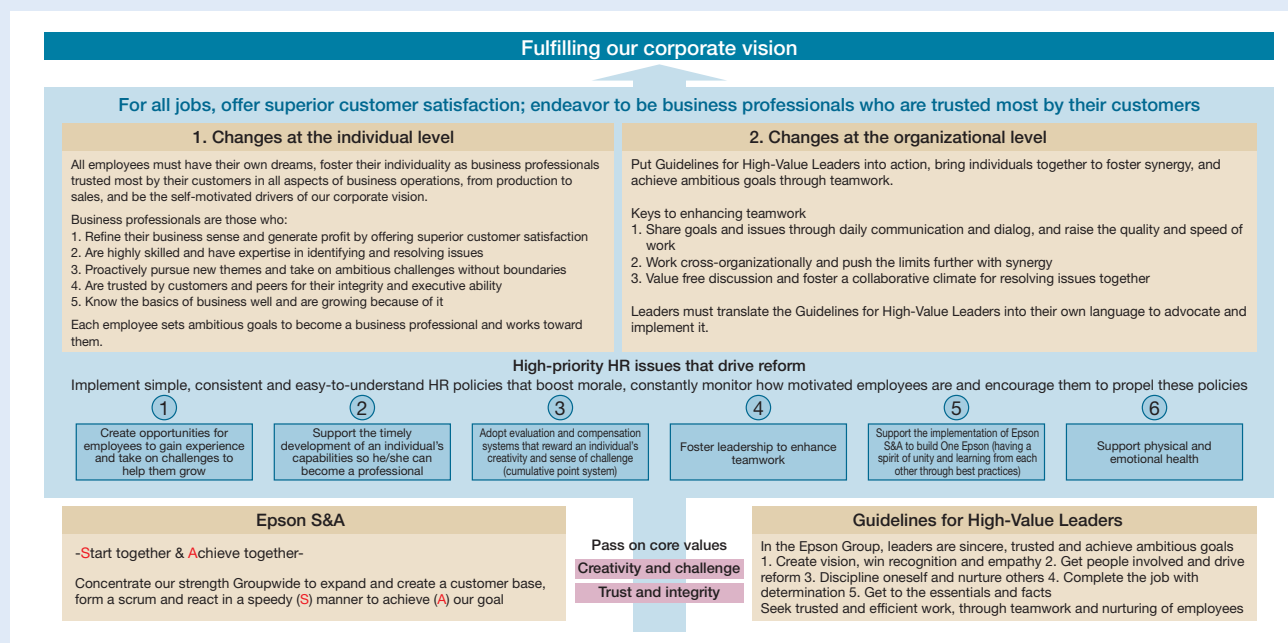
- Strategic placement of personnel that inspires employees and energizes the organization
- Education that defines and teaches the

characteristics that an employee needs to achieve business goals

- Recognition of employees who produce results
- Support for resolving issues in the workplace
- Improvement of brand values through global teamwork and team spirit
- Creation of a working environment where employees feel safe

The Group is also promoting the Epson Value Sharing Project to share the value system and codes of conduct (Epson Value) Groupwide and work together to serve customers as One Epson. These include the Human Capital Vision, the Quality Philosophy and the Environmental Philosophy. We plan to incorporate Epson Value into the HR system and into employee evaluation. We will be discussing this issue when HR officers from overseas Group companies/ affiliates meet and on other occasions.

Fig. 1 Human Capital Vision



Employee evaluation and salary system

At Epson, we evaluate employees based on both their accomplishments and the process behind those accomplishments and assign salary according to the employee's merit, without regard for age, educational background or gender.

We also have introduced the Objectives Management System, through which objectives are set for each employee based on higher-level policies and objectives. We encourage each employee to take on new challenges to attain these objectives and make sure to boost their morale. In setting the objectives, we also encourage employees to communicate more extensively with their superiors, to establish a greater level of solidarity between employees and their managers, and to stimulate communication within the company.

Elimination of all types of discrimination

In July 2004, Epson joined the United Nations Global Compact (for details, see p. 8), which advocates 10 universal principles, including respect for human rights and elimination of forced labor, child labor and discrimination based on occupation and in hiring practices.

Long before joining the Global Compact, Epson had been making efforts to eliminate all forms of discrimination and unfair labor practices around the world.

To better protect human rights and attain a higher level of employee and management compliance, Epson set codes of conduct for employees and managers.

We also put in place the Compliance Hotline, a counseling service for sexual harassment issues, and the labor union's UNISTATION — a web-based service for resolving employee human rights issues.

Equal opportunity

Another characteristic of our corporate culture is equality between the sexes in employment and evaluation. We began

In-house open application and Job Challenge systems

A merit-based evaluation has always been part of Epson's corporate culture since its first years in business when Epson mainly produced high-value added products such as watch. We actively promote personnel rotations to spur employee growth and to energize the workplace.

To provide opportunities for employees who want to grow through their work, we introduced an in-house open application system in FY1990 and the Job Challenge System in FY2002. These two systems allow a greater freedom in staffing and career development for employees who are willing to take on new challenges. In FY2004, 70 employees applied through the in-house open application system and 40 of them moved to new positions, while six out of seven employees got the new position they applied for through the Job Challenge System.

implementing equal opportunity employment ahead of other companies in Japan. In 1983, we completely eliminated the wage variance between male and female employees.

Currently, women account for 19% of the workforce at Epson, with 0.6% at the management level (see p. 58, Table 1).

Childcare and nursing assistance

Epson is consistently ahead of legislative initiatives that assist Japanese workers. We introduced maternity and childcare leave in 1991 and nursing leave in 1990, ahead of the introduction of the Law Concerning the Welfare of Workers Who Take Care of Children or Other Family Members, Including Child Care and Family Care Leave in 1992. These systems allow longer leave periods than the law stipulates: maternity leave until March of the child's first year or until the child turns 18-month old (whichever is longer); and nursing leave for up to 18 months.

Approximately 90 employees take childcare leave each year and, on average, 94% return to work. Nursing leave has

Patent incentive scheme

Since 1965, Epson has been improving its patent management guidelines and standards to promote invention and sharpen our competitive edge in technology. In response to the enactment of revised Article 35 of Japan's Patent Law on April 1, 2005, on the same day, Epson introduced a new system to reward inventors. Under the new system, inventors can choose to receive a higher employee evaluation (reward) for their contribution to sales or a reward linked to licensing revenues. The new law calls on companies and employees to discuss a new reward system. Epson collected employee opinions via the intranet, held briefings and established an advisory committee to reach a consensus. We also set up a tribunal committee to appropriately deal with cases where inventors are dissatisfied with their monetary rewards.

been used by an average of four employees per year, with 70% returning to work.

Shorter working hours are also allowed for childcare or nursing. Employees can also divide up the nursing leave or apply for financial assistance for childcare and nursing services.

In FY2004, in anticipation of the introduction of the Law for Measures to Support the Development of the Next Generation on April 1, 2005, Epson created an action plan to improve the work environment for working parents, to allow them to explore their career, and to make a local contribution to the building of the next generation.

In the action plan, Epson lists the following plans: offering partially paid childcare leave to encourage more male participation in childcare; introducing comprehensive home nursing care services; changing the working environment to one that encourages childcare leave and shorter working hours; offering seminars on life planning; encouraging all employees to participate in Communication Day (no-overtime day); promoting internship programs; and arranging company visits for children.

Employment of people with disabilities

Epson established a special subsidiary, Epson Mizube, in 1984 to promote the employment and assignment of positions to people with mental and physical disabilities.

As of March 2005, 2.3% of our employees have disabilities, surpassing the legal requirement of 1.8% by 0.5%. In FY2004, the Governor of Nagano and the Mayor of Matsumoto City recognized

Epson for this achievement and presented us with an award for an outstanding program.

Welfare

In addition to childcare and nursing support systems, Epson offers employee benefits for retirement, health, education, housing, transfers, business trips and more. Epson boasts benefits that are more generous than those required by law, as outlined in Table 2.

Labor union

The activities of Epson's labor union are focused on promoting honest discussion between management and the union, sharing wisdom, and devising solutions that suit the times. Committees with various purposes such as the employee self-reliance promotion committee and the long working hours prevention committee, have been formed and ad hoc discussions with management and workplace meetings are held to improve communication. Epson employs a union shop system.

Table 1 Seiko Epson Corporation Employee Breakdown (as of March 31, 2005)

Employee Gender Ratio		Management-Level Ratio*		Management-Level Gender Ratio**	
Males	81.0%	Management-level	11.7%	Males	99.4%
Females	19.0%	Non-management-level	88.3%	Females	0.6%

* Management-level employees include managers and above (including those who are on external assignments).

