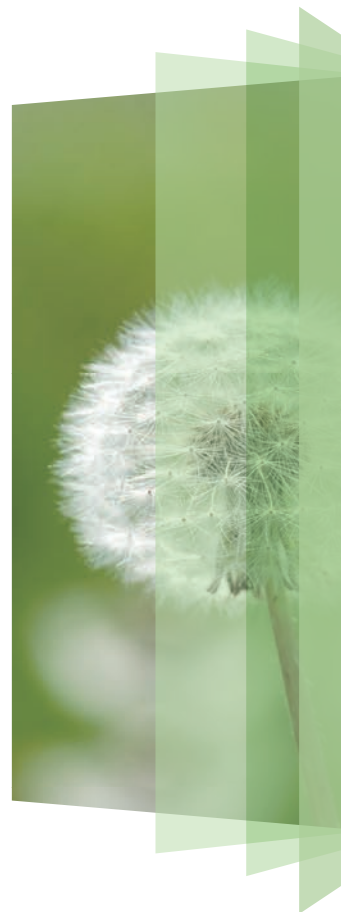


Epson Group

Sustainability Report **2008**

2007,4-2008,3



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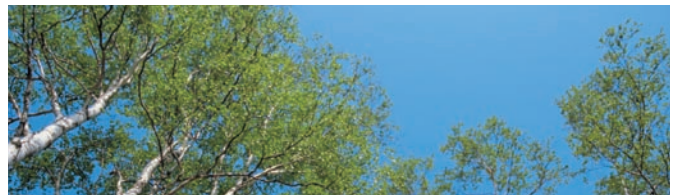
■ **Reporting period:** April 2007 to March 2008 (*Contains some information on activities conducted after March 2008)

■ **Scope:** This report describes the sustainability efforts of the Epson Group, including Seiko Epson Corporation and 100 affiliates (consolidated subsidiaries in which Epson owns a majority of voting stock). The scope of environmental reporting, however, covers Seiko Epson Corporation, 21 of its affiliates in Japan and 51 of its affiliates overseas that have acquired ISO 14001 certification and in which Seiko Epson owns a majority of voting stock.

* "Epson" and "the company" in this report refer to the Epson Group, unless indicated otherwise.

■ **Previous reports:** Epson has published a report every June since 1999. In 2003 the name of the report was changed from Environmental Report to Sustainability Report, to reflect the addition of social reporting.

■ **Next scheduled report:** June 2009



Epson Annual Reports

Each year Epson publishes two reports on its complete corporate activities, an Annual Report and a Sustainability Report. The content covered by each is shown below.

■ **Annual Report 2008:** Corporate vision, review of operations, financial statements

■ **Sustainability Report 2008:** Social and environmental performance

Inquiries about Sustainability Report 2008

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Epson aims to build stakeholder trust by managing the company in a socially responsible manner; that is, to practice “trust-based management.” Building stakeholder trust takes more than just delivering good products and services. Trust is built gradually via a commitment to proactively addressing global environmental problems, conducting business in accordance with socially ethical practices, promoting programs that contribute to the community and practicing what our management philosophy preaches.

Business Segments at Epson

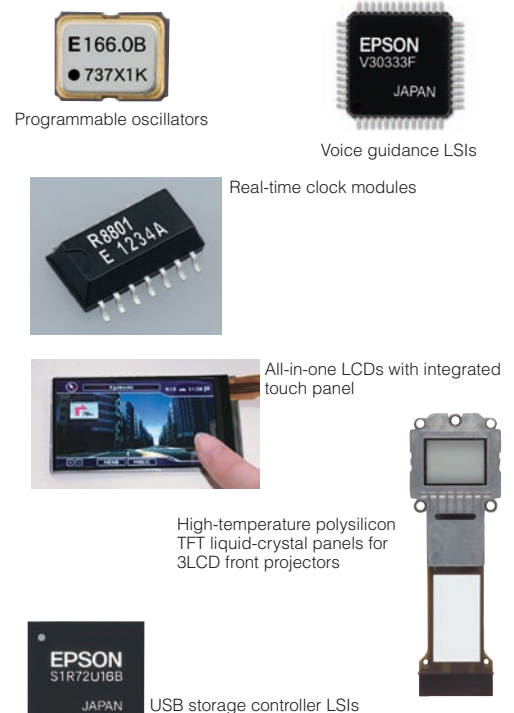
Information-related Equipment



Precision Products



Electronic Devices



Product development,
manufacture, sales and service

Message from Executives



Chairman
Seiji Hanaoka

Preserving the Earth for future generations

Seiko Epson, which began operations near the shore of Lake Suwa, has historically been mindful of keeping the lake clean and preserving the environment. In 1988, with global concern over ozone holes mounting, Epson announced that it would eliminate ozone-depleting chlorofluorocarbons (CFCs) from its operations within five years. We achieved our objective in 1992, becoming the first company to eliminate CFCs.

We have also been proactive in a variety of other environmental areas, including waste recycling and emissions control. We have never wavered from our commitment to being a leader in corporate environmental issues, and we intend to continue to do what we can to reduce our environmental footprint.

Today, the international community faces an unprecedented challenge in global warming. Turning the tide against global warming will require change, especially on the part of enterprise. Recognizing the need for change and a specific course of action, we shared a plan at last year's Internal Global Environmental Meeting to reduce by 90% the CO₂ emissions associated with our products and business activities.

Contributing to environmental solutions through product design and manufacturing

The only way to successfully reduce our CO₂ emissions by 90% while growing our businesses is to engineer fundamental changes in the way we design and manufacture our products. The key will be to minimize the amounts of energy and materials consumed in creating products that draw almost no energy during use.

R&D at Epson has long been guided by the watchwords "low power consumption" and "light, thin, small." This is perhaps best exemplified by quartz watches, which were

engineered from the massive quartz timekeeping system we developed for the 1964 Tokyo Olympics. To condense the timekeeping system to the size of a wristwatch, we reduced the power consumption, enabling the system to run for years on a tiny battery, and reduced the size of the crystal, motor and other parts to their ultimate limits so that they fit in a tightly confined space. It's the same story with printing technology.

Embedded in Epson's DNA are an intrepid spirit that leads to the breaking of new technological ground and *monozukuri* expertise that enables us to translate new technologies into innovative products.

When R&D and Production Engineering collaborate on what and how to make earth-friendly products, we can help change the world.

Keeping the customer in mind at all times

The pursuit of ecological excellence can help maximize economic performance. In the world's most environmentally progressive countries, superior environmental and energy performance provide opportunities for product differentiation. Obviously products that are outstanding ecological performers must also satisfy customers' other wants and needs. For this a company must stay tuned to and focused on its customers. It must know their problems and needs, and must strategically maximize quality with an eye toward the future.

Monozukuri, the art and science of creating and manufacturing products that satisfy needs, is part of Epson's DNA, and we take steps to pass these genes down, through human development. Our human development efforts help ensure that skills and traditions are handed down over the years. More important, however, they ensure that our young people are given a certain spirit and mindset. Given the proper mindset, one will acquire skills.

Business would not be sustainable if we were to insist on adhering to 20th century practices. We cannot continue to follow the dotted line to eternity. We must take a different approach, changing the way we think, the way we operate, the way we are.

Still, there is one tradition we should hand down: the tradition of doing what is right, without question or hesitation.

Seiji Hanaoka
Chairman
Seiko Epson Corporation

A handwritten signature in black ink, reading "Seiji Hanaoka".



President
Minoru Usui

Contributing to society with integrity and effort

Among the words of which Hisao Yamazaki, the first president of what was then Suwa Seikosha, was fond were “integrity and effort.” “Integrity” I took as meaning a commitment to address issues and expectations for the sake of customers and society. By “effort” he meant a willingness to tackle issues and expectations head on and with passion.

The earnest and persistent tackling of challenges engenders creativity that is reflected in products. Epson has always done this, and it is what has enabled Epson to enrich the lives of people around the world and contribute to society. It is also one of the many ways in which Epson is exercising “trust-based management” and fulfilling its corporate social responsibility.

Today, the hurdles that must be cleared to meet expectations and solve issues are higher than ever. To clear these hurdles and meet expectations, we must confront the difficulties and come up with our own solutions. This is why we insist on original technology and why we want to foster a climate that creates value for customers and society, regardless of how difficult.

Producing what is needed, where it is needed

Environmental problems stand as the most pressing challenges of the 21st century, and we must take them seriously.

Epson has a long tradition of taking progressive action to develop energy-saving technologies. Inkjet technology, which, in the broad sense, is a marking technology, can be applied to great effect in reducing industry’s environmental footprint. As a marking technology, it is moving into a broad array of industrial applications to deposit ink or material on demand where it is needed. We believe that

applying inkjet technology in solutions for industry will contribute significantly to reducing environmental impacts, and the complete development and refinement of industrial inkjet technology will be Epson’s lifeline.

Innovations on the production floor will be essential for reducing environmental impacts and bettering lives. The production floor is where a company’s true strength is revealed. Ideally, automation and the homogenization of the global workforce will allow manufacturers to produce the products that are needed where they are needed, without incurring unnecessary costs. This, in turn, will help enable workers to engage in creative work and lead lives that are truly decent and fulfilling. This should also have value as a means to counter the problems of Japan’s ageing population and population decline.

Acting now on the long view

As a participant in the United Nations Global Compact since 2004, Epson promotes initiatives in the areas of human rights, labor, the environment and anti-corruption. We know that when considering environmental and social problems, we need to think about what we can do now. But we also know the importance of articulating the ultimate future vision against the context of major social changes and then defining the steps that should be taken to attain that vision. The Epson that exists 20 or 30 years from now will be determined by the accumulation of actions, both near-term and long-term, that we take. The actions we take now should be designed to lead us to the desired future outcome. In other words, we need to take care of immediate business while keeping an eye trained on the future.

Of course we need to keep in mind why Epson is here in the first place.

To enrich society.

I want to foster an Epson team and corporate climate that draws out the full potential of each individual employee and allows each to make the most of his or her competencies. I want Epson to be the type of company whose 90,000 employees combine their strengths and work as a team to double or triple their power to achieve.

Minoru Usui
President
Seiko Epson Corporation



Special Feature 1:

Creating Quality is Everyone's Job

To consistently deliver the high-quality Epson products expected by our customers, employees as individuals and as a group strive for quality every day.

Developing higher levels of quality through routine activities

First established as a wristwatch manufacturer, Epson has inherited an unbroken tradition of delivering “security” to our customers by providing the type of product quality now expected of Epson. Products that operate unquestionably accurately; concern for the safety of products that operate intimately with the consumer; manufacturing products that function flawlessly in any environment. These are the important and essential components of product quality that Epson delivers.

With the widespread adoption of printers and projectors in the home and office, customers are demanding products that provide ever better images and produce faster results. Demand is sure to grow for better performance in mobile phones and car navigation systems as society becomes even more high-tech oriented. While often unnoticed by the general consumer, the performance of these electronic devices relies heavily on the functions and

quality of the interior (electronic) components used.

Our goal is to provide added value to the consumer whose needs range beyond basic performance. We want customers to experience greater happiness and inspiration by providing products that exceed their expectations. To achieve this goal, each and every Epson employee strives for quality in their work, seeking to embody quality in specific ways.

Conscientiously performing that which is taken for granted, and inspiring the customer through innovative technology and ideas. At Epson, we believe “quality” consists of both these elements.

Concern for Quality in Every Epson Product

Inkjet Printers

The widespread adoption of PCs and digital cameras continues to drive greater consumer demand for easy-to-use printers that produce high-quality photographs and crisp work documents. Epson leverages its core Micro Piezo inkjet technology to provide consumers with superior printing solutions that boast quality of engineering, software and support.

Functions built into the Stylus Photo RX585/RX595/RX610

Easy photo printing

- Slots support multi types of memory cards
- Ultra-clear color pre-views on the Epson Photo Fine Ultra LCD. View split-screen and color-corrected images.



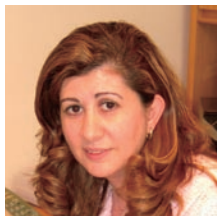
RX-595

Epson photo quality

- Epson Easy Photo Fix!™ automatically corrects colors in photos of people and scenery
- Claria™ Hi-Definition Ink offering 50-year lightfastness, 25-year ozone resistance, and 200-year album storage
- Superior beauty and archivability, and broad lineup of genuine photo paper sizes and types

Copying and scanning

- Select copy size and quality
- Print brilliant copies of old photos and film with the color restoration function
- Save photos and text in JPEG and/or PDF formats



Epson America, Inc.
Advanced Products Support
Sira Arabian

"Working in Customer Support is a very important and strategic function for the company. We take this 'frontline' responsibility extremely seriously. It's our top priority to listen to our customers and understand how we can improve our printers to best meet their needs, as well as provide solutions for their inquiries. Though most often we

simply assist with set-up and usage issues, there are times when a product is not functioning as it should. When that happens, our job is to resolve the situation in the most professional manner possible."



Consumer Products Product Planning Department, Consumer Products Operations Division
Kunio Kawakami

"In the past, technological capabilities and theoretical data have been the main drivers of product development. As the market matures, however, it is increasingly important to understand latent customer needs, and then design products to meet those needs. Having product planning personnel and new employees provide in-store

sales support has given us opportunities to interact directly with the customer over the last few years. To create a product truly designed with the consumer in mind, we listen to and apply what they say, then go back to the drawing board."

Epson Milestone Products

Through "Creativity and Challenge," Epson has given birth to a variety of technological breakthroughs, producing numerous "world first" and "world's best" products. This is the cornerstone of our current product lineup.



October 1964 Seiko Crystal Chronometer QC-951

Quartz timepieces utilize the properties of slivers of crystal, which oscillates at a precise frequency under an applied voltage. Historically, crystals were sealed in temperature-controlled containers to prevent the oscillation frequency from changing due to changes in ambient temperature. (A 20 °C temperature change results in a two-second deviation per day). Epson drew upon its precision processing technologies to develop a temperature correction device (a thermo-variable condenser) that simultaneously facilitated both miniaturization and low power consumption.

Operating accurately under the blazing mid-summer sun or in frigid winter temperatures, our crystal chronometers played an active role in the Tokyo Olympics and other athletic competitions around the world, as well as in transportation facilities and in snow tractors used for Antarctic exploration.

Electronic Devices

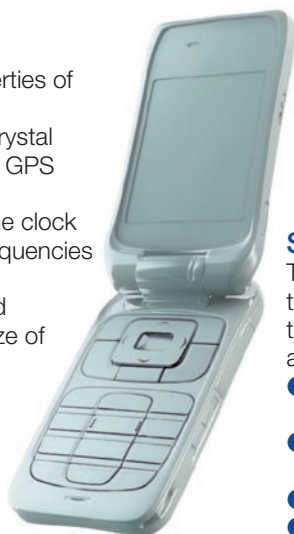
Mobile phones and other mobile devices, as well as information terminals, in-car equipment and other technologies that have become an indispensable part of our lives, all incorporate numerous electronic devices. The function and performance of these devices ultimately dictate the quality of the larger product. Accordingly, Epson takes great care in the design and production of every component before it ships them out to the world.