** Breakdown of management-level employees by gender.

Table 2 Major Benefits

Category	Benefits
Childcare	Childcare leave, shorter working hours, discount coupons for home childcare services
Nursing	Nursing leave, shorter working hours, nursing coupons, assistance for nursing leave
Retirement	Retirement allowance, assistance for an asset-building pension scheme, pension fund (corporate pension), etc.
Health	Sick leave, in-company therapy (massage), medical leave, childbirth/childcare allowance, childbirth allowance, assistance for medical checkups, assistance for brain checkups, etc.
Education	Assistance for national examinations, educational assistance for self-development, assistance for work-related distance education, assistance for self-organized training, assistance for outside training/seminars, educational loans
Housing	Company housing, singles apartments
Transfers	Company housing, singles apartments, transfer allowance, return transportation allowance, allowance for living separate from family, management fee for home left empty while on transfer, living allowance for cold regions, children's education assistance
Business trips	Daily allowance for domestic business trips, daily allowance for overseas business trips, allowance for overseas business trip preparation, vaccination allowance, use of company jet (between Nagano-Tohoku Epson and Nagano-Sanyo Epson Imaging Devices Tottori Plant)

Prevention of long working hours and overwork

Based on the agreement between Epson and the labor union on overtime and holiday work, Epson created a manual on overtime management to shorten long working hours and alleviate overwork.

In FY2004, we conducted an employee survey to collect opinions on overtime and to understand the current situation regarding working hours. We also set action plans.

Together with the labor union, Epson also set 10 policies that outline our commitment to improving employee mental and physical health, to raising corporate values, and to pursuing an ideal work style and environment for individuals and the company.

P.T. Indonesia Epson Industry (IEI, Indonesia/manufacturing)

High-Value Leadership workshops

In an effort to train leaders and to foster aspiring leaders, IEI has been conducting High-Value Leadership Workshops.

In the workshop, each attendee is given an opportunity to think about the expected behavior of an IEI leader and where he or she would be in five years. They create individual career plans and strategize how to realize them. IEI holds workshops once a month, each lasting two to three hours.

Best practices of other companies are also shared at the workshops and

discussions are held with directors and other leaders. The participants are also expected to clearly define what they did in the workshop, what they learned and what they should do next.

IEI believes that by fostering management thinking at the workshop, the employees will become drivers of company growth. The company is also convinced that the workshop boosts their enthusiasm for day-to-day operations and enhances individuality.



A scene from a High-Value Leadership Workshop

Together with Our Employees — HR Development and Education

Because it is each employee who conducts business and fulfils our Management Philosophy, Epson is committed to HR development and education that are designed to build self-reliant individuals and an active organization. We do this based on the idea that work nurtures employees and that employees must make an effort to nurture themselves.

Nurturing employees who create value for customers

Epson drew up mid-range HR development measures (HR07) to assist employees in fulfilling the Human Capital Vision, produce maximum business results and achieve their most ambitious goals and dreams.

HR07 defines the skills and capabilities of employees, so that we can maximize the value we can offer to our customers. It aims to cultivate and develop employee talents and help employees become business professionals.

Educational system

Our educational system is designed so that all employees can acquire the knowledge and skills required to become business professionals. The five areas of concentration (5C) are: Career/self-reliance, Corporate social responsibility, Cost consciousness, Communications and Customer-centric thinking (Fig. 1). Management education and specialized education are offered wherever necessary.

For future leaders who will be directing overseas Group companies/affiliates, we

HR Development Philosophy

Our basic approach is to support employees who have aspirations for self-actualization, to connect all the companies in the Group with people, and to nurture employees so that both corporate and individual objectives are met.

The following is our philosophy for human resources development.

1. The Company positions human resources as an indispensable resource and aims to integrate employee aspirations for high-level achievements with the highest interests of the Company.
2. HR development is a very important instrument for realizing the Management Philosophy and business plans. It is the key to forming a good management cycle.
3. Each level of employee therefore assumes the following roles:
 - a. Executives, as drivers of HR development, must serve as role models for employees in all business activities and must work toward fulfillment of Company philosophies.
 - b. Management-level personnel must practice on-the-job training (OJT) systematically and continuously with a clear objective for the training. Nurturing of employees must be done principally on an individual basis in a comprehensive manner through the setting of detailed objectives, evaluation of results and acceptance of individual experiences of success. At the same time, management-level personnel must prepare their successors.
 - c. Employees should voluntarily pursue self-improvement.
 - d. Departments in charge of education must promote HR development through off-the-job training, as well as OJT.

An Epson employee is expected to:

1. Attain high-level goals with perseverance and foster achievements in a speedy manner with a spirit of teamwork.
2. Possess a broad perspective and capabilities backed by highly specialized expertise, and be able to work effectively in the global arena.
3. Be a self-reliant individual who demonstrates creativity and takes on challenges.

hold annual global leader seminars to share the Group's managerial policies and values (Epson Value). In FY2004, we held workshops for all Group members to disseminate Epson Value and practice it together. Through this, we are working

toward becoming One Epson and building a foundation as an organization that continues to offer great value to our customers.

Fig. 1 Epson Learning Index

All Employees (5C)	Career/Self-Reliance	Career development	Self understanding	Career design										
	Corporate Social Responsibility	Epson Value	Management Philosophy	Mid and long-range vision	S&A	High-Value Series	Brand	Trustworthy management (CSR)						
		Code of conduct	Rules/systems	Safety & Health	Compliance	Legal affairs	Environment	Information security	Personal data protection	Business etiquette				
	Cost Consciousness	Cost consciousness	Finance	Accounting	Tax									
	Communications	Communications	Presentation	Negotiation	Coaching	Listening	Cross-cultural understanding	Language	Basic PC skills					
	Customer-Centric Thinking	Customer-centricity	Marketing	CS	QC									
Management	Management/Leadership	Management/leadership	Organizational development	Objective management	Problem solving	Guidance	Labor management	Risk management	Mental care					
Specialists	Specialization	Specialized skills	Management/administration	Intellectual property	Information	Production management	Sales	R&D	Design	Product planning	Technology/quality	Manufacturing		

Together with Our Employees — Occupational Safety and Health

Epson established the New Epson Safety and Health Program (NESP), our occupational safety and health management system, to create a safe and healthy working environment for our employees.

Our approach to occupational health and safety

Since FY2000, Epson has been operating its own occupational health and safety management program, NESP. At overseas Group companies/affiliates, independent occupational safety and health programs are in place.

NESP is an integrated safety and health management initiative with a comprehensive approach to improving the working environment. It received certification as an Occupational Safety and Health Management System (OSHMS) from the Japan Industrial Safety and Health Association (JISHA) in May 2003.

The NESP management system is a three-phase system aimed at ensuring health and safety in daily operations. These are: 1. health and safety education for employees; 2. identification of hazardous factors and their risks through risk assessment; and 3. continuous improvements under the Plan-Do-Check-Action (PDCA) cycle.

In FY2003, all Group companies/affiliates in Japan and manufacturing companies overseas entered the final stage of NESP. In this stage, each company independently carries out activities to further improve the

Seiko Epson Group Basic NESP Policy

The Seiko Epson Group has established and is implementing a basic NESP policy in the belief that providing and maintaining a safe and healthy work environment for all Epson employees worldwide, and having healthy, energetic employees, is the foundation of a healthy company. By achieving this aim, Epson will continue to be trusted and recognized in every region and country in which it operates.

NESP: New Epson Safety & Health Program

NESP is a progressive program that Epson has developed based on general occupational safety and health management system principles and organizations.

Policy Statement

1. Epson puts NESP programs into action with full employee participation and drives continuous improvements by deliberately turning the PDCA management cycle based on good communication with employees.
2. Personal health and well-being are something each of us can achieve and maintain on our own, but Epson, through a cooperative organization comprising management, labor, and our health insurance association, is committed to promoting the total health, both physical and mental, of its employees, and to supporting employees' self-monitoring efforts so as to foster a sense of satisfaction and fulfillment and enable them to exercise their abilities to the fullest.
3. Epson systematically provides employee training and strives to raise safety and health awareness.
4. Epson identifies and evaluates potential hazards and causes of harm to prevent accidents and disasters. Moreover, Epson thoroughly analyzes root causes to prevent the recurrence of similar accidents and disasters.
5. Epson periodically reviews its measures to prevent harm and damage from fires, earthquakes, floods and other natural disasters, as well as its measures to save lives, prevent the spread of damage, and recover in the event of a disaster. The company conducts regular, ongoing disaster preparedness drills, verifies their efficacy, and strives toward their further improvement.
6. Epson observes all applicable laws and ordinances relating to safety and health and ensures the safety and health of its employees on the basis of internal regulations and standards.
7. Epson allocates appropriate management resources to carry out safety and health programs and continuously makes effective improvements.

situation, with the support of the Safety and Health Promotion Department. The Department also assesses their activities on an ongoing basis.

Under the leadership of the President and the Safety and Health Manager (Executive Vice President), we are making sure that NESP is operating in compliance with related legislation and with Groupwide guidelines, such as the Safety & Health guidelines. We also have a contract with the labor

union regarding assurance of employee occupational safety and health, and we hold a monthly meeting to discuss related issues with the union.

In FY2004, Epson revised the Basic NESP Policies to emphasize our approach of promoting employee health self-management and company measures (precautions) to help employees stay healthy.

Accident-free and disaster-free workplace (occupational safety and health activities)

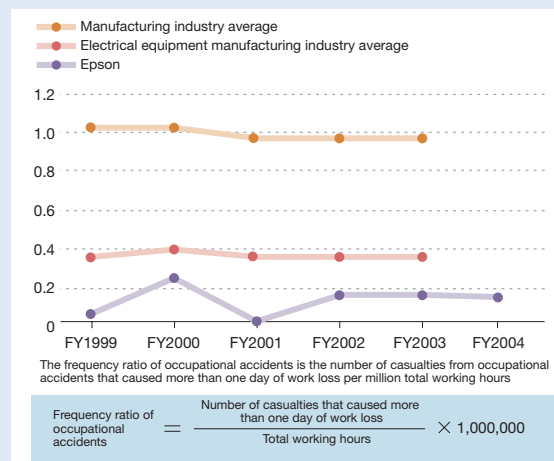
With the steady progression of NESP activities Groupwide, the Safety and Health Promotion Department moved on to upgrading overall activities by assessing (auditing) activities at business sites and Group companies/affiliates, collecting their best practices and applying them Groupwide.

In FY2004, we implemented comprehensive occupational safety and health activities based on the NESP General Policy of Action07. Emphasized in the activities are measures to prevent human error, such as

rule violation and other behaviors that could lead to serious incidents. By understanding how the human mind and body work and by offering appropriate guidance, we are fostering a corporate culture that prevents accidents and disasters from occurring.

Graph 1 shows the frequency ratio of occupational accidents.

Graph 1 Trends in Occupational Accident Frequency



Recognition for health and safety initiatives

The Epson Group's health and safety activities have earned considerable recognition from governments and other organizations around the world.

In FY2004, Epson Telford Ltd. (ETL, U.K./manufacturing) was awarded the British Safety Council Sword of Honour, which is given to an organization selected from among only those organizations that scored the highest on health and safety management system audits. At the awards ceremony, ETL received special words of recognition from Prime Minister Tony Blair, who commented that this award is only given to organizations that have achieved outstanding results in their initiatives.



Photo 1 British Safety Council Director General David Ballard (right) presents the Sword of Honour to Keith Jones, ETL health and safety officer

Improving employee physical and mental health

Because employees are an extremely valuable resource, their physical and mental health deserves the utmost attention. At Epson, industrial physicians lead Companywide health management in concert with nurses and therapists under the Head Office's general affairs office.

In FY2003, Epson set Healthy Epson21, a mid-range plan for corporate health management on which our activities throughout the year are based. Under Healthy Epson21, programs such as regular health checkups, physical fitness checkups, vaccinations and programs to prevent lifestyle-related diseases are implemented.

In FY2004, Epson clarified our basic approach to Healthy Epson21, which is to promote employee health self-management and to work with the health insurance association and the labor union to create an

P.T. Indonesia Epson Industry (Indonesia/manufacturing) attained 16 million hours of accident-free operation and was awarded the Zero Accident Award from the government of Indonesia. Singapore Epson Industrial Pte. Ltd. (Singapore/manufacturing) was also awarded the Annual Safety Performance Award from the Singaporean government.

Head Office-Group company/affiliate joint initiatives

The Epson Group regularly assesses the safety and health activities at overseas manufacturing affiliates and works together with the companies to enhance these activities. In FY2004, assessments were performed at Epson Precision (Malaysia) Sdn. Bhd. (Malaysia/manufacturing), Singapore Epson Industrial Pte. Ltd., Fujian Epson Start Electronic Co., Ltd. (China/manufacturing) and Epson de Juarez, S.A. de C.V. (EDJ, Mexico/manufacturing). With the goal of becoming the world's safest plant, EDJ implemented measures such as turning the warehouse lot into green space, improving wiring, and changing the structure of switchboards to allow for easy internal inspection and early detection of problems.

environment where employees are satisfied and energized. We also set new numerical targets for health improvement in such areas as lifestyle-related diseases, smoking, drinking, exercise, diet, mental health, cancer and dental health.

Another focus of Healthy Epson21 is ensuring the mental health of the employees. We have therapists at our counseling office who help employees with emotional problems. On our intranet, we provide mental health-related information on a page called "mental and physical health" with a self-checkup service. Training is also provided so that management-level employees can spot emotional problems their employees may be having, listen to them and deal with them promptly at an early stage.

For these efforts, Epson was awarded the Minister of Education, Culture, Sports, Science and Technology Award at the *Tairyoku Tsukuri Yushu Soshiki Hyosho*

Fire and disaster preparedness drills

In FY2004, the Epson Group implemented a comprehensive disaster preparedness drill at all business sites in Japan under the assumption that a major earthquake will hit the Tokai region in Japan. Following the Tokai earthquake action plan, we kicked off the drill by sending an emergency communication to each site. A task force was then formed to collect information on the status of the production facilities and safety of the employees.

The Group also held the 19th Seiko Epson Group Fire Fighters Meeting. Twenty-one men's small pump teams, eight women's indoor fire fighting teams, and six trumpet and drum bands demonstrated the results of their hard training. Eight teams from overseas manufacturing affiliates (China, the Philippines, Malaysia and Indonesia) also took part, making it a great opportunity to raise the Group's fire and disaster-prevention awareness.



Photo 2 Disaster drill simulating a response to the Tokai earthquake

(Outstanding Fitness Organization Awards) in FY2004, sponsored by the Japan Health Promotion & Fitness Foundation. Only two companies were chosen for the award after a rigorous screening and Epson was highly rated for its long-term commitment in the area.



Photo 3 Epson Managing Director Torao Yajima receives the Minister of Education, Culture, Sports, Science and Technology Award at the 46th *Kenko Tairyoku Tsukuri Undo Suishin Taikai* (Health and Fitness Promotion Meeting) sponsored by the Japan Health Promotion & Fitness Foundation

Corporate Citizenship

Co-existence with society is a focus of the Epson Group's various corporate citizenship activities around the world. Mindful that corporations have a higher social responsibility, we are committed to being a good corporate citizen that contributes to a sustainable society through our activities.

Built on a Philosophy of Philanthropy and Giving

To expand our Management Philosophy of being a progressive company that prospers with society, the Epson Group established the Epson Philosophy for

Philanthropy and Giving and the Epson Policy for Philanthropy and Giving in March 2004. The philosophy guides the Group and employees in their pursuit of various activities to support society, and outlines high-priority areas that form the basis of

activities in the countries and regions in which we operate. In many of the activities, we are leveraging our technological expertise.

Epson Philosophy for Philanthropy and Giving

Epson and its employees are committed to good citizenship and to responding to the needs of the diverse communities in which the company operates. Epson pledges to work for the betterment of society by dedicating resources to support programs that positively impact its various communities.

Epson Policy for Philanthropy and Giving

The following policies will be pursued by Group companies in keeping with the Epson Philosophy for Philanthropy and Giving.

1. Dedicating resources in designated fields appropriate to the needs and circumstances of each country where we operate

Epson is dedicated to providing support to the community in the following designated fields. Support will be provided in a manner that is appropriate to the country and region of the world where activities are conducted.

- Education
- Culture and the arts
- Community events
- Environmental conservation
- Public welfare and support for the needy

2. Improving the communities in which we operate by working as individuals or with groups for the betterment of society

Epson will create a corporate culture in which employees are encouraged to play an active part in the community and charitable causes.

- Participate in community events and volunteer activities
- Donate blood
- Donate funds to charitable causes
- Cleanup of communities, rivers and waterways, parks and public spaces near business sites
- 3. Promoting collaboration with cultural, charitable and educational institutions to contribute to the development of society and the preservation of the environment

Epson will initiate programs that enable it to draw on its strengths to work for the betterment of society.

- Participate in tree planting and other environmental activities
- Cooperate with schools and other educational institutions
- Cooperate with employee groups in promoting philanthropic causes
- Cooperate with NPOs and other external organizations
- Use Epson products, technologies, and other resources to support philanthropic activities

4. Improving communication with our stakeholders

Epson will create two-way communications with society in order to promote and improve understanding of its philanthropic activities in regions of the world where it does business.