Epson products embedded in mobile phones

Crystal devices

Products relying on the electrical properties of crystals

- TCXO (temperature-compensated crystal oscillators) used in wireless (RF) and GPS circuits
- Tuning-fork crystal units and real-time clock modules issuing accurate, stable frequencies needed for clock functions
- SAW filters, allowing only the desired frequencies to pass through the maze of radio waves



Liquid crystal displays

- Amorphous silicon TFT LCD modules offering bright, clear, high-resolution color images

Semiconductors

Transistors and integrated circuits (a single electronic component consisting of a large number of transistors) fabricated on silicon and other materials

- Display controllers that enable fast image rendering at low power
- LED drivers & LED controllers that modulate displays to an eye-friendly brightness
- LCD driver chips for moving liquid crystals
- Power ICs that help maximize power management efficiency and battery life



IC Design Department, Semiconductor Operations Division
Hisanobu Ishiyama

"I am involved in the design of LCD drivers used in LCD panels for mobile phones and digital cameras. As phone and camera sizes shrink, the inner components must be made as small as possible. We also have to deal with constant demand for lower costs. To understand the requirements, I meet and confer with customers

on a frequent basis. If an embedded driver causes an internal malfunction, then the product itself will malfunction. We have to design reliable, quality products into the final product. Our highest priority is to never allow any defective products to be shipped to the customer."



CS/Quality Assurance Department
Epson Imaging Devices Corporation
Shoji Miyama

"Epson Imaging Devices produces mid- and small-sized liquid crystal displays used in mobile phones and a variety of other applications. We perform painstaking reliability testing to ensure that none of our products cause a defect when incorporated into a customer's product. We perform heat resistance and vibration tests in

particular for automotive products such as car navigation systems and instrument panels, testing our products under extreme conditions. We make sure we understand the customer's criteria and requirements, ensuring quality that supports the creation of a safe, enjoyable automotive experience."



September 1968 Compact, lightweight EP-101 digital printer

When electronic calculators first emerged as a replacement for the abacus, we turned our attention to the future of the compact printer, unveiling the EP-101 to the world as our printer business' maiden product. Applying the precision processing technologies developed through our experience as a watch manufacturer, we produced a printer featuring a simple design, offering outstanding durability and reliability, while embodying a revolutionary compact footprint that could fit in a space the size of the human palm. Epson developed a highly efficient, long-lived motor, and an energy-saving design that allowed the finished product to operate on batteries.

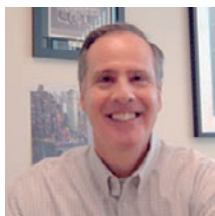
The EPSON brand was launched in 1975 out of the desire to see the many children (SONs) of this electronic printer (EP) go out into the world.

Projectors

Projectors, used to present images and information in a large-screen format, need to satisfy consumer needs that range from the enjoyment of compelling images, to the need to facilitate communications for large groups, to classroom education and more. Epson develops its projector technologies and products based on careful analysis of how customers want to use these products.



The EMP-6100 has an airtight design. The unit can be used in dusty or smoky environments without fear of damage.



Epson America, Inc.
Marketing Communications
Jeffrey Marks

"As part of our advertising development, we conduct extensive research in order to understand the needs of our various target customers. This ensures that our advertising messages will resonate with our customers by highlighting product technology, features and benefits that are important to them, while at the same time underscoring Epson's commitment to creating environmentally safe and high quality products."

Industrial Robots

The development of the Seiko wristwatch assembly robot in 1981 marked the beginning of Epson's robot business. Robots capable of precisely and efficiently assembling tiny precision parts have contributed to the development of production process automation.



SCARA robots, designed for high-precision, high-speed assembly work from above the component

A robot with six vertical axes, designed for assembly/packaging work from angles or underneath, and for working on three-dimensional shapes



Factory Automation Products Department, Production Engineering & Development Division
Kazushige Akahane

"Industrial robots operate as a combination of manipulator 'arms,' controller 'brains,' and software that gives operating instructions. We share information within the department on a daily basis, as well as through prototype evaluations participated in by all staff members, approaching our work from a shared base. "Robots are frequently used in harsh conditions and can be dangerous if used improperly. For this reason, it is important for us to go out and visit the customer's place of business, seeing the actual location, products and circumstances with our own eyes in order to understand how the customer uses our products, whether there are any defects, or whether the customer has other requirements."



December 1982
The TV wristwatch

Foreseeing the advent of the visual information revolution, Epson began research and development in the 1970s on an active-matrix LCD panel allowing moving images to be displayed on personal mobile devices. Epson improved and advanced liquid crystal technology for digital watches, developing a panel combining semiconductor technology and drive/control circuit technology, resulting in a compact, low-power product featuring superior resolution and clarity.

Functions were added to let the consumer view television and listen to FM radio. Other functions included a calendar, an alarm and a stopwatch. This product served as the foundation for technologies still existing in modern mobile phones and other mobile gear.

Watches

Originally founded as a watch manufacturer, Epson has grown over the years by applying the technology and expertise learned from watch manufacturing to a variety of other leading-edge products. Epson will continue to create elegant time-pieces, while meeting quality requirements in terms of accuracy and chemical substance content.



The Epson-original Spring Drive mechanism combines the accuracy of a quartz watch with the self-sufficiency of a mechanical watch that needs neither battery nor motor.



Watch Production Department, Watch Operations Division
Junya Kamijo

“Each watch assembled in our workshop is crafted with great care and attention. A single craftsman oversees the assembly process from beginning to end, from the assembly of the movement to the final external fittings. This is why we feel a strong sense of ownership and take it upon ourselves to continuously improve the quality in each process.

“We can achieve complete manufacturing traceability because all components are processed on-site. Recently, our craftsmen have been demonstrating assembly techniques at exhibitions and other horological events, taking advantage of new opportunities to talk directly with our customers. Our goal is to respond to customer interests and expectations, creating products that customers will cherish for many years to come and reducing the need for repairs. There is still room in every process for us to polish our techniques and skills.”

Eyeglass Lenses

Eyeglasses are prescription products governed by strict manufacturing regulations. We are compliant with ISO 13485, an international standard for quality management systems related to medical devices, and practice thorough management of chemical substance content and environmental issues related to the manufacturing process, providing our customers a safe, comfortable product that looks nice, feels nice, and offers a sense of security.



“SEIKO Orgatech” uses organic compounds in both the lens and coating. Because the lens material and the coating layer have the same thermal expansion coefficient and deformation elasticity, our lenses are highly resistant to cracks caused by heat and deformation.



Optical Products CS/Quality Assurance Department, Optical Products Operations Division
Noriaki Uehara

“Eyeglasses travel with the wearer through a variety of different environments. We must anticipate all types of environments, as eyeglass get left behind in cars on hot summer days or are worn in extreme climates such as Earth’s polar regions or while relaxing in hot springs that have alkaline components. Of course, we conduct all manner of tests in the lab, but we also put glasses on and go out into the real world to gain a better understanding of the compound stresses encountered in the actual user environment.

“To a certain extent, I think the industry has been able to answer the needs for usability and light weight. I think now we will see greater demand for maintainability and resistance to degradation. We coat plastic lenses to protect against scratches, dirt, shock, and ultraviolet light, but I feel that we need to challenge ourselves to come up with coatings that offer greater functionality and strength.”



March 1993
Ultra-miniature autonomous traveling robot “Monsieur”

Our entry in the 1991 Micro-Mechanism Contest was the impetus for developing Monsieur, the world’s first 1cm3 micro robot. Built using IC and crystal units designed for watches, Monsieur incorporated technologies for low power consumption, miniaturization and high functionality in its drive unit, CPU-IC “brain” and power supply. These were combined with light sensors to enable the micro-robot to speed toward a light source. We incorporated wireless autonomous self-propulsion capability, and rechargeable power, naturally. Our design, modeled on an insect, generated quite a buzz at the competition. We continue to develop miniature robots as one aspect of our pursuit of micro mechatronics technologies at Epson.

Epson recognized by METI for product safety excellence

With concerns about product safety on the rise, Japan's Ministry of Economy, Trade and Industry (METI) last year launched a program to recognize companies that lead in the area of product safety. Epson underwent METI's scrutiny as an applicant and came away with the Bronze Prize in the Major Manufacturer/Importer category.

Epson was cited for:

- Establishing a QCM (Quality Crisis Management) system to collect information on and internally report in-market product accidents
- Outfitting its facilities to carry out product safety evaluations, including flammability tests, tests for "sick house" substances, and so on
- Providing equipment for performing product failure analyses and training product safety engineers



The award plaque

Elements required in Epson's customer-oriented approach

The following is a transcript of a discussion with Ms. Yukiko Furuya, executive director of the Nippon Association of Consumer Specialists, an organization involved in the support and promotion of CSR from the consumer's perspective.

Regarding Epson's award as a leader in product safety

Congratulations. I think the panel was impressed at how closely Epson's management philosophy, as stated in "Commitment to Our Customers," is tied to your product safety approach. You look well-positioned to continue earning consumer trust by engaging in quality measures to continue to improve safety.

Defining "the customer's perspective"

Until I heard more about your firm, I had never paid particular attention to Epson, which may indicate that the message embodied in the Epson philosophies and initiatives has not been widely communicated. I cannot see the difference between your firm's commitment to customer satisfaction differs from that of the other companies who claim to value their customers. I think your corporate stance could be better conveyed to the consumer if you offered more details and told the story in the Epson style. The concern you show for the consumer in terms of product safety, responsiveness, benefits and in filling in the information gap will lead to greater consumer confidence.

The need to substantiate and verify the meaning of "customer satisfaction"

Many corporations have goals for CS (customer satisfaction); however, simply asking customers to elucidate their require-

ments shouldn't be everything there is to meeting satisfaction. Companies need to go beyond espousing the message of "valuing the customer," verifying what management philosophies and what kind of satisfaction they are pursuing, and how those philosophies are realized in products and services, pamphlets, information disclosure related to product incidents, and more, bringing a deeper meaning to what is meant by "valuing the customer."

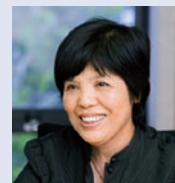
Toward a coordinated, not conflicted, approach to solving problems

As consumers become more diverse, the gap between corporation and consumer continues to grow. Today, we are at a time where companies and consumers need to work together to resolve issues, working to bridge the existing gap. I expect this conversation will serve as a step toward coordinating efforts for a sustainable future.

Yukiko Furuya

Executive director of the Nippon Association of Consumer Specialists, Ms. Furuya also serves as chair of the Consumer Oriented Management Systems Committee and chair of the Private Information Special Committee.

Ms. Furuya, certified as a Consumer Advisor by the Minister of Economy, Trade and Industry in 1988, is also active in consulting for CS management and compliance management.





Special Feature 2:

“Human Development” at Epson

Monozukuri, the art and science of manufacturing, is at the heart of what Epson is all about. And we believe that human (human capital) development is the key to developing the hidden assets—the skills and expertise of our people—that are handed down through successive generations.

Passing down the DNA of *monozukuri*

The ultra-precise machining technologies and mechatronics skills passed down through the generations since Epson's inception as a timepiece manufacturer are the core of the DNA that has supported our manufacturing for these many years. In contrast to visible assets such as factories and equipment, the skills and expertise of our experienced technicians are a hidden asset that will be lost to us unless we intentionally work to hand them down to the next generation. These skills and expertise can only be learned by doing—through practical application, and by watching skilled technicians at work. When manufacturing sites began moving overseas during the 1990s, the number of technicians and engineers unfamiliar with actual manufacturing floor operations began to climb. Accumulating and handing down “hidden assets” to successive generations became an issue not only for

Epson but also for many companies in Japan's manufacturing sector.

As a means to pass on these important assets, Epson opened the “*Monozukuri-Juku*” in 2002. Skilled technicians, including Epson's own Contemporary Master Craftsmen, use practical lessons to teach manufacturing skills as well as the spirit behind creating Epson products. For Epson, human resource development is an important way for us to retain our original approach to manufacturing, unchanged since the day our company was founded.

The People Who Uphold Epson

A Contemporary Master Craftsman mentors a World Skills Competition gold medalist

Epson's businesses are underpinned by human capital, a diverse collection of skilled technicians who have mastered their profession and still strive for continuous improvement, as well as young up-and-comers who are already making names for themselves on the world stage. During fiscal 2007, Sadaaki Sakai of our Production Engineering & Development Division, a professional who continues to develop and polish his skills after 37 years with the firm, was selected as a Contemporary Master Craftsman by the Ministry of Health, Labour and Welfare. Meanwhile, other Epson employees have earned recognition in the world at large, including Dante Hata, who won the gold medal in the 2007 Universal World Skills Competition.

A Contemporary Master Craftsman, passing down a lifetime of skills and knowledge

Recognized as having achieved peerless technical skills and contributing to the development of Japan's industry, Sadaaki Sakai was selected as a Contemporary Master Craftsman in 2007 under a program sponsored by the Minister of Health, Labour and Welfare. Since joining the company in 1970, Sakai has continued to support the advancement of production technology at Epson through his participation in manufacturing equipment development in several different businesses, including watches and printers, optical products, crystal devices and more. Sakai has also been active in handing down technical expertise and the spirit of Epson *monozukuri*. Utilizing the hands-on practical skills and experience he has gained by working with multi-disciplinary teams on challenging manufacturing projects, he serves as the World Skills Competition trainer



and chair of the Certification Committee of the Seiko Epson Group Technical Skill Competition.

Contemporary Master Craftsman Machinery and Equipment Assembler
Production Engineering & Development Division
Sadaaki Sakai

A future master, learning from his mentors and challenging himself

Representing Japan at the 39th Annual World Skills Competition held in November 2007, Epson's Dante Hata competed against other young technicians from around the world, bringing home the gold medal. Hata competed in the "polymechanics" event, an event requiring a broad range of skills and expertise in mechanics, machining, pneumatics and circuit production, programming, assembly and adjustment to produce a device that performs according to given specifications. Hata overwhelmed the competition with outstanding speed and precision, standing justifiably proud as he won the prize with a perfect result.

We believe Hata's success is, in large part, the result of having learned a variety of skills for the Skills Competition



at the knees of skilled Epson technicians through hands-on application at Epson's *Monozukuri-Juku*.

Production Engineering & Development Division
Dante Hata

Epson human development in the words of successive generations of leaders

Since its inception, Seiko Epson has pursued twin philosophies of working closely with the local community and valuing people as individuals. This has been vividly demonstrated in the words of our leaders, from our beginning to our present.



"Act with integrity" ~ A message of love for the community and employees

Hisao Yamazaki, president 1959-1963

Hisao Yamazaki formed Daiwa-Kogyo in 1942 via investment from Dai-Ni Seikosha with the family-owned "Yamazaki Watch Store" as the parent. Yamazaki supervised manufacturing during WWII as the factory manager, successfully manufacturing finished goods,

beginning with the production of the first ladies watch. Yamazaki subsequently established Suwa Seikosha, assuming the position of president. He had a hand in the creation of several groundbreaking timepieces, including the Gyro Marvel and the Grand Seiko, building the foundation of today's Seiko Epson.

"I am fully prepared to commit life and limb. I urge everyone to join together, working to establish a timepiece factory here, in this place."

From a 1946 company newsletter

"People must continue to study throughout their lives. Move one step beyond what others will do, and continue to study until your last day on earth. Act with integrity."

At a celebration commemorating the completion of the No. 5 Model Ladies Watch

"The Chief [President Yamazaki] was deeply interested in mankind, had a keen eye for people, and a knack for assessing a person's character."