- Publicize information about Epson's philanthropic philosophy, policies and activities on websites and through other media
- Publicize information about volunteer activities

Education for Young People

Educational support in western China Epson (China) Co., Ltd. (ECC)

ECC jointly launched an educational assistance program with the education board of Chongqing City in the impoverished western part of China. ECC established a new school in Gao Qiao Zhen in Kaixian County, Chongqing City, donated books to the library and provided disaster prevention training at Gao Qiao Zhen Elementary School. Epson hopes that educational opportunities will open many doors for children and contribute to the development of the local economy.

Building elementary schools in Cambodia Seiko Epson Labor Union

In cooperation with the Shanti Volunteer Association (SVA), the Seiko Epson Labor Union finances the building of schools in Cambodia with its welfare fund.

Since FY2002, the Union's funds have built

two elementary schools, Tonle Nearn Primary School in Kampot Province and Phum Kor Primary School in Kampong Chhnang Province. In February 2005, two members of the Union participated in the dedication ceremony for a third elementary school, Prey Tup Primary School in Kampong Thom Province. The Union and SVA have also been donating picture books



Local children attend the new elementary school

to schools in Cambodia, including the three schools they supported building. In March 2005, the Union collected 30 picture books and pasted in sheets of translated text. In May 2005, volunteers from the Union traveled to Cambodia to present these books to the schools.

Environmental seminar at local university Epson Precision (Johor) Sdn. Bhd. (EPJ, Malaysia)

On December 8, 2004, two EPJ employees gave a lecture entitled "Environmental Protection in the Engineering Industry: Epson's Efforts" to nearly 100 graduate students at the 13th School of Management graduation conference at the Science University of Malaysia (USM). The students were enthusiastic about the subject and actively took part by asking many questions.

Super Science High School (SSH) Program

Suwa Seiryō High School in Suwa City, Nagano Prefecture, where Epson's Head Office is located, was designated as an SSH by Japan's Ministry of Education, Culture, Sports, Science and Technology in FY2002. Epson continues to support the program and sends lecturers to special events. Through these activities we convey the fun and excitement of R&D and manufacturing to high school students. We also aim to help students learn how to think for themselves. The program is considered very interesting and is appreciated by students and teachers alike.



Classroom scene

Other major activities

- Epson Precision (Johor) Sdn. Bhd. (Malaysia) EPJ visit program for junior high school students and Rotary Club members
- Epson Suwa Minami Plant and Fujimi Plant Internship program for students
- Sanyo Epson Imaging Devices Matsumoto Head Office Student work-study program for junior high school students
- Epson Shiojiri Plant and Okaya Plant Student work-study program for watch assembly and disassembly processes
- Epson Ina Plant and Matsushima Plant Social research and training program for junior and senior high school students, and teachers
- Epson Software Development Laboratory Internship program for Japanese and non-Japanese
- Epson Service Corporation Environmental training for junior and senior high school, and university students

- Epson Atmix Corporation Internship program for high school students
- Epson Mizube Corporation Internship program for schools for children with disabilities
- Tohoku Epson Corporation Environmental activity visit for local elementary school students
- Fujian Epson Start Electronic Co., Ltd. (China) Environmental education program for local schools
- Epson Precision (Johor) Sdn. Bhd. (Malaysia) Internship program for high school students
- Epson America Inc. (U.S.) and others Donations of Epson products to public schools

Arts and Culture

Donation to Saito Kinen Festival Matsumoto

Epson has been sponsoring the Saito Kinen Orchestra since 1989 and became one of the main sponsors of the Saito Kinen Foundation in 1992. The company also cosponsors the annual Saito Kinen Festival Matsumoto, held in Nagano Prefecture.



Concert scene

PiezoGraph exhibition

Epson hosted an exhibition of works by PiezoGraph painter Naohisa Inoue at the Epson PiezoGraph Gallery Kyoto in March 2005. Visitors were also able to see Inoue demonstrate PiezoGraph in person and had a nice time socializing with the artist.



Works by Naohisa Inoue

Presentation of Taizi Harada's PiezoGraph

In April 2005, Epson and Taizi Harada presented 34 of Harada's PiezoGraphs to the City of Suwa to cultivate and promote art and culture. To express his appreciation, Suwa City Mayor Katsufumi Yamada said that, in addition to exhibiting them at museums, the city would display them at city facilities and lend them to schools.



Suwa Mayor Yamada (left) and Epson President Seiji Hanaoka at the presentation ceremony

Exhibition of Higashiyama Kaii's PiezoGraph

Epson's PiezoGraph Laboratory is archiving the artworks of Higashiyama Kaii owned by the Shinano Art Museum in Nagano Prefecture, with the goal of putting them on permanent display in the museum. It completed the first work, *Hakuba No Mori*, and hosted a show at the art museum in November 2004. This artwork, approximately 1.5 m x 2.2 m in its original size, was reduced to 90% and divided into three sections for printing. The three pieces were then put together by a

traditional craft technique called *tsunagi*. This artwork is on permanent display at the entrance of the Higashiyama Kaii Gallery in the museum.

Cosponsoring The World of Japanese Manga Movies Exhibition Epson and Epson Sales Japan Corp.

Epson and Epson Sales Japan cosponsored the "The World of Japanese Manga Movies Revealed: From Their Origins to 'Spirited Away' and Beyond" exhibition at the Museum of Contemporary Art, Tokyo. It was held to promote understanding of well-received Japanese animation films and to provide a family activity during summer vacation. Epson also displayed important works using the PiezoGraph technique and showed videos with Epson projectors at the event.

Photo exhibitions featuring Korean photographers Epson Korea Co., Ltd. (EKL)

EKL held a photo exhibition of four acclaimed Korean photographers, Cho Seihon, Koo Bohnchang, Joon Choi and Kim Youngsoo, in October 2004. In November, EKL sponsored another exhibition of Cho's work, entitled "Letter from Angels: the Second Story," focusing on the theme of family love.

For both exhibitions, EKL printed the photos with Epson printers. Visitors enjoyed the photos and could see first-hand the advantage of using inkjet printers.

Participation in and Support for Community Activities

Local community cleanups

● Hirooka Plant and Shiojiri Plant

In October 2004, the Clean Shiojiri Promotion Association and the Hygienic Association of Shiojiri City, Nagano Prefecture, jointly hosted the "Clean Shiojiri" cleanup eco-walk. Seven employees from the Shiojiri Plant and 25 from the Hirooka Plant participated in this event. Earlier in April, the city enacted an ordinance that prohibits littering, which helped raise environmental awareness in the area. As a result, more than 1,000 people participated in Clean Shiojiri.



Employees take part in eco-walk

● Epson Precision (Johor) Sdn. Bhd. (EPJ, Malaysia)

At Lido Beach in southern Malaysia, tourism has been dwindling as a result of pollution on the beach

and in the water. In August 2004, EPJ conducted a campaign to clean up the beach with the Johor Bahru City Council, the Johor Tourism Association, the Education Board and other NGOs. Over 300 people, including 150 students from nine schools, participated in the event and cleaned the beach together.

● Ina Plant and Matsushima Plant

In May 2004, Epson employees at the Ina and Matsushima Plants participated in the 11th Tenryu River



Cleaning up Tenryu River

System Environmental Picnic. About 210 employees and their families hiked through the river's levee and riverbed in Minowa Town and picked up trash. They collected seven bagfuls of combustibles and 36 bagfuls of non-combustibles, as well as 220 empty cans and 90 empty bottles.

● Epson Precision (Hong Kong) Ltd. (EPH)

EPH's 135 employees visited Seaside Ecology Park in Shenzhen City in November 2004 to pick up trash in the park and along the beach. Fifty members of the border control who were sent by the city also joined in the cleanup. This activity has cultivated ecological awareness among the public; visitors to the park also joined in.



EPH employees and border control officials

■ Other major activities

• Epson and others

Cosponsorship of Lake Suwa Fireworks Display and other community cultural events

• Epson

Cosponsorship of the Suwa Area Industrial Messe

Environmental Conservation

Epson Green Carnival 2005

Epson Hong Kong Ltd. (EHK)

On January 30, 2005, EHK and the Green Council cohosted the Epson Green Carnival 2005 to heighten environmental awareness in the community. Over 20,000 students and their families participated in this event. EHK had a booth with a display of panels on the 3R (Reduce, Reuse and Recycle) approach and on its environmental activities. Fifteen scholarship students from the Epson Foundation also took part.



EHK employees in front of the Epson booth

Business-academia collaboration program

Singapore Epson Industrial Pte. Ltd. (SEP)

SEP and Epson Singapore Pte. Ltd. (ESP) jointly participated in the environmental program Adopt-A-School Scheme proposed by Singapore's National Environment Agency. It presents opportunities for students to become more aware of environmental issues, as well as to gain greater knowledge and information. In November 2004, SEP and ESP participated in the Clean & Green Week 2004 School Carnival and put up posters and graphics showing how to effectively reduce waste.



SEP and ESP employees and students at the carnival

Participation in Mount Makiling forest preservation activities

Epson Precision (Philippines) Inc. (EPPI)

In August 2004, EPPI participated in a tree-planting and forestation program at Mount Makiling Forest Reserve in Sto. Tomas, San Bartolome, Batangas, the Philippines. The mountain is a source of water for many factories. EPPI aims to plant 2,500 Indian red sandalwood seedlings in one hectare over a three-year period.



EPPI employees in the program

Kids' ISO14000 program certification ceremony

Epson's labor union and management have been cosponsoring and participating in the Kids' ISO 14000 Program. A ceremony to present international certificates was held at the United Nations University headquarters in Tokyo in January 2005. Twenty-four children of Epson employees and 47 fifth-graders from Minowa Chubu Elementary School attended the ceremony and received certificates from Prof. Hans van Ginkel, the president of the UN University, and Dr. Hari Srinivas of the UN Environment Program. In FY2004, 130 fifth-graders from the elementary school participated in the program, and 86 of them received primary-level certificates.

Summer eco-study stamp rally

Tohoku Epson Corporation

In the Yamagata Environmental Study Stamp Rally held in summer 2004, participants toured 27 public and private facilities to learn about nature and the environment, collecting stamps at each facility. As one of the stops, Tohoku Epson installed a booth on its premises for families to learn about its eco-activities and to try an eco-quiz on PCs. The booth attracted about 550 visitors.

Shenzhen City tree-planting program 2004

Epson Precision (Hong Kong) Ltd. (EPH)

The EPH Group participated in greening activities sponsored by the Shenzhen Urban Management Office and the Shenzhen Green Fund at Lian Hua Shan Park. About 3,000 people, including 260 employees of the Group, planted 3,000 landscape trees at the foot of the Lian Hua Shan Park. It is believed that these green belts alleviate noise and dust.

Distribution of reusable shopping bags Epson Precision (Hong Kong) Ltd. (EPH)

On March 26, 2005, the EPH Group's safety and environmental management division hosted the distribution of free, reusable shopping



Shoppers sign the banner

bags at a department store in Shenzhen City. The activity aims to reduce the use of plastic bags and improve public eco-awareness. The EPH Group also prepared a banner stating its philosophy to be in harmony with nature and co-exist with the community. Visitors to the department store were asked to sign the banner to declare their commitment to environmental preservation.

Other major activities

- Seiko Epson Corporation Korea Office
Donation to the Seoul Green Trust (greening foundation for the city)
- Epson Head Office
Donation of used stamps and prepaid cards to support greening activities
- Epson America Inc. (U.S.), Fujimi Plant and Matsumoto Minami Plant
"No Car Days"

Social Welfare

Supporting areas hit by disasters

Through the Japanese Red Cross Society, the Epson Group has made cash donations of 20 million yen to the areas affected by the Niigata Chuetsu Earthquake that occurred on October 23, 2004. We also collected over 8.4 million yen of donations from employees, and delivered emergency stockpiles of disposable pocket warmers, bottled water and emergency food to Ojiya City by truck.

Epson Sales Japan Corporation donated repair work and sent engineers to fix Epson products that developed problems because of the earthquake. The repairs and on-site assistance were provided free of charge.

The Epson Group was one of the first companies to provide monetary aid and emergency supplies to the victims of the Asian tsunami on December 26, 2004. Our 10-year-old Indonesian subsidiary led the way, supporting restoration activities in the affected areas. Donations collected from Epson, our subsidiary and employees totaled over 60 million yen. We will continue to offer support in cooperation with our associated companies.

Special Olympics

From February 26 to March 5, 2005, the Special Olympics World Winter Games were held in different areas of Nagano Prefecture. As a locally headquartered company with plants and affiliates scattered throughout Nagano, Epson was involved in various support activities.

Epson sent staff, volunteers and financial assistance as well as products such as PCs, projectors, printers and digital cameras. (For details, see

pp. 18-19.)

During the pregame host town program, held February 22 through 25, 38 members of the French team stayed with different host families (Suwa City is a sister city of Amboise, France). Epson also took in nine people, including athletes, coaches and Japanese interpreters, at the Company's rest center, *Yuumu 25*.

On March 3, five officials of the Special Olympics, including Chairman and CEO Timothy P. Shriver, visited Epson Mizube Corporation's Matsumoto Plant and Sanyo Epson Imaging Devices' Matsumoto Head Office to observe workers with disabilities. After seeing Epson's approach to hiring such workers, Shriver commented that the Special Olympics would like to continue its relationship with Epson even after the games.

Helping out at blood donor clinics

● Epson Portland Inc. (EPI, the U.S.)

EPI employees donated blood in June 2004 with the help of the American Red Cross Association, as part of its annual blood drive. Twenty employees had originally planned to donate, but the Red Cross informed EPI of its blood shortage that month, and as a result, 32 employees gave blood.

● Suzhou Epson Co. Ltd. (SZE, China)

The Red Cross Center in Suzhou City was facing a blood shortage in summer 2004 and was reaching a crisis point. SZE held a three-day blood drive in August, and 659 employees donated blood — equivalent to three days' supply of the blood needed at the hospitals in Suzhou City.

Charity events

● Epson Iberica, S.A. (EIB, Spain)

A Spanish broadcasting company airs a charity marathon program every December. For 2004, a 7 meter high monument was built and people who are determined to fight against cancer were asked to send photos. Twelve hours after the broadcast, the monument was covered with 7,000 photos — 3,000 sent by email and 4,000 taken and printed at Barcelona's Franca Station. EIB provided technical assistance for the digital cameras and printers.

● Epson Precision (Philippines) Inc. (EPPI)

EPPI sponsors a fundraising drive, Cope in Can, organized by Tahanang Walang Hagdanan (TWH), an NGO that supports people with physical disabilities. This project recycles used cans into aluminum tubes and sheets for wheelchairs and other transportation equipment. EPPI collected 70 kg of aluminum cans over a three-week period and donated them to TWH.



EPI employees donating blood



Photos cover the fight-cancer monument (EIB)



Wheelchairs made from donated aluminum cans (EPPI)

Communications Activities

The Epson Group's goal for corporate communications is to achieve trust-based communication with our stakeholders around the world. We implement a variety of initiatives with the utmost respect for the culture and residents of an area, to ensure accurate and truthful delivery of information.

Our approach to communications

Being a corporation operating in many countries and regions, the Epson Group must meet diverse stakeholder requirements regarding public relations, advertising and other communications activities. It takes more than simply being accurate and not misleading; it requires being sensitive to different perceptions and being determined never to cause concern or discomfort.

In 1998, we established our Global Communications Standards, which are the philosophical basis for all our communications activities, and in FY2004, our Ethics and Compliance Guidelines to further refine our activities based on these standards. The Guidelines call for respect for individuality, culture and diversity. They also prohibit the use of derogatory expressions or expressions that undermine the impartiality of corporate activities that practice highly ethical and positive communications.

For advertising, the Tone & Manner Guidelines were created to align all corporate communications images from the Group under the tagline "Exceed Your Vision."

Our public relations activities focus on timely, adequate and accurate delivery of information about our activities and initiatives, even if the information is of a negative nature. In FY2005, we introduced the Epson Message Manual to implement a unified, Groupwide approach to publicity activities with the media.

For the protection of personal data, we are committed to our Personal Data Protection Policy (see p. 54) to ensure thorough protection of privacy.

Social performance report

Reporting social performance is an integral part of information disclosure. We are accountable to a diverse group of stakeholders for reporting our social performance activities. This also provides us with an excellent opportunity to open up a channel of communication with them.

Starting in 2004, we are arranging for all information requiring disclosure to be included in either the *Annual Report* or the *Sustainability Report*.

Our environmental and social performance has been reported in the *Sustainability Report* (published in Japanese, English and Chinese) and in site reports issued by each business site. We are also using our website more to communicate information about each business site, as well as details which we were not able to include in the *Sustainability Report*.

Environmental information

<http://www.epson.co.jp/ecology/index.html>



Photo 1 Site reports published by business sites

Financial results

For reporting on business operations and financial results, Epson issues financial statements, financial summaries and operating statements, as required by law. The Company also releases *Annual Reports* and business reports as a voluntary means of disclosing information.

These communication tools are published in Japanese and English at approximately the same time in Japan and overseas, to ensure the impartial disclosure of information. In 2005, Epson decided to send a business report with the shareholders' meeting notice, so that shareholders would be well informed about our business standing prior to the meeting. All of this information and data is also available on Epson's website.

In 2004, Epson began online streaming of business results meetings, which are held on the day the Company announces quarterly financial statements. The content of the meeting's Q&A session is documented and uploaded onto our website.