From a eulogy for Representative Director Yamazaki

Monozukuri-Juku

***Monozukuri* is essentially human development, and people develop through actual practice**

The *Monozukuri-Juku* develops our human resources on the basis of three guiding principles; 1. Training through hands-on practice—Practical application rather than class lectures; 2. Training to raise the capabilities of all—Develop people who understand the factory floor and who can also see the big picture; 3. Pursuit of the artisan tradition and unique technologies—Continued evolution of our experts and the handing down of the artisan skills and spirit.

The *Monozukuri-Juku* is organized into four groups: a Training Group, which is responsible for the overall HR training plan and the planning and promotion of various hands-on training programs, and three *dojo* (training schools), including the Advanced Technologies *Dojo*, the Equipment Maintenance *Dojo*, and the Manufacturing Skills *Dojo*.

Training Group

Manufacturing skills are not the only skills that must be handed down for *monozukuri*. Factory floor management and management expertise must be shared among divisions and affiliated companies. The Training Group devises and implements a variety of practical training programs for managers and supervisors, mid-level engineers and new-hires. It also provides training in overseas assignment preparation, production control, and quality assurance, as well as in other areas. Training for new hires, for example, starts them off on component grinding work in preparation for being a part of the Epson manufacturing environment. Participants learn to concentrate single-mindedly on a task, as well as the importance of job fundamentals. Mid-level engineer training has participants report to a manufacturing line at an overseas affiliate, where they learn about the issues on site and work to implement improvements. The Training Group also contributes to society through an externship program for people from public organizations and various groups, as well as for high school students and teachers.

Advanced Technologies Dojo

Epson is far from the only manufacturing company in Japan in which the expansion and diversification of business, the subdivision/specialization of tasks, and the transfer of manufacturing facilities to overseas sites have combined to limit the vision engineers have of manufacturing as a whole. The Advanced Technologies *Dojo* recognizes the need for engineers to be able to engage in manufacturing from a comprehensive perspective, allowing for technological development that embodies the spirit of “Creativity and Challenge in Manufacturing”—the DNA of Epson as an entity. The Advanced Technologies *Dojo* provides end-to-end hands-on training with this in mind. Every year, 10 or so individuals are selected from among newly hired tech school graduates. Over the course of two years, these individuals learn the fundamentals of what it is to be a technician through hands-on training. For example, in “Mechatronics Training,” participants are assigned the task of designing an original mechanical unit, subject to a certain delivery deadline and project cost. Participants do all of their own component processing, assembly, programming, and operations verification. The goal of this type of practical engineering training is to teach the basics of manufacturing in terms of cost, quality and delivery time through personal, practical experience.



“Engender trust while taking the lead”

Tsuneya Nakamura, president 1987-1991

Tsuneya Nakamura joined Dai-Ni Seikosha in 1944, transferring to the Suwa Plant the following year. In 1963, Nakamura was named director at Suwa Seikosha, later assuming the title of representative director of Shinshu Seiki, in 1969. Beginning in 1978, Nakamura managed operations as representative director, assuming the post of Seiko Epson president in 1987. During his tenure,

Nakamura introduced several important policies, including directives to eliminate CFCs and establish a formal corporate Management Philosophy for the firm, thus setting an example for trust-based management and proactive, forward-looking management.

“A superior must be someone worthy of respect from his or her subordinates, and capable of demonstrating leadership. Being a trusted leader is fundamental. Subordinates will quickly develop, ultimately resulting in greater collective strength. That type of superior is the one who will go far in the company.”

Company Newsletter, February 1991



Equipment Maintenance *Dojo*

The goal of the Equipment Maintenance *Dojo* is to develop and pass on equipment maintenance skills by providing maintenance support with an eye toward developing key personnel on the manufacturing floor. In practical training, participants disassemble, assemble and tune up equipment used in actual production on the factory floor, learning the finer details of equipment maintenance. The Equipment Maintenance *Dojo* also accepts trainees from overseas and provides on-site training at overseas affiliates. A systematic, practical approach is taken throughout, with tasks being demonstrated and repeated before being practiced on actual equipment. Through this process the *Dojo* offers skills evaluation and trainer certification. The *Dojo* also produces video programs to overcome language barriers and quantitatively teach skills proficiency in vital areas. Further, it maintains a searchable knowledge base system for problem-solving. Non-technical employees are also trained in mechanical and electrical systems.



Manufacturing Skills *Dojo*

The Manufacturing Skills *Dojo* provides basic skills training for factory floor technicians and special comprehensive intensive training for selected employees so as to pass down the ultra-precision machining technologies Epson has accumulated over the decades. Training for young technicians includes short-term, high-level skills acquisition, such as participating in the World Skills Competition, and programs focused on manufacturing skills to develop participants into key individuals in the manufacturing plant.

Since 1973, the Seiko Epson Group Technical Skills Competition, consisting of more than 100 different categories, has been a means for enhancing manufacturing capacity within the company. Every year nearly 2,000 individuals from all over the world come to compete, and by extension, Epson has seen nearly 4,000 employees acquire national skills certification. In addition to training its own new-hires, Epson also trains new-hires from partner companies and smaller local firms, helping others experience the type of entry-level hands-on work that is part of Epson's *monozukuri* DNA.



"Trust-based Management" —the cornerstone of the Management Philosophy

Hideaki Yasukawa, president 1991-2001

Hideaki Yasukawa joined the company in 1955. In 1976, he was made a director and, in 1991, president. During his tenure, Yasukawa saw the company

eliminate the use of CFCs and chlorinated organic solvents, revise the firm's management policies, and create the inkjet printer.

"My basic philosophy is that 'trust-based management' lies at the base of our new Management Philosophy and is the touchstone for all else. Accordingly, we must (1) clearly identify our stakeholders, and with whom we must establish relationships of trust; (2) specifically define the shape that trust is to take; and (3) determine what we must do to accomplish this."

Company Newsletter, June 1999

A Triumph of Skill

Creativity and the pursuit of challenges to develop critical manufacturing technologies

Monozukuri at Epson relies on a sustained willingness to challenge the unknown and the unflagging pursuit of creativity and innovation. To say that this is in Epson's blood, a trait handed down over the generations, would not be an overstatement. The Credor Spring Drive Sonnerie, unveiled in 2006, is truly the type of history-making product that represents the culmination of the skill and imagination of Epson's artisan engineers.



The Sonnerie, only five of which are produced each year, stands at the world's watchmaking pinnacle and represents the epitome of Epson artisan engineer skill.

The Credor Spring Drive Sonnerie is a complex mechanical timepiece incorporating a sonnerie mechanism that chimes on the hour. Epson's engineers and researchers, including Epson's own Contemporary Master Craftsman Kenji Shiohara (a watch craftsman who conquered the World Skills Competition and was awarded the Medal with Yellow Ribbon), participated in product development. An exclusive product created by dedicated, highly skilled craftsmen, the watch consists of nearly 600 components (three times the number of components for regular mechanical watches), and assembly by itself takes nearly one month to complete. Though a hand-wound mechanical timepiece driven by a mainspring instead of a battery, the Sonnerie uses Epson's original Spring Drive technology to maintain accuracy on a par with any quartz watch.

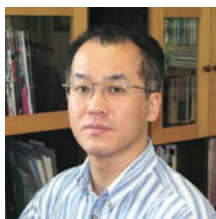


Kenji Shiohara

"The precision demanded of the components for the Sonnerie is remarkably high, so components cannot be simply finished according to the drawing. Each individual component must be finished by hand and carefully tested for proper function. For me, making this watch was bliss—it was like having a conversation with the watchmakers of the 17th century. Very difficult, but very pleasurable."

Uncharted territories opened through the spirit of "Creativity and Challenge" enmeshed in Epson's DNA

"My desire is to create a complex timepiece that tells time by sound—a watch that can only be made in Japan." The development of this complex timepiece began with the dream embraced by Epson engineer Masatoshi Moteki. In addition to an original sonnerie function that rings an internal orin bell, the watch features at its heart the Spring Drive governor developed by Epson in 1999. The Sonnerie is a product of the skills of our engineers and the continuing legacy of *monozukuri* that they have embraced. These are the same skills and *monozukuri* spirit that have kept Epson on the forefront of the world's watch technology since 1942 and that led to the first Grand Seiko in 1960, which represented the pinnacle of Japanese mechanical timepieces, the Spring Drive, and many more innovations.



Masatoshi Moteki

"We continued to run into technological walls, but Shiohara-san, a world-class watchmaker, worked with us, sharing our pain in everything from mechanism ideas to our approach to components, to component manufacturing tolerances. Without Shiohara-san's cooperation and his skilled hands, I think it would have been impossible for us to design a watch of this complexity."



Expressing individuality, even at the cost of conflicts

Saburo Kusama, president 2001-2005

Saburo Kusama joined the company in 1963. Named director in 1990, Kusama served as Epson president beginning in 2001. After assuming the post, he became a flag-bearer for operational and procurement reorganization projects, displaying masterful managerial talents as he worked to build a stronger Epson.

"Epson has gathered together employees who are individually outstanding, having superior abilities, strong personalities, and strong opinions. This is why I think that early on we are best served by expressing our individuality, even to the extent of having strong differences of opinion and internal debate. In the absence of this, I don't think Epson would be Epson."

Company Newsletter, September 2001

Manufacturing from the User's Perspective

Working with the local community to communicate the spirit of *monozukuri* to children

The Suwa Career Education project began with the goal of developing vocational awareness in the minds of children, the torchbearers of industry in the future, and fostering human resources that can contribute to society. As one link in this project, Epson Intelligence Corporation proposed a program called "Manufacturing from the User's Perspective." In conjunction with this project, Epson staff members have been working together with the Suwa City Board of Education as a private coordinator since 2005. Working closely with local corporations, craftsmen and others in skilled trades within the community, Epson Intelligence assists in the creation of text books, guides, and worksheets, helps arrange lectures designed for school teachers, is involved in creating a certification system for local tradesmen and corporate entities that support classroom instruction, and offers advice for public classes. Mitsuru Kono, who has promoted this project as a coordinator from the start, spoke about its significance. "In school, drawing and manual arts and other classes related to teaching traditional manufacturing only approached the subject from the perspective of the producer. 'Manufacturing from the User's Perspective' makes a point of educating students in the cycle of listening to the needs of the person using a product, and then getting feedback from the user after the product is made and used."



Ninth graders building an arbor in a park



Sixth-graders making benches



Technology Education Services Group Mitsuru Kono



Third-graders making lamp shades



Monozukuri Nippon Grand Award Ceremony

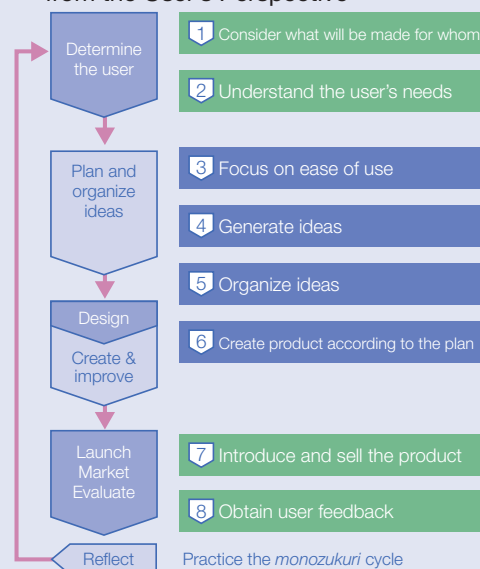
Communicating the essence of *monozukuri* from a user standpoint

In the course of this education project, participants ask about the needs of a target user, generate ideas based on those needs, create the product, have the user use the product, and then obtain user feedback. By conscientiously accumulating a history of interchange with the user, the participant repeats a cycle of improvement and modification, experiencing personally the essence of *monozukuri*.

Exhibiting products at the Suwa Area Industrial Messe and selling them in shops expands the target user segment to include regular everyday people. Recently, a middle school class listened to the needs of a handicapped children's center located in the same city, generating ideas, and ultimately creating an arbor presented to the facility as a gift.

At first there were concerns about introducing corporate ideas into an educational setting, but the steady results from the program won over the doubters, and the program is presently being conducted in all 11 elementary schools and middle schools within the Suwa City limits. The program has even been adopted in nearby Okaya and Minowa. The "Manufacturing from the User's Perspective" educational project received the Minister's Prize from the Ministry of Economy, Trade and Industry, the top prize awarded in the Youth Support Category of the Second Annual *Monozukuri* Nippon Grand Awards. This award is granted to corporations, NPOs and other organizations engaged in supporting manufacturing education for the youth of Japan. Epson Intelligence Corporation plans to establish even closer ties with the board of education, schools and related government agencies, contributing to the wider adoption of the messages to be learned from "Manufacturing from the User's Perspective."

Education Process for Manufacturing from the User's Perspective



* Steps 1, 2, 7 and 8 in the figure are points from "Manufacturing from the User's Perspective" proposed by Epson Intelligence Corporation.



Special Feature 3:

A Vision to Counter Global Warming

Epson's "Environmental Vision 2050," announced in Brussels, Belgium, in June 2008 to coincide with Green Week, outlines the company's long-term environmental goals. Concrete scenarios and actions for achieving this vision are currently under development.

Environmental Vision 2050 Statement

Recognizing that the Earth's carrying capacity^{*1} is limited and believing that everyone must share responsibility for reducing environmental impacts equally, Epson is aiming to reduce CO₂ emissions by 90% across the life cycle of all products and services by the year 2050.

At the same time, as a member of the ecosystem Epson will continue to work towards restoring and protecting biodiversity^{*2} together with local communities.

Epson has set four key conditions in order to work towards achieving "Environmental Vision 2050":

- 1) Reduction of CO₂ emissions by 90% across the entire product life cycle
- 2) Inclusion of all products in the resource reuse and recycling loop^{*3}
- 3) Reduction of direct CO₂ emissions by 90%, and elimination of global warming gas emissions other than CO₂
- 4) Restoration and preservation of biodiversity as a member of the ecosystem, together with local communities

^{*1} Earth's carrying capacity: The amount of human activity and environmentally harmful materials (substances that degrade or pollute the environment) that can be supported without impairing the environment.

^{*2} Biodiversity: The existence of diverse forms of life in a given ecosystem.

^{*3} Resource recycling loop: A system in which the input of new resources is gradually reduced by repeatedly reusing and recycling resources used in earlier products.



Environmental Responsibility
<http://www.epson.co.jp/e/community/sr/>

Dialogue

A vision of sustainable products and business models

Junko Edahiro, environmental journalist and co-chief executive of Japan for Sustainability, recently met with Epson executive officer* Akihiko Sakai, general administrative manager of Corporate Strategy, to discuss what Epson can do to accomplish the goals of "Environmental Vision 2050."



Drawing up a long-term strategy

Ms. Edahiro: The first commitment period of the Kyoto Protocol has started. We're on the clock, and there is no time to lose in addressing climate change. Long-term goals and actions are crucial because, unless greenhouse gas emissions are halved worldwide by about 2050, rising temperatures and sea levels will have a devastating impact by the end of the century.

Sakai: We realized that our environmental policy was not going far enough in addressing global trends and that we needed to establish a long-term corporate environmental strategy. This was the genesis of our Environmental Vision. The Vision outlines measures to create products and services that have the world's smallest burden on environment, reduce our direct environmental impacts, and restore and preserve biodiversity. In the area of products, for example, we are looking at ways to increase the useful lives of our printers and projectors, and to collect, recycle and reuse end-of-life products.