The 2004 shareholders' meeting marked the first such meeting since Epson went public in 2003. We saw a large attendance and heard many valuable suggestions and opinions from our shareholders first-hand during the Q&A session. We also displayed Epson products at the meeting, to allow shareholders to experience our technology.

Epson plans to further enhance communications activities to better serve the increasing number of private investors.

Investor relations

<http://www.epson.co.jp/IR/index.html>

Internet communications

■ Unifying global websites

With the increasing popularity of the Internet, corporate websites are often the first “brand touch point” for many consumers. This shift has prompted the Epson Group to launch the Global Web Style Project, to reorganize the way we communicate through our websites; previously this was left to the discretion of each Group company/affiliate.

The project focused first on the websites of Group companies/affiliates in Europe and worked on refining the design, incorporating universal design concepts and enhancing usability. Following Europe, the Group began working with its companies/affiliates in other countries, to improve the visual impact and usability of their websites.

In January 2004, these efforts resulted in the Global Web Style Guide, which defines the unified standards for logo use, color schemes, header/footer style, navigation style and other elements. Based on these standards, all Epson websites underwent revision one after another. In April 2005, an upgraded style guide was released internally, to align the standards with our new tagline, “Exceed Your Vision,” and to set out the rules for intranet

and sales campaign sites.

The project provided us with an opportunity to increase value for customers who view our websites and to create a global network within the Group for website production. In the spirit of One Epson, an annual global conference for web production is held to resolve web-related issues.

■ Intranet

Our intranet, one of our main tools for internal communications, provides a series of executive messages, work regulations and standards, and information on benefits. E-learning courses are also provided via the intranet. With content created both in Japanese and English, the intranet is available to employees around the world.



Photo 4
E-learning site (left) and Chairman Saburo Kusama's message page

Advertising and commercials

■ The Bellmark program

Since November 2004, Epson has been running a series of advertisements in newspapers and magazines for the Bellmark program, a program through which homes and schools recover used cartridges for Epson in exchange for

Bellmark points (for details, see p. 39).

The advertisement calls on consumers to recover ink cartridges from homes and schools through the program and features a visual with many small ink cartridges arranged in the shape of a bell. In March 2005, a TV commercial was added to the Bellmark program promotions, to reach a broader audience and encourage them to participate in the program.

■ Corporate advertisements

A series of TV commercials entitled “Uniquely Epson” has been on air since March 2005. In the commercials, a hand drawn in soft curves generated with computer graphics serves as a vehicle for Epson messages to the consumer.

The Bellmark program mentioned above is also part of the commercial series. Environmental advertisements featuring the Scalable Minimum Fab Concept, and technical advertisements introducing proprietary technologies in Epson's micro-robot, have also been released in the same series.

Linked to this campaign is another series of newspaper advertisements run monthly in the Nihon Keizai Shimbun entitled “Kono Atarashisa Ga Epson Rashisa” (“This Newness Is Uniquely Epson”). These advertisements are available on web to communicate not only our technological expertise, but also our aspirations, dedication and dreams.



Photo 2 The epson.com website



Photo 3 Epson sites for Germany (left) and Singapore



“Kono Atarashisa Ga Epson Rashisa”
 (“This Newness Is Uniquely Epson”) advertisement

<http://www.epson.co.jp/tec/>



Exhibitions and lectures

■ The Bino Kyojin Tachi exhibition

Since 2000, Epson has been sponsoring an art and entertainment TV program on TV Tokyo called the EPSON MUSEUM *Bino Kyojin Tachi* (Art Giants). In each episode, an artwork is introduced using previously untold anecdotes. To hold a special exhibition of the works featured in the program, Epson printed life-size reproductions of these works using a large-format printer and proprietary imaging technology. The *Bino Kyojin Tachi* Special Exhibition went on tour in Osaka, Tokyo, Nagoya and Sapporo, starting in February 2004.

More than 10,000 people visited the exhibition and responded favorably to the show, commenting that it is a precious opportunity to enjoy these masterpieces in life size, all in one location.



Photo 5 The Bino Kyojin Tachi exhibition

■ Future Creation Fair — Emerging Technology Fair

Epson participated as an exhibitor in the Emerging Technology Fair in the Future Creation Fair held to commemorate the centennial of the Japan Institute of Invention and Innovation in August 2004. At our booth, Epson's microprocessing technology was introduced through the μ FR-II micro flying robot, the world's smallest and lightest flying robot. On stage, Epson held a demonstration, impressing the audience with our superior technical expertise and demonstrating the advantages of micro-robots.



Photo 6 The μ FR-II stage performance

■ Eco-Products 2004

In December 2004, Epson took part in Eco-Products 2004, an expo of eco products and services. We displayed our products in chronological order to communicate the accomplishments and future direction of our environmental initiatives, including the development of energy-saving technologies at Epson. To appeal to a broad audience, including children and those who are interested in environmental issues, we staged performances in our booth. The booth was made of timber harvested by thinning, contributing to making our exhibit an eco-friendly event.



Photo 7 Epson booth at Eco-Products 2004

Product catalogs

Epson communicates environmental information through our product catalogs, offering customers information for making purchasing decisions, in addition to providing specifications and information on functionality. We have included an environmental page in printer catalogs to help customers understand their environmental performance and the recovery/recycling systems. On the same page, we also request their cooperation in recycling. We also list contacts for questions, consultation and repairs, and provide information that helps customers use the products more effectively.



Photo 8 Environmental pages in product catalogs

Communication space

The Epson Group operates the epSITE Epson Imaging Gallery in Shinjuku, Tokyo. Galleries have also been opened in Singapore, Beijing and Shanghai in 2003.

On display in the epSITE galleries are digital prints of artists' photographs printed on Epson printers. At epSITE, digital artists mingle and exchange opinions and visitors enjoy first-class photographs in a relaxed atmosphere.

Epson's "VISION in Aoyama" direct sales shop opened in Tokyo with the aim of providing more imaging (photographs and movies) for our customers' daily lives and a space to experience enriched communications. Visitors can try out Epson printers, LCD projection televisions and other Epson equipment in a setting that mimics a real-use environment.



Photo 9 VISION in Aoyama

Collaboration with outside organizations

The Action07 General Environmental Policy places high priority on communication with NPOs and NGOs. In FY2004, Epson conducted research to find out what kind of organizations in Japan and overseas would be suitable for Epson to work with.

As a way to find these organizations, Epson cohosted four Real Nature Seminars held in August 2004 through January 2005 with the Nature Conservation Society of Japan. For the seminars, featuring the relationship between business activities and environmental conservation, Epson offered the use of a conference room at its Tokyo Office in Shinjuku. This helped Epson to not only build close ties with the NGOs, but also to form a network of environmental/CSR officers in various companies.

Community communications

Communicating the nature of our business operations and environmental activities to residents who live near our plants and offices is a vital part of stakeholder communications.

Plant tours are organized at business



Photo 10 A plant tour at the Kanbayashi Plant

sites to help the residents understand how Epson's production facilities operate. In FY2004, the Kanbayashi Plant (Japan/manufacturing) received 68 tour groups (1,223 visitors) and the Suwa Minami Plant (Japan/manufacturing) received 21 tour groups (880 visitors).

The companies are rated on a nine-level rating scale from "AAA" to "C" using seven criteria. Of all the companies that were rated, only two companies were given an AAA rating for all seven criteria, and seven companies, including Epson, were given an AA rating.

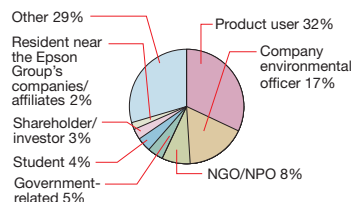
External rating

Tohatsu Evaluation and Certification Organization Co., Ltd. assigns environmental ratings to companies based on their most recent environmental report and on the information disclosed on their websites. In FY2004, 501 companies were rated and Epson received an AA environmental rating from the company.

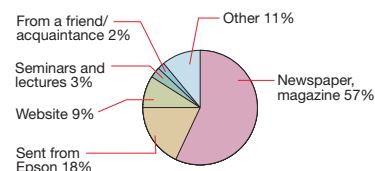
Sustainability Report 2004 Questionnaire Results

Valuable comments were sent to us by 91 respondents to the questionnaire at the back of our *Sustainability Report 2004*, issued in June 2004 (English version in August 2004). We are grateful for these contributions and reflected some of the respondents' suggestions in planning and editing the 2005 report. Here are the results and what we have done in response.

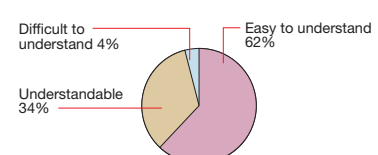
Q What is your affiliation with/relationship to Epson?



Q How did you learn about the report?