Ms. Edahiro: To make your vision a reality, you need to envision how Epson will be doing business in 2050 and identify what will be generating income. You need to draw up an image of what society will be like then and to forecast what products you will sell and how they will be used within that society. You probably already have programs and projects in your factories and R&D labs that are consistent with the vision.

Sakai: Last year I was still in the process of following up the progress of program and projects in house. This year I will begin to further flesh them out.

A business model for society

Ms. Edahiro: Simplistically, if printers lasted 10 times longer, you would be able to sell only one-tenth as many, which would necessitate a viable new business model.

Sakai: Or, if product lives stay the same, we would also have the option of reducing power consumption by 90%.

Ms. Edahiro: Printers and projectors are both "imaging" products, but the fact is that people are dependent on only one of these means of imaging—printing—and printing uses paper. You might be able to foster a new

market by offering a paper-saving solution as a "service."

Sakai: We might see the emergence of products that are basically used to present information via projection but that can also be used to print selected information where and when it's needed.

Ms. Edahiro: Why don't you highlight the idea that you can achieve your environmental strategy by changing your business model?

Sakai: We fully understand the importance of changing our business model, but as a technology company we are also dedicated to the idea of developing technical solutions that will enable us to cut CO₂ emissions by 90%.

Revolution in product design and manufacture on the horizon

Ms. Edahiro: A tour of your liquid crystal panel plant in Tottori gave me a good idea of the tremendous energy requirements of cleanrooms. At the same time, I got the feeling that there are a lot of things you can do to reduce the energy load.

Sakai: Manufacturing will be undergoing major changes. For one thing, small-lot, high-variation production will increase. Given this trend, it is clear that manufacturers are going to have to rethink their production systems, including their cleanroom performance.

Ms. Edahiro: I think Epson's environmental strategy reflects sincere concern for the future of society. I would like to see you effectively communicate to the world with the message or aspiration that you're thinking deeply about the Earth.

Sakai: The way in which the message is communicated will be pivotal. I'm going to engage a lot of people in the discussion about how best to move forward.

Ms. Edahiro: To be sure, the direct effect on the planet if Epson is successful in radically cutting emissions will be small, but I am looking to Epson to have a much larger indirect effect by taking a leadership role in creating a business model and in taking actions that others can emulate. A big splash by Epson will start an important ripple effect.

Junko Edahiro

Co-chief executive of the NGO Japan for Sustainability (JFS). Visiting associate professor, Research into Artifacts, Tokyo University Center for Engineering. Member of a special subcommittee on national environmental strategy under the Central Environmental Council, an environmental discussion group for businesswomen, and active as an environmental journalist, interpreter/translator and author of numerous books on environmental issues. Among her translations are *An Inconvenient Truth*, by Al Gore; *Limits to Growth*, by Donella Meadows; and *The Ultimate Success Secret*, by Dan S. Kennedy.

*Newly appointed to the Epson board in June 2008

Environmental Legacy

1980s~1990s CFC phase-out

1988: Declared commitment to eliminating CFCs from production processes

1992: Became one of the world's first companies to eliminate CFCs



Poster created to build internal awareness

Choosing to go CFC-free amid soaring consumption

Developed in 1930 as a refrigerant, chlorofluorocarbons (CFCs) were hailed as wonder chemicals. Colorless, odorless, and chemically and thermally stable, CFCs were widely used in refrigerators and air conditioners, aerosol spray cans, urethane foam blowing and countless other applications. They were also considered essential for cleaning semiconductor assemblies and precision parts.

In the 1980s, Epson deliberately introduced CFCs as an alternative, albeit a more expensive one, to toxic organic solvents for cleaning applications.

In the mid 1970s, however, scientific evidence pointed to CFCs in the atmosphere as a major contributor to ozone layer depletion. Later, in 1985, an ozone hole was detected above the South Pole. The loss of ozone allows harmful ultraviolet rays to stream down, unimpeded, to Earth, with harmful consequences, including increased incidents of skin cancers and ecosystem damage.

This knowledge prompted the adoption, in 1987, of the Montreal Protocol, an international treaty to restrict the production and use of ozone-depleting substances, including CFCs. The following year, in 1988, Japan ratified the protocol, enacted legislation designed to protect the ozone layer, and launched a CFC reduction effort.

In August of that same year, Epson announced its decision to pursue the challenge of becoming a CFC-free enterprise. Epson thus initiated a company-wide effort to eliminate CFCs by 1993, without resorting to the use of interim replacements like HCFCs.

At the time, Epson was using CFCs to clean printed circuit boards, display devices, plastic lenses, timepieces and a variety of other precision parts. Furthermore, CFC consumption was increasing at a rate of 20%-30% per year. Eighteen of Epson's 20 sites in Japan were using CFCs, and total consumption would only increase as long as existing manufacturing practices continued.

Steady improvements and resourcefulness

Rather than cutting back on CFC consumption, Epson made it clear that it would pursue their complete elimination. This decision stemmed from the conviction that we

could not hope for forward progress as a company unless we developed CFC-free manufacturing processes.

The challenge was a difficult one, but we saw the CFC-free effort as a chance for new technology development. We had to rethink and redesign our cleaning processes. Progress was forged in small steps, through resourcefulness and an accumulation of small but steady improvements that, combined, enabled us to gradually switch to water-based cleaning or to eliminate the need for cleaning altogether. Total CFC consumption declined from the 1,400-ton peak in fiscal 1988 to 700 tons the following year, then to 300 tons in 1990. In fiscal 1991 the phase-out accelerated and we hit the 90-ton mark. Finally, in October 1992, we completely eliminated CFCs from our production processes, one year and five months ahead of the target date.

Top-down leadership and total engagement

Our efforts did not stop once we eliminated CFCs. We also continued to work toward eliminating trichloroethane, carbon tetrachloride and other chlorinated organic solvents.

Technology developed in Japan was successively transferred to our global affiliates and business partners. We also actively shared our technology and experience across the industry and with the broader public, in the belief that competition takes a back seat to cooperation when it comes to addressing global problems.

There were two keys to our success in becoming a CFC-free company.

First, we had a clear goal, thanks to the decisive action and resolve of then-President Tsuneya Nakamura; and, second, we engaged every employee, not only select engineers, in a total company effort to reach the goal.

Hideaki Yasukawa, who succeeded Nakamura as president and assumed the mantle of leadership, said of the effort, "If we knew exactly what action to take, we would not have needed to initiate a company-wide campaign. It was precisely because we were in the dark as to solutions that we needed to set a clear destination. As it turned out, this approach spawned an outflow of creativity and ingenuity. Necessity truly is the mother of invention."

1990s~2007 Initiatives in China

Engaging in commensurate environmental initiatives across the Epson Group

Offshore exodus

With the globalization of industry entering full swing in the 1990s, Epson moved the bulk of its manufacturing offshore, setting up new factories in China and elsewhere. From the latter half of the 1990s the ratio of production at Chinese factories soared, bringing with it a pressing need to reduce carbon dioxide and waste emissions at our overseas manufacturing affiliates. Meanwhile, even as our factories operated under different national environmental standards, market environmental regulations drew tighter, as exemplified by the European Union's RoHS Directive to restrict the use of harmful substances. Given this, Epson spun out its environmental programs globally, keeping the same targets as those applied in Japan, in line with the company's 1988 General Environmental Policy.

Energy conservation, emissions, and chemical management

China is considered a particularly critical region in terms of Epson's environmental programs due to the large number of manufacturing affiliate sites that produce finished products, such as printers and projectors, and electronic devices, such as LCDs and crystal oscillators. Accordingly, our manufacturing affiliates in China are implementing environmental policies that address three core issues: energy conservation, emissions, and chemical management.

In the area of energy conservation, we started off with simple, easy ways to save. For example, overhead lighting was optimized in conformance with our global standard, and unobtrusive transparent curtains were hung at all doorways that need to remain open for work reasons, to conserve on energy needed for heating and air conditioning.

Once the simple, easy ways to conserve energy were implemented, we moved on to more challenging tasks. For example, we implemented measures to insulate production equipment, seal air leaks, control inverters in basic utilities, and limit machine counts. From 2004 onward, we dug deeper by introducing energy-saving lighting fixtures, energy-saving molding systems, and local

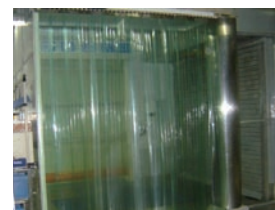
clean zones. We also began reusing waste heat and switching fuels.

In the areas of emissions, we launched a "Zero Emissions" program. As part of this program, we conduct on-site checks of prospective partner companies to verify whether they properly recycle their wastes. We also ascertain whether they take steps to prevent environmental pollution and accidents in their recycling process.

In the area of chemical control, we have been taking steps to, for example, reduce the amount of liquid crystal used and ensure compliance with RoHS Directives.



Fluorescent lamps with pull-switches for independent control



Plastic curtains help maintain indoor temperatures

From Japan to the world, and from the world to Japan

Our overseas manufacturing affiliates copy exactly many of the environmental measures that have proved successful in Japan. Some measures are adapted for local use to satisfy local exigencies. Epson overseas affiliates also experiment with their own original measures. Measures that prove effective are then introduced across Epson sites in other countries, including Japan, within a year. This multinational approach has spawned a virtuous cycle in which our overseas factories and offices compete to come up with the best environmental measures.

All employees can and do get involved in our environmental initiatives. Total involvement leads to lower costs while helping to increase workplace unity and the motivation to continuously improve, essential attributes for a manufacturing company.

Technologies Shaping the Future

Past initiatives set stage for new challenges

Micro Piezo technology altering the course of the future

Inkjet printers form images by spraying droplets of ink onto paper from a nozzle array. Epson's inkjet printers incorporate Micro Piezo technology print heads with piezo elements, which change shape when subjected to an applied voltage. The change in shape creates sudden mechanical pressure that forces ink droplets from the nozzles. Since they rely on mechanical force to eject extraordinary small, precisely measured droplets, Micro Piezo systems must be produced with extreme exactitude. Epson's sophisticated micromachining technology makes this possible.

Three attributes of Micro Piezo systems make them excellent not only for consumer printers but also for a wide range of business and industrial applications: (1) the ability to precisely control the size (volume) and landing position of ink droplets; (2) the ability to eject a wide range of liquid materials; and (3) outstanding print head durability. In fact, the application of Micro Piezo systems in manufacturing is spreading. They are now being used, for example, to print textiles, fabricate color filters for large-screen LCD televisions, and pattern circuit boards.

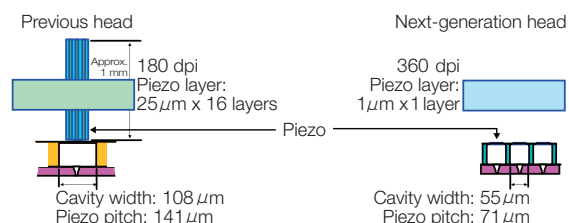
Epson has developed a proprietary thin-film piezo element for the next generation of Micro Piezo print heads. The new piezo element enables a print head nozzle density of 360 dpi, the world's highest for a piezo system. The new print heads accelerate printing speeds while reducing the

dimensions of our printers.

Industrial Micro Piezo technology provides high throughput while using materials extremely efficiently and reducing energy consumption and waste to a fraction of that of conventional systems. This technology has the potential to alter the future of industry by enabling a shift away from traditional factories that squander huge amounts of energy toward compact "desktop factories" with minimal energy requirements. We are leveraging this technology to help realize green desktop factories that have both economic and ecological benefits.

Micro Piezo technology has hidden potential in many other areas as well. In the realms of art and culture, for example, Micro Piezo technology can be exploited to render faithful reproductions of works that satisfy even the most demanding professional photographers and artists. It can even be used in the restoration of masterpieces.

Micro Piezo head size comparison



Inkjet minilab system

Epson's Crystario Easy Lab, launched in 2007 (only in Japan), is positioned to transform the photofinishing industry by sparking a move toward inkjet systems and away from the traditional chemical processes used by photo labs to print photos. While offering performance equivalent to that of traditional photo developers, the Crystario Easy Lab has a footprint of just 0.5m². This product answers the needs of those who prefer high-quality paper prints despite the ascendancy of digital photography and, in so doing, affords photo labs the

opportunity to expand business.



Sharing technology to maximize conservation

Helping reduce PFC emissions by providing the Epson Method free of charge

Perfluorocarbons (PFCs), used in semiconductor cleaning and etching processes among others, are one of the greenhouse gases targeted for reduction under the Kyoto Protocol. However, the measurement of PFC gas itself has long been a difficult problem. In 2000 Epson developed the Epson Method, an easier, accurate way to calculate PFC emissions based on FT-IR (Fourier Transform Infrared Spectroscopy). Epson has used the Epson Method to accurately determine and sharply reduce PFC gas emissions through a variety of improvement efforts.

The Epson Method is patented, but Epson grants a free license to use the technology, subject to certain conditions, to assist other companies working to reduce their own PFC emissions. At the same time, Epson welcomes input from other companies and research organizations that will help further refine the method.

Global Environmental Meeting and carbon offsets

Epson holds an annual Global Environmental Meeting to discuss and steer key actions designed to meet the company's General Environmental Policy. Taking into account the nature and spirit of the meeting, we purchased carbon offsets representing the amount of CO₂ emissions generated in flying overseas participants to Japan for the two-day 2007 event. Carbon offsets compensate for the CO₂ generated by business activities, transportation and the like by, for example, funding reforestation projects and the development and purchase of clean energy.

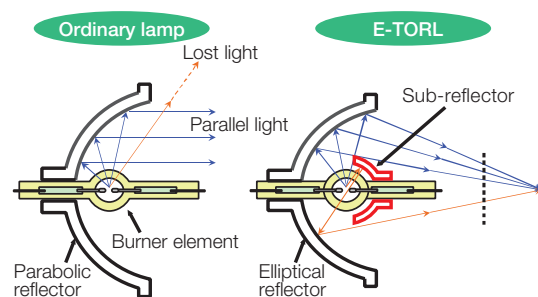
Carbon dioxide emissions accrued in association with the use of air transportation to fly 35 persons to Japan from our overseas affiliates totaled approximately 37 tons. To offset these emissions, we purchased a Green Power Certificate for 67,000 kWh of biomass power from Japan Natural Energy Company Ltd.

Smaller, brighter lamp maximizes light use efficiency

With business projectors spreading beyond the office and into the classroom, Epson has been working to reduce projector weight and increase image brightness. The Epson Twin Optimized Reflection Lamp (E-TORL) satisfies both objectives.

The E-TORL incorporates a new design that improves the efficiency with which light is utilized. It uses an elliptical reflector and a twin sub-reflector unit instead of the parabolic reflector found in ordinary lamps. The new design, which effectively uses light that ordinary lamps reflect out and lose, improves light collection by as much as 20%. To maximize E-TORL performance, Epson designed a compact new optical unit that also happens to reduce the dimensions of the projectors themselves.

In so doing, Epson has succeeded in reducing projector power consumption per 100 lumens of brightness by 90% over the past 10 years.



Structural comparison of an ordinary and an E-TORL lamp

Epson Overview

Epson seeks to create real customer value by practicing the principles of trust, integrity, and creativity and challenge declared in its management philosophy



Vision

Epson maintains a commitment to practicing socially responsible “trust-based management.” Our Management Philosophy states our commitment to business practices that build stakeholder trust, and we believe that living up to this commitment makes good management and good business sense.

Management Philosophy

(Established July 1989 & revised March 1999)

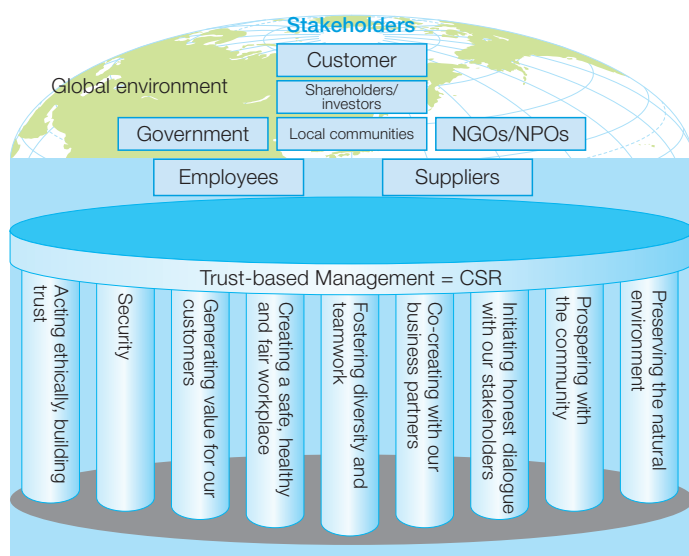
Epson is a progressive company, trusted throughout the world because of our commitment to customer satisfaction, environmental conservation, individuality, and teamwork.

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

(The Epson Management Philosophy has been translated into 14 languages, and is shared by all members of the Epson Group worldwide.)

The “trust-based management” concept

We aspire to build trust across a broad spectrum of stakeholders. To do so, we have embraced a fundamental concept that we call “trust-based management.” Trust-based management is more than just legal, regulatory and ethical compliance. It is a commitment to earning and maintaining the trust of all stakeholders, to growing and prospering with communities, and to creating a better society.



Epson's CSR platform is underpinned by nine pillars. We believe that carrying out business and product strategies on this platform is the way to build stakeholders trust.

To help ensure that socially responsible practices are followed, we established Principles of Corporate Behavior (2005), which provides guidelines for conduct in these nine areas, and an Employee Code of Conduct, the touchstone against which conduct and decisions are to be measured.

Strategies & Actions

Epson has been progressing toward the realization of its management philosophy in line with a three-year business plan called "Creativity and Challenge 1000," which sets forth the Group's management policies from fiscal 2006 through fiscal 2008.

Mid-range Business Plan Creativity and Challenge 1000

Mid-range Epson Group business policy actions for achieving the goals

Achieve a solid turnaround beginning in the fiscal year ended March 2007

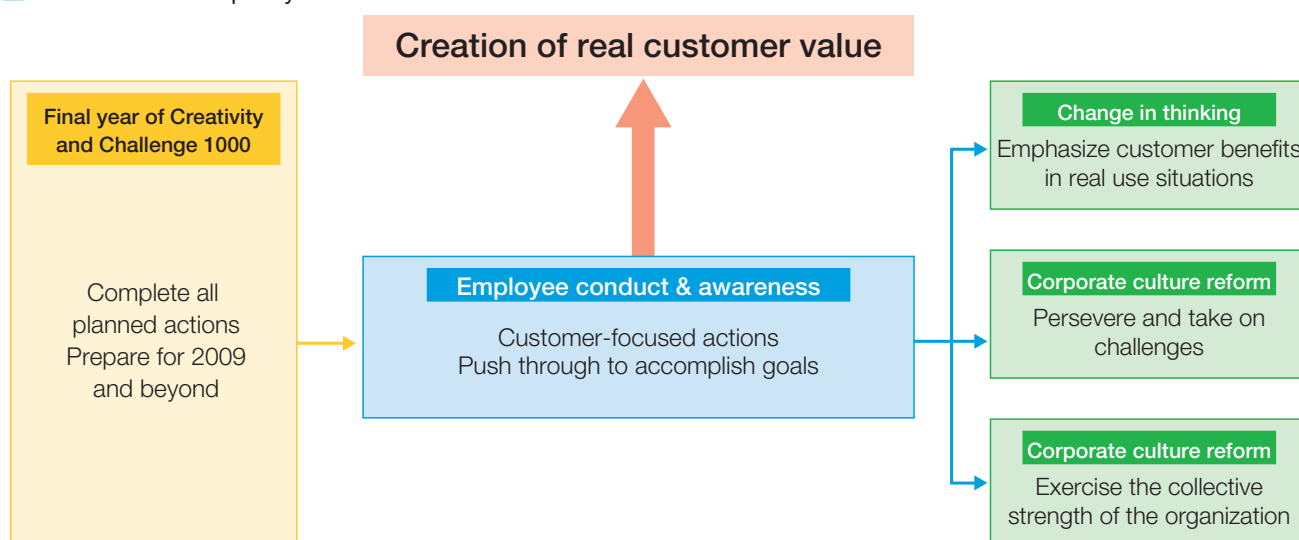
Achieve ¥100 billion or more in ordinary income in the fiscal year ending March 2009

- 1 Redefine and reinforce the business and product portfolios
- 2 Reorganize the electronic device businesses
- 3 Streamline costs
- 4 Reform the governance system
- 5 Reform the corporate culture

Fiscal 2008 management policies

Creation of real customer value is our goal as a manufacturer. As a company we must constantly adapt to the rapidly changing environment. This entails closely monitoring changes across the globe, benchmarking our performance against that of customers and competitors, and setting challenging objectives.

FY2008 business policy framework



Corporate Governance

Approach to governance

Our basic approach to corporate governance is encapsulated in our commitment to sustaining trust-based management. Along with ongoing efforts to increase enterprise value, we have initiated a number of practices designed to reinforce management checks and balances and to assure corporate ethics compliance. In so doing, we seek to ensure the transparency and soundness of management in the eyes of our customers, shareholders, employees and other stakeholders.

Management System

Epson has a board of directors and a board of statutory auditors. Our nine-member board of directors meets once a month and convenes extraordinary meetings as needed. A pair of committees has been put in place to explore director selection and compensation issues. 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.

While Epson has not yet adopted a system involving outside directors, it continues to examine the most effective system as it searches for ways to further improve corporate governance.

To ensure the greater independence and transparency of audits, Epson has assigned three outside statutory auditors to its five-member Board of Statutory Auditors.

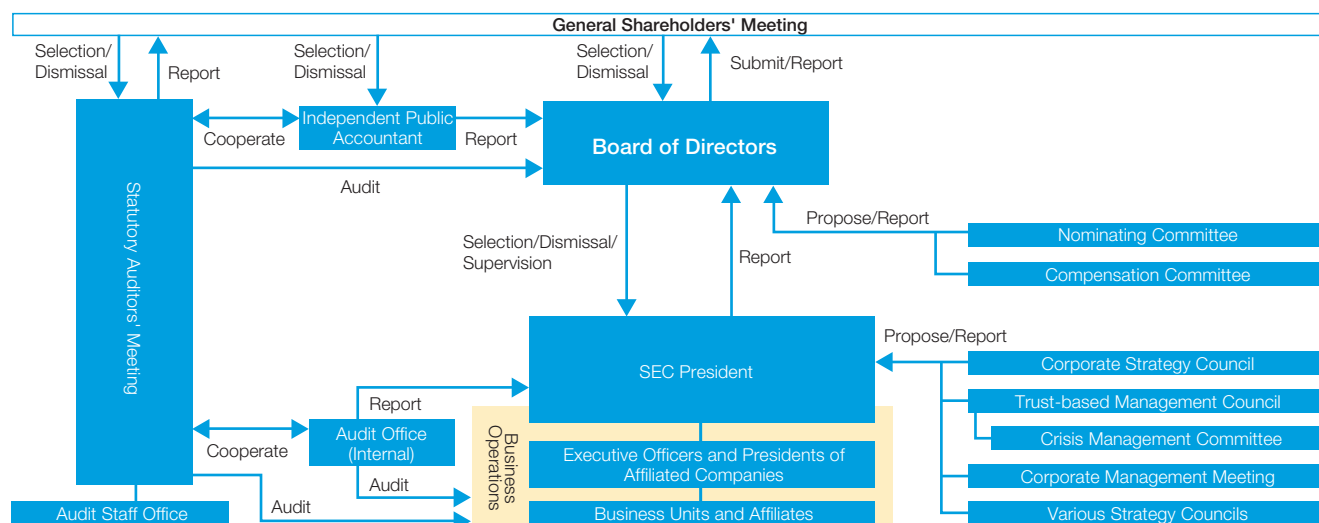
In addition to requiring that auditors attend and express opinions at board meetings, Epson is implementing measures to increase the effectiveness of audits. Statutory auditors must:

- Attend Corporate Strategy Council sessions, corporate management meetings, and other important business meetings.
- Conduct periodic reviews of important documents related to management decisions.
- Hold regularly scheduled meetings with the internal Audit Office and our independent public accountant.
- Hold regularly scheduled meetings with representative directors to ensure awareness of business operations.

In addition, Epson established the Audit Staff Office to assist statutory auditors in the execution of their duties, thereby making audits more effective, and leaving no doubt as to the independence of the audits.

Epson has further established an internal compliance system to prevent potential legal and internal regulatory violations in the operations of any of its departments, as well as an internal Audit Office that directly reports to the president the results of routine internal audits, including those conducted at Epson subsidiaries. The Audit Office evaluates the effectiveness of the governance process and requests improvements where needed.

Epson's System of Corporate Governance



Policy on maintaining control over financial and business decisions

At its April 2008 meeting, Epson's Board of Directors approved a basic policy concerning ownership over Epson's financial and business decisions. The following June, our shareholders approved a resolution designed to prevent large-scale acquisitions of Epson shares, thus defending the company against potential takeover attempts.

We believe that free market transactions should determine who becomes a shareholder. Therefore, any decision to accept or reject proposals from parties wishing to purchase enough shares to gain control over decisions on Epson's financial and business policies should ultimately be left to the Company's shareholders.

To retain and increase corporate value and to promote the common interests of shareholders, we think it is imperative for executives and employees to work together to create value, to uphold the Epson tradition of creativity and challenge, and to gain and maintain the trust of our customers. Large-scale acquisitions of shares do not always enhance corporate value, nor do they always serve the common interests of shareholders. In Epson's view, it would be improper for a party to acquire enough shares to gain control over Epson's financial and business decisions. By putting in place necessary and suitable countermeasures against any such large-scale share acquisition, Epson can retain its corporate value and, in turn, protect the common interests of its shareholders.

Internal audits and whistleblower system

The Audit Office at Epson's headquarters serves an internal checking function, with audit teams responsible for assessing operating risks, including IT system risk, at consolidated Epson Group companies and business units around the globe. The audit teams examine and assess risk management, control and compliance systems, and management methods, and they instruct audited business units to implement improvements where needed. They conduct follow-up audits to monitor progress and to confirm that improvements have been implemented. Audit results are reported to the president and Trust-based Management Council, as well as at Corporate Management Meetings.

The Audit Office is also in charge of a compliance hotline that callers can use to report concerns and possible compliance problems. We are taking advantage of the Epson Group's corporate culture, which encourages free and open discussion, to deploy programs designed to lead to the early identification, prevention and solution of compliance problems.

Business continuity planning and risk management

One of the critical missions of management is to manage risks that could impair business and to create a system for responding to crises. We have built a Group-wide risk management system that reflects the changes in our business structure and environment. This system is designed to prevent crises and to minimize damage should one materialize. Epson has also developed a Business Continuity Plan that will enable it to stay in business if disaster strikes.

Epson executives identify risks in the areas they supervise, assess potential impacts, specify important risks, and implement appropriate controls.

J-SOX compliance

The Japan Financial Instruments and Exchange (J-SOX) Act comes into effect starting from fiscal 2008. We at Epson launched a company-wide project in 2006 to design and enhance internal controls so that our management takes a leading role in efforts to ensure the reliability of financial reporting.

Epson's long-standing commitment to CSR is reflected in its efforts to comply with applicable laws and regulations and to maintain the trust of the community. Our compliance with J-SOX goes beyond the scope of legal compliance to include the development of an infrastructure to reduce risks and strengthen the business platform. We are working not only to increase the reliability of financial reporting but also to establish systems and a tone in our organization that protects our valuable employees against the possibility of becoming involved in fraud.

■ Compliance policy on J-SOX

Basic Policy

Position J-SOX activities as a part of our infrastructure-building activities to strengthen the business platform and build a system that complies with the legal requirements.

Objectives

1. Enhance the reliability of financial reporting
2. Establish more secure business operations through a system of risk assessments and internal checks
3. Develop a system to provide assurance on confirmation documents signed by the company president
4. Establish systems and a tone in the organization that protect employees from becoming involved in fraud

Financial reporting at Epson will be subject to J-SOX requirements starting from fiscal 2008. To meet this deadline, we improved the internal control systems at most of our eligible business units in Japan and overseas and clarified them in documented form by the first half of fiscal 2007. In addition, we had auditors perform preliminary audits in the second half of the year to further enhance our J-SOX compliance in preparation for 2008.

Information security

Epson's information security and personal information protection programs define a set of rules to protect information from internal and external threats and vulnerabilities so that we can ensure the security and appropriate use of all information, including that collected from others.

Information security governance

Epson established a Basic Information Security Policy in April 2007 to define its basic stance and relevant provisions on information security governance. Based on this policy, we appointed a chief information security officer (CISO) and created a promotion system and a mid-term plan in an effort to establish information security governance at Epson by 2009. In 2007, the first year of our information security governance efforts, we established promotion systems at 15 of our main business sites in Japan as part of a management system to support governance. Group training sessions were held for 30 promotion managers, 556 managers and supervisors, and 24 secretaries, while nearly 6,500 general employees participated in an online training course. The IT department held a web programming course for 230 employees and server administrator training for 308 employees to enhance technological control measures.

During Information Security Enhancement Month in July, we published a special feature in the company newsletter with sections explaining information security, a message from the CISO, and examples from power users. In addition, awareness-raising messages were displayed on every PC after boot-up, and training guidelines (including a self-check) were distributed to employees.

On April 1, 2008, Epson established a Group Basic Information Security Regulation and a Group Information Security Management Regulation to expand these programs globally.

In addition, our ISMS (information security management system)-certified data centers and Business Products Operations Division are continuing to operate under the requirements of the ISO/IEC27001 international standard for information security.

As part of our project to improve the level of physical security, directors, employees, and contractors at all Epson business sites were issued ID badges with embedded IC chips to enhance personnel identification and access controls.

Personal information protection

Epson holds personal information protection training for all directors and employees and has in-house specialists conduct regular audits of the six departments that handle highly confidential personal information. We also conducted on-site inspections of six contractors that handle hiring and health information, in accordance with updated guidelines from the regulatory agency.