Q What did you think of the report?



Suggestions from respondents and our responses

- The content is too technical. Please make it easier to understand.
- Please use more expressions that consumers are familiar with.
- In addition to the standard reports, feature stories on our approach to product making and other initiatives were added (pp. 12-20).
- The volume of information is too large for the space given.
- Very concise but the volume is rather too large.
- Reduced the volume of text for each page and improved the layout to give a less crowded look.
- Very impressed that a simplified mailing method was used for delivery.
- Envelope-free delivery is a great idea.
- Eco-Mail introduced for the FY2003 report was used again in FY2004 to reduce the environmental impact from the delivery of the report.

Sustainability Report 2004 Meetings

In July and August 2004, Epson held the first internal Sustainability Report meetings at five business sites. A total of 146 employees attended the meetings and directors were present at all of the meetings. Topics of discussion ranged from impressions of the report and suggestions for improvement to Epson's future direction as a company.

Impressions and suggestions from employees

- The report made me feel that Epson is a sincere company. As an employee, this makes me happy.
- I think that employees do not know enough about their company. I learned so much from reading the report. It should be applied at every possible opportunity and used as a handbook for each employee.
- From the readers' standpoint, it is not an easy report to read or understand. It should be made much easier to read.



Sustainability Report Meeting at the Hirooka Plant

FY2004 Activities and Results

Environmental and Social Performance Topics

For details, please visit our website: <http://www.epson.co.jp/e/>

Compliance with the EU RoHS Directive

97% Compliance Achieved at the End of February 2005

With supplier cooperation, the Epson Group is building a database of chemical substances contained in parts procured from around the world and replacing parts that contain substances subject to elimination by the RoHS Directive. For parts that are difficult to replace due to unresolved technical issues such as whiskers on connectors, we are striving to achieve compliance by the end of October 2005.

Zero Emissions Level 2 Activities

Attaining Goals by Defining the Activity

The Epson Group is committed to achieving business operations that impose less environmental impact and use resources more effectively. To do that, we defined Level 2 activities as: 1. resource-saving activities focused on producing the greatest number of products with the least materials; and 2. more sophisticated recycling that turns waste into valuable resources and achieves continuous recycling/reuse. These two categories will be our main focus for future zero emission activities.

Participation in the Bellmark Program

Earning Bellmark Points Through Recovery of Used Cartridges

In an attempt to raise recovery rates of printer cartridges and to promote environmental conservation activities and education, Epson joined the Bellmark program, through which schools recover used ink and toner cartridges in exchange for Bellmark points, allotted according to the amount recovered. (Photo 1)



Photo 1

Qualifying for Environmental Labels

Improving Epson Ecology Label Program and EcoLeaf Releases

Epson upgraded its independent Epson Ecology Label program and restructured the commercialization process of compliant products. We also broadened the scope of disclosure for environmental performance information and qualified for additional environmental labels. First in the industry, Epson acquired EcoLeaf System Certification for desktop PC and PC printer businesses, as well as for the black and white laser printer business.



Photo 2

The Chitose Plant Begins Operation

Eco Conscious Plant Seeks Efficient Production

Backed by cutting-edge technology, this new manufacturing plant for high-temperature polysilicon TFT LCD panels began its pilot-line production in October 2004 and full-scale production in April 2005. The goal was to achieve speedy and high quality production. The plant is designed with eco-conscious features including energy savings, waste reduction and production process innovation. (Photo 2)



Photo 3

Policy to Protect Personal Data

Revamping Our Strategy to Eliminate All Possible Risks

To cope with the emerging risks to personal data security that companies are facing, the Epson Group decided to revamp its strategy to guard personal data and build a system that ensures continuous upgrading of such protective measures. Under the leadership of a newly appointed Chief Privacy Officer, Groupwide guidelines for protecting personal data were set.

Next-Generation High-Temperature Polysilicon TFT LCD Panel

High Aperture-Ratio and High Contrast Technologies that Support High-Definition Images

To meet the growing demand for home-use projectors and large-screen HDTV LCD projection televisions, Epson developed high-temperature polysilicon TFT LCDs (HTPS panels) that offer superior imaging capabilities and excellent environmental performance. With enhanced light efficiency and brightness, these HTPS panels are also applicable to compact screens, without compromising on resolution. (Photo 3)



Photo 4

Application of Inkjet Technology

Leveraging Printer Technology to Develop New Products

Using its proprietary inkjet technology, Epson developed an original inkjet process for depositing organic layers on large-size TFT substrates and successfully completed the world's first 40-inch full-color OLED display prototype. With a similar inkjet technology, Epson also succeeded in producing an ultra-thin, multilayered circuit board sample. (Photo 4)

One Million Candle Night

Lights Out for Four Signboards

In support of the "One Million Candle Night" eco event held on the day of the winter solstice, December 21, 2004, Epson turned off four advertisement signboards in Nishi-Shinjuku, Shin-Yokohama, Osaka and Sapporo in Japan. The event provided an opportunity for participants to use candle-light to conserve energy and to think about our electricity-dependent lifestyle. (Photo 5)



Photo 5

Improving CSR Activities

Internal Initiatives and Joining the United Nations Global Compact

Epson established the CSR Promotion Department in April 2005, preceded by the Trustworthy Management (CSR) Promotion Committee in May 2004 and the CSR & Global Environment Promotion Department in July 2004, to reinforce trustworthy management. On July 16, 2004, Epson joined the United Nations Global Compact as a way to publicly underscore its commitment to strengthening CSR efforts.

Environmental Awards

Date	Recognition	Sponsor	Recipient(s)
April 2004	Business Software Award — SOFTPLAZA Awards	BIGLOBE SOFTPLAZA	"One-Touch OCR for Excel & Word" OCR Software
April 2004	Environment Minister Award — 13th Global Environment Awards	Fujisankei Communications Group and The Japan Industrial Journal	Seiko Epson Corp.
May 2004	1st Prize — Electric and Precision Industry Category — 15th Best Advertiser 2003	CM DATABANK/CM Research Center	Colorio commercials
June 2004	Director of the Executive Committee Award — 12th QES Annual Conference	Quality Engineering Society	Seiko Epson Corp.
June 2004	FY2003 National Award for Excellent Enterprises with Foreign Investment FY2003 Tianjin City Award for Best Enterprises with Foreign Investment (winner for 14 consecutive years)	China Association of Enterprises with Foreign Investment, City of Tianjin	Tianjin Epson Co., Ltd.
June 2004	Tianjin's Top 50 Exporters	City of Tianjin	Tianjin Epson Co., Ltd.
June 2004	The 9th Advanced Display of the Year 2004 Special Prize — Display Module Category	Reed Exhibitions Japan Ltd.	LIVINGSTATION
July 2004	Best IT Product (winner for 7 consecutive years)	PC World magazine	Inkjet printer
August 2004	Excellence in Holography 2003 — 2003 HoMAI Annual Awards for Excellence in Holography	Hologram Manufacturers Association of India	Hologram produced by Epson India Pvt. Ltd.
August 2004	Bronze World Medal — 2004 International Design, Print & Outdoor Advertising Awards (New York Festivals)	New York Festivals	Photo printer advertisement produced by Epson India Pvt. Ltd.
September 2004	2nd and 3rd Prizes — Japan Manual Contest 2004	Japan Technical Communicators Association	Application guide for inkjet printers; introductory guide for the E-100; quick guide for the LP-7000C; printer manual for the PX-G900
September 2004	2nd Place — National ICC Convention	National Productivity Corporation	Epson Precision (Johor) Sdn. Bhd.
September 2004	Utility Software Award — SOFTPLAZA Awards	BIGLOBE SOFTPLAZA	<i>Digicame de!! Doji Print 8</i>
October 2004	Good Design Award 2004	Japan Industrial Design Promotion Organization	Designs for 12 models of printers, scanners, digital cameras, etc.
October 2004	Bronze Award — Top Export Performer	Export Development Council	Epson Precision (Philippines) Inc.
October 2004	Silver Award — Shinshu Brand Design Awards 2004	Naganoken Design Promotion Association	Colorio personal imaging equipment brand
October 2004	The Minister of Education, Culture, Sports, Science and Technology Award — FY2004 <i>Tairyoku Tsukuri Yushu Soshiki Hyosho</i> (Outstanding Fitness Organization Awards)	Japan Health Promotion & Fitness Foundation	Total Health Promotion
November 2004	IEEE Milestone Award	The Institute of Electrical and Electronics Engineers, Inc.	The Seiko Quartz Astron
December 2004	Sword of Honour	British Safety Council	Epson Telford Ltd.
December 2004	The Utility Category Award — The Proregi Awards	BIGLOBE SOFTPLAZA	DiskX Tools Ver. 10
December 2004	iF Product Design Award	Industrie Forum Design Hannover	Picture Mate, AcuLaser C1100, Multimedia Storage Viewer P-2000, Photo PC L-500V, STYLUS CX3650, STYLUS PHOTO RX700
December 2004	iF Product Design Award iF GOLD SELECTION 2005	Industrie Forum Design Hannover	STYLUS CX3650
January 2005	Inkjet Printer of the Year — Better Photography Awards	Better Photography magazine	Epson Stylus Photo R210
January 2005	Nagano Governor Award — Kanto Commendation for Invention	Japan Institute of Invention and Innovation	High-definition color LCDs for mobile equipment
February 2005	Natural Resources and Energy Agency Director—General Award for Factory Energy Management Excellence	Ministry of Economy, Trade and Industry	Tohoku Epson Corp.
February 2005	Chubu Bureau of Economy, Trade and Industry Director's Award for Factory Energy Management Excellence	Chubu Bureau of Economy, Trade and Industry	Seiko Epson Corp. Hirooka Plant

Online information disclosure

The following data are available on our website.