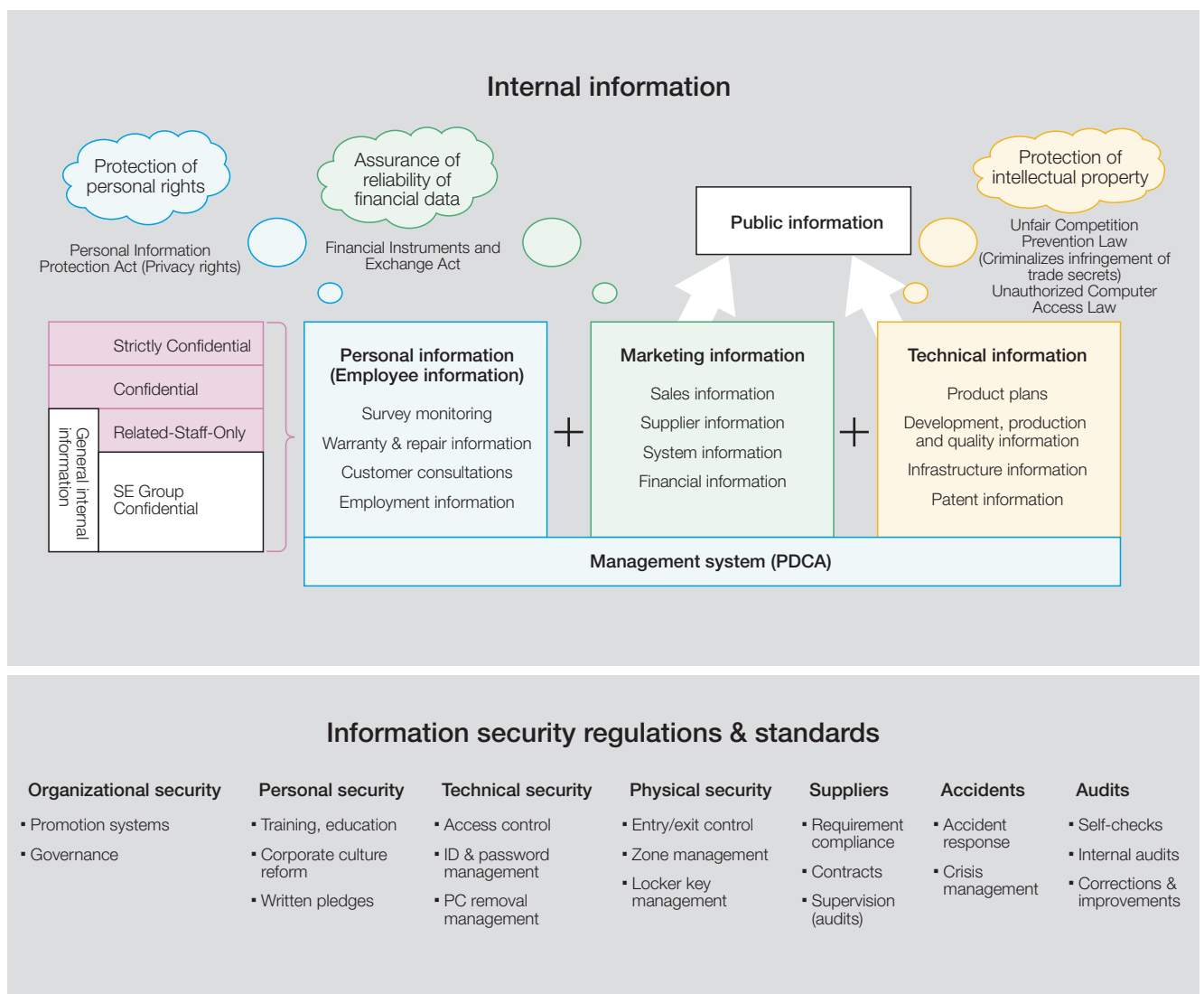
The Epson Sales Japan Group renewed its PrivacyMark certification and continues to handle customer information with the utmost care.

Report on personal information leak

Customer information was stolen from the Web site of a partner company of our Taiwanese affiliate using an SQL injection.* The information was then used in a bank transfer scam. The affected customers were compensated and steps were taken to prevent any further damage. We are continuing our cooperation with the authorities investigating the case.

We take this kind of incident very seriously and are strengthening our anti-hacking measures to prevent similar incidents in the future.

Information security scope and compliance



CSR Initiatives

“Principles of Corporate Behavior” — Key Initiatives and Results

Epson has an obligation to ensure that its businesses are conducted with integrity and that its practices are consistent with its trust-based management philosophy.

We maintain a code of conduct called Principles of Corporate Behavior that sets clear expectations for responsible, ethical conduct. Principles of Corporate Behavior describes nine basic principles that must be followed to maintain the trust of all stakeholders (including our customers, shareholders, investors, local communities, business partners, NGOs, NPOs, and employees).

Ultimately, the goal of our business activities is to develop stakeholder trust. To help fulfill this goal, we report our key initiatives, both plans and actual performance, in each of the nine areas covered by Principles of Corporate Behavior.

Epson received a Bronze Class rating for sustainability excellence from SAM, the internationally renowned investment group for sustainability investments. The citation was announced at the World Economic Forum Annual Meeting 2008.



Nine Principles of Corporate Behavior	FY2007 Key Actions
Acting ethically, building trust We will abide by the law and conduct all our business with high ethical standards.	Deploy proactive business management Rebuild a system for appropriately allocating management resources J-SOX compliance trial
Protecting people, assets and information We will maintain systems to provide the security of people and all corporate assets, and will be prudent in handling information.	Strengthen and effectively implement security <ul style="list-style-type: none"> • Strengthen information security • Roll out physical security systems across the Group
Generating value for our customers We will keep the customer in mind at all times and 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 will devote ourselves to creating products and services that please our customers and earn their trust.	Boost our creative powers and realign the company to sustain the creation of real customer value Rebuild total QECD to meet customer quality requirements Expand and enhance the creation of eco products
Creating a safe, healthy and fair workplace We will respect fundamental human rights and facilitate a fair, safe, healthy and pleasant work environment.	Ensure safety and health via the New Epson Safety Program (NESP) Encourage a healthy life-work balance <ul style="list-style-type: none"> • Track hours spent at work (Japan) • Maintain a workplace that embraces diversity • Implement corrective actions for issues identified at oversea manufacturing affiliates
Fostering diverse values and teamwork We will draw strength from out diversity, creating a positive synergy between the individual and the company.	Maximize personal and organizational vitality via hiring and placement Heighten management competence for middle managers to foster personnel on the job Provide systems and opportunities for employees to continue developing their knowledge and skills
Co-creating with our business partners We will expect our business partners to live up to the same ethical standards we observe and aim to work together to our mutual benefit while respecting applicable laws and our mutually independent business strategies and stances.	Evaluate the CSR programs of all suppliers on the basis of our procurement guidelines Study revisions to the guidelines
Initiating honest dialogue with our stakeholders We will maintain open lines of communication with our stakeholders, thoughtfully considering their views and suggestions.	Engage in effective communications Promote stakeholder dialogue Enhance communication with shareholders, employees, customers, communities and other stakeholders
Prospering with the community We will actively contribute to the communities in which we operate, as well as the international community, facilitating mutually beneficial relationships.	Further enhance youth education programs Roll out volunteer programs that involve employees
Preserving the natural environment We will integrate environmental considerations into our corporate activities and actively strive to meet high conservation standards in fulfilling our responsibilities as a good corporate citizen.	Carry out our Action 2010 General Environmental Policy <ul style="list-style-type: none"> • Reduce greenhouse gas emissions • Help build a recycling-oriented society • Reduce and tightly manage environmentally hazardous substances • Promote educational and philanthropic programs

Participation in the UN Global Compact

As a participant in the United Nations Global Compact since July 2004, Epson supports the U.N.'s 10 universal principles on human rights, labor, the environment and anti-corruption.

In July 2007, Epson became a signatory and supporter of "Caring for Climate: The Business Leadership Platform," a statement prepared by three parties of the Global Compact, together with the WBCSD and UNEP.



 Epson & UN Global Compact
<http://www.epson.co.jp/e/community/sr/>

Inclusion in socially responsible investment (SRI) indices

Epson responds in good faith to SRI surveys from research agencies as part of our stakeholder disclosures.

In FY2007 Epson was selected for inclusion in the SRI indices shown below.



FTSE4Good

FTSE4Good Global Index:
(United Kingdom, May 2007)



ETHIBEL

Ethibel Sustainability Index:
(Belgium, June 2007)



モーニングスター社会的責任投資株価指数
Morningstar Socially Responsible Investment Index

Morningstar Socially Responsible Investment Index (Japan, Sept. 2007)

FY2007 Performance	FY2008 Key Action Themes
<p>Realigned the product and business portfolios in the electronic devices business Completed preparations for J-SOX complianceP27 Maintained, strengthened and increased the efficiency of our company-wide auditing function.....P26 Deployed our internal compliance activitiesP26, 38, 64</p>	<p>Develop businesses in segments that allow us to leverage our core technologies Drive further realignment and changes in the product and business portfolios of the electronic devices business Implement and engrain Group regulations across our affiliates and subsidiaries Continue to maintain, strengthen and increase the efficiency of the corporate auditing function Consolidate import/export operations</p>
<p>Updated and enacted information security regulations and standardsP27 Installed a new ID card access control system at Epson sites in JapanP28</p>	<p>Raise consciousness regarding the control and management of confidential information Provide information security training Install new ID card access control system in subsidiaries in Japan</p>
<p>Established a product safety action plan and basic policy (Japan)</p>	<p>Promote improvements in line with the product safety action plan Ingrain and strengthen the use of universal design principles</p>
<p>Enhanced workplace safety and health by continuous NESP activitiesP61 Planned and introduced measures to prevent excessive overtime workP58 Enriched our mental health and wellness programsP62 Enacted fairness guidelines for onsite contractors in JapanP58 Overseas manufacturing affiliates conducted self-checksP58</p>	<p>Review & revise the NESP activity evaluation system Review and readjust work loads for individual jobs Deploy labor health and safety programs worldwide Implement continuous improvements based on the results of self-checks conducted at our sales affiliates in Asia</p>
<p>Conducted a company-wide employee motivation surveyP57,58 Completed inquiry into a model for developing professional skillsP57</p>	<p>Expand the employee motivation survey Foster a climate conducive to developing business professional skills</p>
<p>Updated our procurement guidelinesP63 Established a Supplier Code of ConductP63 Classified suppliers per business contract riskP64</p>	<p>Conduct global procurement in line with the guidelines Provide training and certification for CSR procurement auditors</p>
<p>Held dialogues with consumer/environmental NGOs and community representativesP10,18 Displayed products and gave presentations at general shareholders meetings in response to shareholder wishesP69 Enhanced and expanded communication via our websitesP70</p>	<p>Widen and deepen dialogue programs worldwide Maintain ongoing dialogues with consumer/environmental NGOs, community representatives and other stakeholders Incorporate shareholders' opinions in planning general shareholders meetings</p>
<p>Promoted voluntary programs with an Epson flavorP16,65-68 Enhanced education programs for young peopleP16,65-68</p>	<p>Maintain volunteer corporate citizenship programs at all our global sites Carry out employee-driven corporate citizenship programs</p>
<p>Developed "Environmental Vision 2050"P17-22 Carried out our Action 2010 General Environmental PolicyP55,56</p>	<p>Ingrain "Environmental Vision 2050" Carry out our Action 2010 General Environmental Policy</p> <ul style="list-style-type: none"> • Reduce greenhouse gas emissions • Help build a recycling-oriented society • Reduce and tightly manage environmentally hazardous substances • Promote educational and philanthropic programs

 UN Global Compact
<http://www.unglobalcompact.org/>

Customer Quality

Epson incorporates customer feedback into all its business processes, striving to produce the type of quality that customers truly desire and that wins trust and loyalty

Basic Quality Policy

Rising to the challenge of delivering the perfect quality customers expect

Customer quality requirements are forever changing, growing in both scope and diversity. We believe that all our employees must approach their jobs from the customer's perspective, incorporating the customer feedback into their daily work routines. This, we believe, will allow us to quickly detect market changes and unerringly respond to the needs of society. During fiscal 2006, we created the "Quality Value Chain," a framework that we use to reflect customer feedback in all our business processes—from

Quality Philosophy

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 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.

* We practice *sangen shugi*, a philosophy that emphasizes the importance of going to the actual site of a problem, observing firsthand the actual situation, and making decisions based on the facts.

* We practice "wow CS," which focuses not only on basic product performance but on adding value that delights and impresses customers beyond their expectations.

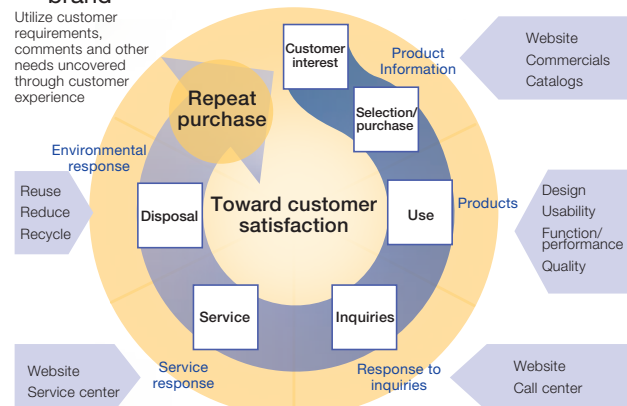


product design to development to customer support. As we continue along the path of improvement, we look for new ways to interact directly with our customers, using this framework as a foundation for our quality improvement activities.

In addition to these new activities, we repeatedly refer back to our quality philosophy to ask ourselves how we can truly achieve customer satisfaction, whether we are offering the customer security, happiness and inspiration, and whether our policies consistently embody a priority on quality. As part of our annual "CS Activity Month" in November, we conduct a quality review at every plant, after which we hold a cross-organization "Round Table Discussion for CS Quality" for all plants and business sites to summarize the findings based on the review checklists. We cover this round table in our company newsletter to create a sense of joint ownership among all employees, as well as to share issues uncovered across the organization. These issues are reviewed as part of the round table the following year.

An example of an activity that goes one step further is the "Perfect Market Quality" program conceived and implemented by the Sakata Plant (Yamagata Prefecture). The

The quality value chain leading to Epson as a trusted brand



underlying goal of this initiative is to deliver the perfect quality (zero defects) that customers expect. We believe this to be a revolutionary initiative in our industry, where the accepted convention is that every device will contain at least some foreign particles or manufacturing variances. We plan to use the Sakata Plant as a model case in rolling out “Perfect Market Quality” across the entire company during fiscal 2008.

Product Safety Initiatives **Greater CS through continued safety testing and research**

We are constantly working to improve product safety, because we believe that customer satisfaction starts with security and safety. During fiscal 2005, we built a product evaluation facility at the Hirooka Office to reproduce and investigate the cause of incidents reported by customers. Practical operations began during fiscal 2006. In addition to helping eliminate recurrences and preventing accidents in the first place, this facility is being used to develop technology in the field of product safety, leading to the creation of even safer consumer products.

To further enhance measures against chemical substances that may be released from our products, we introduced a dedicated analysis system during fiscal 2005 to allow us to measure volatile organic compounds, including those compounds thought to contribute to “sick house” syndrome. We have codified our own high-level standards in this area and continue to find ways to provide products that ensure customer security and safety.



X-Ray CT analysis

Global Quality Improvement Activities **Strict, unified global standards for customer security, safety and satisfaction**

Epson has established group-wide regulations governing quality assurance and product safety management to help ensure that we implement identical quality controls across the Epson Group and that we offer the same quality to customers in every country and region around the world. In the areas of product safety and environmental compliance, we have established the Epson Quality Standard (EQS). This unified Epson Group standard specifies independent controls that meet or exceed legal and regulatory requirements in each country.

We are also actively engaged in human resource development overseas. In the past, Epson dispatched trainers from Japan to overseas locations to conduct quality control training. Today, we have fostered expert trainers in local affiliates, with some overseas sites taking the initiative to conduct their own training.

“E-KAIZEN” activities at Epson focus on engraining a habit of improving day-to-day work. Every year, we publish case studies from around the world, issue awards, and hold study groups. These types of conventional, straightforward activities have been recognized in Japan and abroad for their effectiveness.



An E-KAIZEN presentation

“Important Notices” issued during Fiscal 2007

- It was discovered that using the EPSON Multi Media Viewer ELPDC02 documentation camera with the fluorescent lamp incorrectly installed can lead to smoke or fire from the unit. In April 2008, an incident of fire from a product manufactured by the supplier was reported. Customers are asked to have their products inspected and serviced.
- The company determined that certain units of Epson MAXART PX-6200S/PX-7500S/PX-9500S color ink jet printers were susceptible to leaks originating from the maintenance tank under certain usage and usage environments. Customers are asked to have their products inspected and serviced.

Epson regrets the inconvenience caused by the incidents noted above. We ask for your cooperation in replacing or servicing your products, should they be affected by these announcements.

Service and Support

Epson focuses significant resources on services and support that inspire customer confidence and trust



Services to Maximize Customer Satisfaction Service and support: another key facet of Epson quality

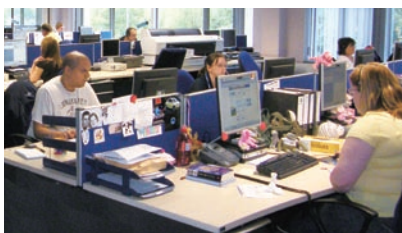
Customers need to know that we are there for them. That's why Epson considers after-sales service and support to be as vital an element of quality as the function and performance of our products themselves. We are constantly looking for ways to instill quality consciousness in our employees, urging them to think and act from the perspective of the customer. This goes for personnel engaged in product planning and sales, as well as for our people in services and support, human resources, accounting and other departments.

Offering responsive, accurate assistance

Epson has established call centers in tandem with sales companies around the world to allow us to respond to our customers quickly with accurate information.

By consolidating call centers in each region for our operations in America, Europe and Japan, we have been able to centralize training and disseminate information more efficiently, improving and standardizing our response to customers.

We analyze call traffic and staff our call centers accordingly, to keep them running at peak efficiency and to eliminate customer dissatisfaction caused by long delays.



A customer support department call center in Europe

Improving service and support

We have established official guidelines for producing product manuals, the purpose of which is to ensure easily understood, straightforward language in the instruction manuals delivered to our customers in our product packaging. As the Internet has become a familiar part of our customers' lives, we have updated and upgraded our online offerings, making driver software and operating manuals available for customers to quickly answer their product questions or issues at any time.

Every service and support department around the world pursues its own service improvement efforts. We present annual service awards through an internal recognition program, seeking out superior service initiatives and deploying these initiatives throughout the entire company.

Instilling awareness of customer satisfaction in our employees

We use our corporate group intranet to share information throughout our entire organization to ensure that customer feedback is incorporated into future products and services in a timely manner. Rather than simply leaving each individual department to deal with customer feedback, we conscientiously publicize important cases company-wide, and then issue questionnaires to our employees. We publish the results of the questionnaires, calling once again for employee opinions. This activity chain of seeking employee opinions in other departments and focusing company-wide on customer satisfaction provides a good opportunity for each individual employee to think about the true meaning of customer satisfaction at Epson, and helps us communicate the value of customer feedback.

In recognition of the importance of customer communication, we will be redesigning our website, incorporating the opinions of outside parties. More specifics will be forthcoming.

Helping customers print documents and images at home

Having analyzed the number of calls coming into our information centers and the average time it takes to resolve each call, we determined that the bulk of incoming calls are from elderly product users not familiar with information technology products. We also concluded that the best way to teach the convenient features of our products to our customers is to show them on their own equipment, in their own environment. Accordingly, Epson Sales Japan Corp. (Tokyo) launched the Home Printing Helper Service in November 2006. This fee-based service is designed to help customers successfully print documents and images in their own homes. Mobile staff are dispatched directly to customer homes for those customers who need help with printer or wireless LAN installation/configuration, or customers who wish to learn how to use features, such as features for printer operation or for printing without using a computer.

Within the Home Printing Helper Service we offer a printing assistance service for individuals experience printing issues, and a home lesson service for individuals wanting to learn more about effectively operating their printers.

During fiscal 2007, the Home Printing Helper Service responded to 32 service requests. Examples of customer feedback:

"I was finally able to print large, beautiful photographs from my printer. Wonderful!"

"I couldn't understand the technical terms used over the telephone, so having this service really helped me."



Home Printing Helper Service website

Initiative to improve customer satisfaction in India

During fiscal 2003, Epson India Private Ltd. began a bold series of activities to dramatically increase the level of customer service in that country.

Epson India adopted the CSI (customer satisfaction index) from an external research organization as a yardstick by which to measure progress. Major customer service initiatives included (1) building an efficient service network for the vast Indian market, and (2) designing improved training and service levels for authorized service centers spread throughout the country.

The company instituted a mandatory Epson Certified Engineer Program, teaching not only product expertise, but also customer relations, etiquette and other "soft" skills over the course of two days. As another means of enhancing overall quality, the company routinely reviews service partners, revoking certification status for locations that fail to improve.

Epson India has reduced service time by accurately forecasting demand for replacement parts, planning optimal inventory allocation, and introducing on-site service utilizing cars equipped with all the necessary service tools and parts, such as notebook PCs and wireless Internet equipment.

As a direct result of these activities, Epson India now has 174 service centers in 135 cities in India, offers a two-year on-site guarantee for major products, and boasts an average of 1.8 days per service incident, carving out a position as the top printer company in India in terms of customer satisfaction.



Mobile on-site service car

Environmental Approach

Recognizing that global environmental conservation is an important obligation



Environmental Philosophy & Major Activities Promoting environmental programs under uniform standards and goals in every region of the world

Epson, established in the rich natural surroundings of Central Japan, has always been committed to conducting its business activities in a way that minimizes the company's environmental footprint.

This remains true today, when Epson's operations span the globe. Recognizing that our business activities impact the global environment, we carry out environmental programs under uniform standards and goals in every country and region of the world. Our basic approach to the environment is made explicit in our Environmental Philosophy and in our Environmental Action Policies ("Major Activities").

We will continue to manage our environmental performance so as to achieve our ecological and economic objectives, and to help create a sustainable society.

Environmental Philosophy

(established October 1994 & revised June 1999)

Epson 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 by the entire Seiko Epson Group in keeping with our 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 environmental information and contributing to regional and international conservation efforts
5. Continually improving the environmental management system

Action 2010 General Environmental Policy Environmental programs that bring both ecological and economic benefits for a strong company

Epson understands that programs to reduce its environmental footprint are closely tied to its cost-cutting initiatives and operational innovations. For example, when we reduce the size of a product or when we reduce the number of parts and materials used in a product, we can reduce our resource requirements while lowering our materials procurement costs. In fact, environmental programs that bring both ecological and economic benefits make Epson a stronger company.

Our Action 2010 General Environmental Policy specifically sets forth this position. This policy, taking effect in FY2006, sets out environmental targets to be met by FY2010.

Environmental & economic efficiency

Epson introduced an environmental and economic efficiency indicator in FY2006. The indicator is a value found by calculating the business value versus a given environmental impact, and the result is used for qualitative improvements in our environmental management.

$$\text{Environmental \& economic efficiency} = \frac{\text{consolidated net sales}}{\text{environmental impact (CO}_2\text{ emissions)}}$$

For global warming Epson is aiming for a 50% improvement (a factor of 1.5) in environmental and economic efficiency (as measured by environmental impacts from manufacturing plants and from transport) by the end of FY2010, using fiscal 2004 as a benchmark. In FY2007 our global warming factor was 1.1. Epson will continue to monitor and analyze these trends, and to verify the suitability of management policies from an environmental perspective.

Product Life Cycle and the Environment

Environmental consideration from cradle to grave

To bring both ecological and economic benefits, we must reduce environmental impacts in every stage across the life cycle of our products, not only in manufacturing but also in parts and materials procurement, product transport, use, collection and recycling.

Under the Action 2010 General Environmental Policy we have established three main areas to pursue our environmental actions: global warming prevention, resource recycling and conservation, and substance management.

Global warming prevention

To contribute to the prevention of global warming, Epson has established policies aimed at becoming number one in the industry in the reduction of global warming emissions. Epson's focus is not only on the energy performance of its products but also on measures to reduce emissions in manufacturing and transport.

Resource recycling and conservation

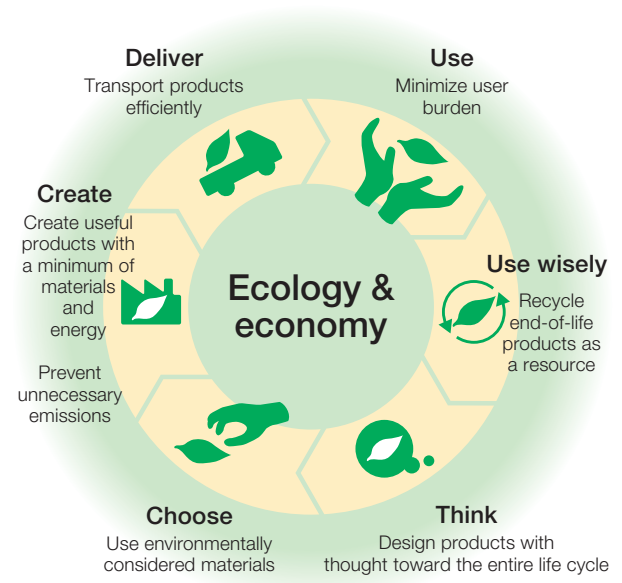
Epson is working from the product design stage to facilitate resource conservation and recycling. We are contributing to Japan's national recycling effort by improving the effectiveness with which resources are consumed and by improving processes so as to reduce industrial waste, packaging material and other emissions.

Substance management

Epson is finding ways to reduce or eliminate environmentally harmful substances in its products and ways to reduce the volume of chemicals used in manufacturing. Efforts are also being made to create operational structures and management systems capable of supporting the programs needed to achieve these measures.

We also contribute to society as a whole by actively engaging the communities in which we operate, making information available to the public, and by sharing environmental technology and expertise to non-Epson parties. We intend to continue to do our part in helping maintain and improve the environment so that we may leave it in good shape for future generations.

Product life cycle stages



Public recognition of Epson environmental initiatives

Prime Minister's Award for Distinguished Service in the Promotion of the 3Rs

In 2007 Seiko Epson was honored by the Clean Japan Center Foundation with the Prime Minister's Award for Distinguished Service in the Promotion of the 3Rs (reduce, reuse, and recycle). Epson's zero emissions initiatives, ongoing since 1997, earned high praise for taking place globally and continuously.

→ **See also** P.44/Zero emissions

A number of other activities have also won honors.

→ **See also** P.39/Two awards won for building Epson Innovation Center

→ **See also** P.43/Epson was named the "Best-of-the-Best" among the recipients of the Ozone Layer Protection & Global Warming Prevention Awards

→ **See also** P.44/Epson Group employees and a business site received energy management awards

→ **See also** P.46/Epson Imaging Devices Corporation awarded the PRTR Grand Prix 2007 Award for Excellence

→ **See also** P.52/Epson Korea Co., Ltd. received two energy conservation awards

Environmental Management

Eco-considerate management is at the heart of our business activities



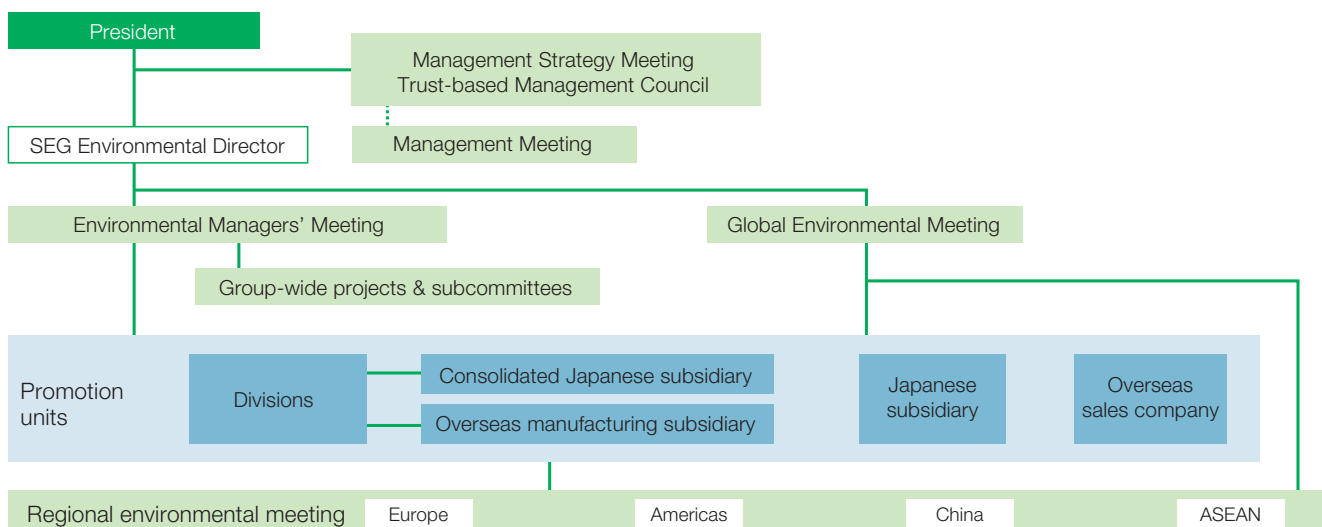
Environmental Management System ISO 14001 for continuous, systematic improvement

Environmental programs occupy an important place in Epson's management strategy, and that is why we establish a medium-term (3-year) and yearly General Environmental Policy. In line with the General Environmental Policy, business units (our operations divisions, head offices, and affiliated companies) develop and act on their own environmental plans. Progress versus the plan is assessed once or twice a year, and corrections are made where needed.

Our environmental management system is designed and operates on the framework provided by the ISO 14001 international standard, enabling continuous improvement through the PDCA cycle (Plan → Do → Check → Act). All major Epson manufacturing, sales and service sites in Japan and abroad have earned ISO 14001 certification.

Our organization for pursuing environmental initiatives is illustrated below.

Promotion system for environmental activities at Epson



Environmental Education

Being mindful of the environment on the job

We want our employees to remain mindful of the environment while on the job. We feel it is important for them to consider how their conduct, both at work and at home, affects the environment, and we want to empower them to contribute to environmental solutions. Toward that end, Epson provides environmental education and promotes correct understanding and eco-friendly practices.

Education takes place on three levels: rank-specific training that is mandatory for all employees, profession-specific training, and informational activities that raise and promote awareness using our intranet and internal company newsletter.

Environmental education provided in FY2007

ISO 14001 environmental auditor training:
203 persons trained (cumulative: 2,087)

e-learning

e-Basic Environmental Training ("Co-existing with Nature"): 1,483 persons trained

e-Basic Environmental Training (FY2007 version):
19,761 persons trained

e-Global Environment Technology (environmental regulations): 1,560 persons trained

Environmental Awareness Month and Energy Conservation Month

June of each year is designated Environmental Awareness Month at Epson. A variety of events take place to raise employee awareness and promote environmental action. For FY2007 we adopted the theme "Changing our Lifestyles at Home: Stopping Global Warming," featuring Group-wide initiatives and independent activities at each site. February, when demand for home heating is high, is set aside as Energy Conservation Month.