- Environmental data by location
- PRTR data
- Summary of Groupwide environmental data
- ISO 14001 certification list



<http://www.epson.co.jp/ecology/>

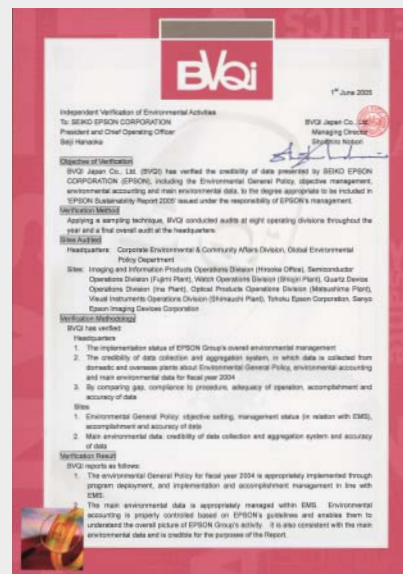
Independent Verification of Environmental Activities

BVQI conducted an independent verification of the Epson Group's environmental activities to ensure credibility and transparency of information disclosure and to provide results that can be used for further improvement of environmental management.

We requested that BVQI verify the credibility of our disclosed environmental accounting information and major environmental data, and the legitimacy of our environmental management (from the setting of objectives to actual deployment, in terms of progress measurement, and regarding the environmental management system and its accomplishments). Its comments will be incorporated into our efforts to enhance our future environmental activities

and our sustainable business management.

For the year under review, we broadened the scope of verification to eight business sites, focusing on the connection between environmental management and the activities of each promotional organization, together with the major environmental data of the promotional organizations and the Head Office. A summary of BVQI's report and comments are presented in this section, to share with our stakeholders the results of the credibility verification and a third-party view of the Group's environmental management. We will present a follow-up report in the next issue of our *Sustainability Report*.



●Reference View

The number of sites verified was increased to eight operating divisions from five last year. This enabled BVQI to conduct higher-quality verification. BVQI has concluded as follows:

1. Good Points

1) Positive release of information

The systems for release of environmental product information have become better organized. These include: global deployment of the green procurement system to produce environmentally considered products, *3R Design Guide* and product assessment to develop environmental considered products, and the Epson Ecology Label program. It is now possible to manufacture products, based on the overall lifecycle from the initial design stage. As a result, 34 models are registered for "EcoLeaf," Japan's Type III environment label (third-party verification). Many other models are also registered for international environmental labels and released the information on the Epson website.

2) Response to Issues Raised in 2003

Positive corrective actions have been taken for the three issues raised in the previous year's Report.

① Assessment and utilization of the results of implementing Environmental General Policy

Epson monitors progress quarterly up from semi-annually last year. Segment progress by operating division is prepared and monitored. Furthermore, monthly environmental policy promotion meetings are held to properly manage overall progress of the General Policy.

② Compliance to the law

Pollution related data is gathered at sites in Japan and checked by the relevant department at the headquarters, which then prepares the report. In addition to this, when the data is consolidated an automatic alarm is raised if the measured value exceeds the voluntarily set control limit. As a result, no domestic sites have exceeded the regulated limit.

③ Expanding on-site verification to the overseas sites

Third-party verification was not conducted at the overseas sites. However, the level of environmental activity has improved through the internal award environmental management system, especially support to obtain certification and environmental result assessment provided from Japan.

2. Issues

1) Environmental Global Policy in relation

with EMS

The following improvements are important in order to further improve management effectiveness:

① Environmental Global Policy should be clearly defined within EMS so that it can be consistent with the goals of the operating divisions. When the operating divisions change their goals, they should properly communicate the fact with the headquarters, which will contribute to improving the quality of EMS.

② The progress report is well organized and sent at each stage. However, corrective action is not swift enough when actual performance deviated from goals

③ performance oriented audit should be considered within the internal audit, so that performance achievement can be further improved.

2) Management of Aggregation System

The information collection and aggregation system has become better organized; however, the framework for log control and its record shall be structured and kept respectively.

3) The overseas sites' environmental activity level has improved, but further involvement by the headquarters and relevant functions are preferable to enable further improvement.

Corresponding Guidelines

Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (2002) Corresponding Indicators

1 Vision and Strategy	
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3.9	Entire report (on each page)
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3.12	p. 16, p. 27, pp. 50-53
Overarching Policies and Management Systems	
3.13	pp. 32-33, pp. 36-37

Notes:

- This list is compiled based on our interpretation of the GRI guidelines
- The information collected was insufficient for reporting in the sections with a dash (-)
- *URL: <http://www.epson.co.jp/>
- The GRI 2002 Sustainability Reporting Guidelines are available through the following URL:
<http://www.globalreporting.org/guidelines/2002/contents.asp>

3.14	p. 8
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Next issue: August 2006

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URL: <http://www.epson.co.jp/>

					
					
					
<p>About the design of our logo:</p> <p>Epson's ecological spirit is rooted in our desire to co-exist with nature. The fish, flower and water in this logo represent the animals, plants and resources found in our natural environment.</p>					
					
					
					
					
<ul style="list-style-type: none">Printed on 100% recycled, elemental chlorine-free (ECF) pulp paper with 70% brightness using petroleum solvent-free, zero-VOC soy-based ink and waterless printing free of hazardous wastewater.					
Published August 2005 SR001					

Thank you very much for reading
our Sustainability Report.
We would appreciate your feedback.

Your opinions and suggestions are valuable
in improving future reports. If you have a moment,
please fill out the back side of this page
and send it to the address below.

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URL: <http://www.epson.co.jp/e/>

Sustainability Report 2005 Questionnaire

Q1 Your affiliation with/relationship to Epson Group is:

1. Shareholder/investor 2. Business partner 3. Product user 4. Government-related
5. NGO/NPO 6. Media 7. Company environmental officer 8. Student 9. Resident near the Epson Group plant
10. Other (please specify:)

Q2 What did you think of this report?

1. Readability 1. Easy to understand 2. Understandable 3. Difficult to understand
2. Content 1. Good 2. Fair 3. Poor

Opinions/suggestions

Q3 Please check any items you would like to see improved in the future or about which you would like to know more.

- ☐ Corporate Profile ☐ Message from Management ☐ Management Philosophy
☐ Sustainability as Envisioned by Epson ☐ [Feature Story 1] Preventing Global Warming
☐ [Feature Story 2] Creating Eco-Friendly Products ☐ [Feature Story 3] Customer-Centric Product Development
☐ [Feature Story 4] Nurturing Employees for the Future ☐ [Feature Story 5] Connecting Nagano and the World
☐ [Feature Story 6] Contributing to a Brighter Future ☐ Action 07—General Environmental Policy and FY2004 Results
☐ Promoting Environmental Management ☐ Environmental Education and Awareness Programs
☐ Environmental Accounting ☐ Development of Eco-Products ☐ Green Purchasing ☐ Product Recycling
☐ Preventing Global Warming ☐ Reducing the Environmental Burden of Transportation ☐ Zero Emissions
☐ Integrated Management of Chemical Substances ☐ Office Locations and Factory Management
☐ Soil and Water Contamination Prevention Measures ☐ For Our Customers ☐ Information Security
☐ Together with Our Business Partners ☐ HR Policies and Working Conditions ☐ HR Development and Education
☐ Occupational Safety and Health ☐ Corporate Citizenship ☐ Communications Activities ☐ FY2004 Activities & Results
☐ Independent Verification of Environmental Activities ☐ Corresponding Guidelines

Q4 What are your impressions of the Epson Group's environmental/social activities?

What do you expect from us in the future?

Opinions/suggestions

Q5 How can we improve our Sustainability Report?

Opinions/suggestions

Thank you very much for your cooperation.

Name:

Male · Female

Occupation (company/division/title)

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