Epson will continue to sponsor events that encourage employees to take certain ecological actions, starting with what is close at hand and easy to do.



Factory facility tours

Environmental Accounting

Learning, evaluating and reporting environmental preservation costs and effects

Epson's environmental accounting statements promote environmental management by quantifying and evaluating environmental costs and effects and reporting them in categories corresponding to the General Environmental Policy. The scope of accounting covers Seiko Epson Corporation and 37 affiliates (18 companies in Japan and 19 overseas).

*Affiliates that collect environmental accounting data, that are ISO 14001 certified, and that are more than 50% owned by Seiko Epson Corporation are included in the scope of accounting. For overseas non-manufacturing affiliates, only the three regional headquarters are included.

*Because of changes in accounting definitions since FY2006, FY2007 results show different numbers for the environmental preservation cost and effect totals for the years FY2005 and earlier.

FY2007 accounting results

Environmental preservation investments totaled ¥600 million, of which 86% went towards creating and providing earth-friendly products and preventing global warming. Investment associated with global warming prevention made up a large portion of our environmental preservation investment budget because of the heavy emphasis on energy savings when installing or replacing basic facilities at factories.

Environmental preservation expenses totaled approximately ¥12.7 billion, 74% of which went to R&D to advance environmental preservation. Ninety-three percent of the environment-related R&D stemmed from eco-product development, reflecting our stress on creating greener products. The economic effects associated with energy conservation, reduced use of environmentally harmful chemical substances, water recycling, environmental education and so on are measured. These effects have been valued at ¥2.3 billion.

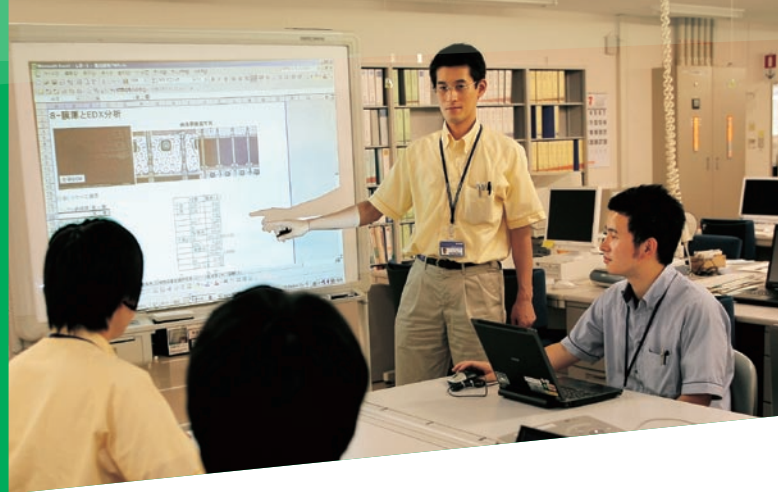
Environmental accounting statement

(¥100 million)

	FY2007
Environmental preservation investments	6.4
Environmental preservation costs	127.4
Economic effects	23.0

Development and Design Engineering

Engineering eco-designs from a total life cycle perspective



Basic Product Development Policies

Incorporating eco-product elements at the planning and design stages

A product's environmental impacts across its life cycle are largely determined at the planning and design-engineering stages. Epson seeks to reduce these impacts with product designs that save energy, eliminate harmful substances, and conserve resources.

Basic Policy	Actions
Energy-saving design	The power consumed during use accounts for a large portion of a product's total environmental impact across its life cycle. With this in mind, we set energy-saving performance goals for each product and work to ensure steady progress.
Resource saving	We set goals for recyclable rates (the ratio of total product weight calculated as recyclable based on a product's design drawings). We also consider ways to reduce the cost of disassembly and sorting and ways to reduce impacts by making products smaller and lighter.
Elimination of harmful substances	Epson standards specify substances that are prohibited from inclusion in products and substances whose inclusion must be controlled. Information on these substances is gathered in a database to help ensure safety in all processes, from design and procurement to mass production.

Last year Epson launched Stylus C110/C120/D120 business inkjet printers that were designed in line with these policies. These super-fast inkjet printers provide laser-like speeds of up to 37 ppm (A4) for black text, yet

are 21% smaller, 7% lighter, and use 60% less energy than their predecessors, the Stylus C87+/C88+/D88+. Translated, this represents an 11% lower global warming impact across the product life cycle.

Epson also reduces its environmental footprint by offering incentives for "eco-inventions." The aim of the incentives program is to contribute to the well-being of society by becoming the industry leader in developing technology to mitigate environmental impacts. Since establishing our own criteria for eco-inventions in 1998, we have seen efforts in this area steadily accumulate.

The number of patent applications filed for eco-inventions has generally been in line with plan both last year and over the past five years.

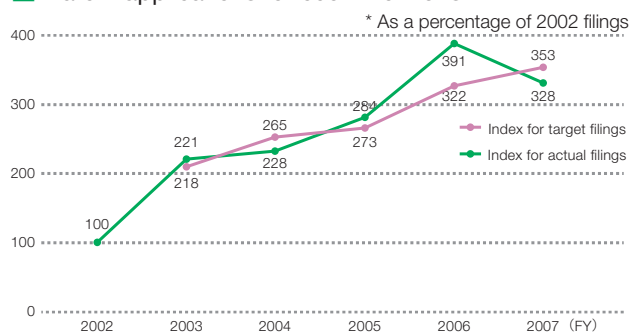


Stylus C110/C120/D120 business inkjet printer

The award-winning Epson Innovation Center

The Epson Innovation Center, located in Nagano Prefecture and serving as the company's main R&D site, walked away with the Nikkei Creative Office of the Year award at the 20th Nikkei Office Awards in 2007. This distinction was followed, in February 2008, by the Minister of Land, Infrastructure and Transportation Award, the top honor at the 2nd Sustainable Architecture Awards sponsored by the Institute for Building Environment and Energy Conservation. The design was praised for its use of renewable energy and other environmental features, as well as for the many innovative features to promote collaboration among the engineers and researchers the building houses.

Patent applications for eco-inventions



Epson Eco products
<http://www.epson.co.jp/e/community/sr/>

Compliance with Environmental Labels

Worldwide reporting of product eco performance

The International Organization for Standardization (ISO) has established three types of environmental labels (Types I, II and III) that serve to indicate a product's eco performance.

Epson is working to meet these labeling requirements worldwide.

The Epson Ecology Label program

The Epson Ecology Label, a Type II "self-declaration" label that is applicable to all Epson products, is intended to encourage continuous improvement of product environmental performance and the disclosure of product environmental information. The eco specifications of a product are published in an Epson Ecology Profile. For finished products the profile discloses the eco specifications of the product itself, as well as those of the packaging material, supplies and accessories that come with it. For our electronic devices we provide quantitative data regarding substance content. A product that exhibits particularly outstanding environmental performance versus previous products qualifies as an Epson Ecology Product, and its performance data is published.

Compliance with national eco labels

Type	Region	Eco label	Inkjet printers (incl. MFPs)	Page printers (laser & LED)	SIDM printers	POS printers	Scanners	Ink/Toner cartridges	Paper	Projectors	Large-screen LCD projection TVs	PCs (incl. monitors)	Other
Type I	Germany	Blue Angel	●	●									
	Taiwan	Green Mark	●	●	●			●		●			
	Hong Kong	Green Label	●										
	China	Energy Conservation Product Certification	●	●	●								
		Eco Label	●		●								
	South Korea	Energy Saving Mark	●	●	●		●						
		Korea Eco-Label		●				●					
	Singapore	Green Label	●	●									
	Japan	Eco Mark	●	●	●			●	●				
	Worldwide	International Energy Star Program	●	●	●		●				●	●	
Type II	Europe	IT Eco Declaration	●	●	●	●	●			●			
	Japan	PC Green Label										●	
	Worldwide	The Epson Ecology Label program	●	●	●	●	●			●			●
Type III	Japan	Eco-Leaf	●	●			●			●		●	

Type I label: Indicates that the product has met the criteria set by a certified third-party organization

Type II label: A "self-declaration" label that indicates a company volunteers environmental information about its products

Type III label: Indicates that the environmental effects of a product throughout its life cycle – from raw material procurement through manufacturing, transport, use, disposal, and recycling – are analyzed using LCA methodology and that the results of such analyses are published as quantitative data. The accuracy and reliability of the claimed data must be verified before being made public. In FY2007 Epson began publishing Type III label information primarily for business products

*3 International Energy Star Program, developed by the U.S. Environmental Protection Agency, is classified here as a Type I labeling program because information is reported based on judgment criteria established by a third-party organization.

LCA Efforts

Using LCAs to mitigate impacts

Epson has been studying life cycle assessments (LCAs) since 2000. Among our more notable initiatives in this area is the use of a life cycle inventory (LCI) in our devices businesses. We use LCIs to analyze and calculate the amount of energy consumed and the level of environmental impacts generated by a device, from the time production starts to the time it is shipped/transported. Reference values are generally used to calculate the environmental impacts of the special gases and chemicals used in device fabrication. However, reference values are not available for all these materials. For the 258 types of special materials for which reference values are unavailable, we developed our own criteria*1. In addition, we began using LCAs in LIME*2 in 2004. Using Eco-Leaf data as the basis for these evaluations, we apply LCAs in a wide range of areas, including assessments of new products versus old, assessments of carbon dioxide abatement equipment in our device businesses, and assessments of processes improved through the application of industrial inkjet systems.

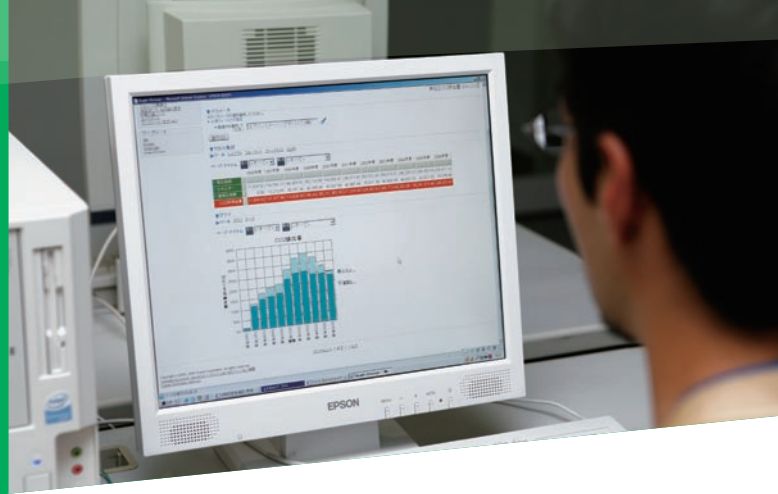
*1 Developed based on Input-Output Table (list of the Architectural Institute of Japan Sub-Committee on LCA Guideline of Buildings)

*2 LIME: Life cycle Impact assessment Method based on Endpoint modeling; a technique that enables the social costs (environmental impacts on ecosystems, etc.) of the production, sale, use and disposal of products to be assessed in monetary or other terms.

 Epson Ecology Label
<http://www.epson.co.jp/e/community/sr/>

Materials Procurement

Promoting green purchasing across the supply chain



Green Purchasing of Production Materials Working with suppliers to control product substance content

In line with our environmental action policy, we seek to create and provide products that demonstrate eco-care. So, when choosing the parts and raw materials that make up our products, we give preference to lower-impact alternatives.

We buy green production materials (including all components, raw materials, packaging materials, and OEM products used in our products) based on the same standards around the world and have maintained a worldwide green purchasing rate of 100% since the second half of fiscal 2004.

We updated the SEG Green Purchasing Standard for Production Materials to version 3.2 in April 2008 with an eye toward shoring up our product substance assurance system in particular. Specifically, we are driving our assurance system across our supply chain, from first-tier suppliers all the way back to raw materials manufacturers.

Assuring that harmful controlled substances are not included in our products requires the building and maintenance of a system that reaches beyond Epson to encompass suppliers. We ask our suppliers to provide declara-

tions stating that the materials they deliver to us do not contain banned substances, that banned materials are not used in their manufacturing processes, and that they build and maintain their own assurance systems to ensure compliance with product content restrictions.

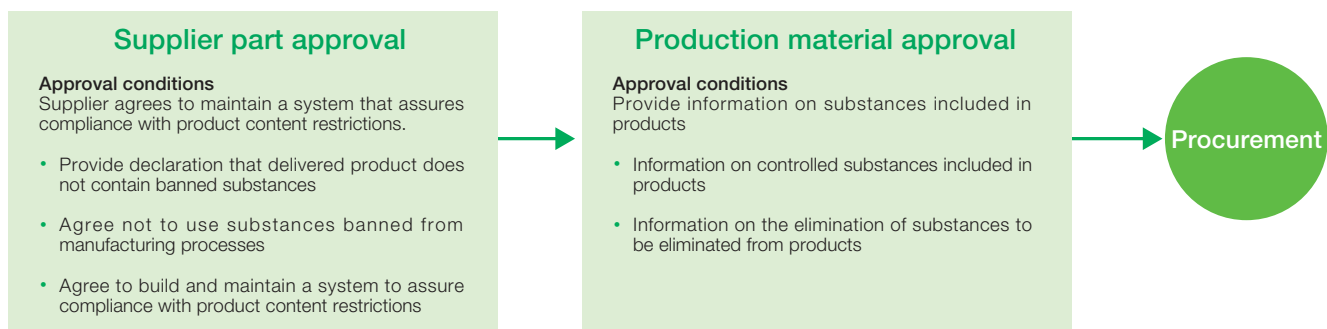
As part of our trade terms, we also require our suppliers to provide information on the substances being included in and eliminated from each type of material delivered to us. We use this process to help select suppliers who can reliably assure compliance with our product content requirements.

Preventing the commingling of harmful substances

To maintain product quality, Epson maintains a database containing chemical substance data collected from suppliers. We verify the systems in place within our own operations as well as those employed by our suppliers.

A full-time staff of about 800 verifies the systems employed by suppliers at their manufacturing sites in Japan, China and throughout the ASEAN countries. Our staff randomly samples the production materials delivered to us to ensure that materials have not been contaminated through commingling. As of April 2008, we have verified the systems of some 2,000 companies in our supplier base.

Green production material purchasing flow



Responding globally to environmentally sensitive materials

Nations and regions around the world are adopting more and progressively tougher restrictions on chemicals and substances. Epson is staying on top of the new legislative and regulatory requirements with the aim of building and shipping products to a single global standard that satisfies compliance requirements worldwide.

We have completed compliance with the European Union's RoHS Directive for our printers, scanners, projectors, digital cameras, and photo viewers.

In Japan, the J-Moss program (an industrial standard on the marking of electrical and electronic equipment that contains certain chemical substances) was amended in January 2008, and we will be providing information on product content in line with the new criteria.

REACH compliance

Epson has been complying with the requirements of REACH (the Registration, Evaluation, Authorization and Restriction of Chemicals), a European Community regulation that entered into force last year.

Under REACH, enterprises that manufacture or import more than one ton of a chemical substance per year are required to register it in a central database. For 10 or more tons a chemical safety report must be prepared. We worked with our suppliers last year to register materials used in our inks, toners and ribbons.

Reporting on articles is in the offing for 2011, requiring additional preparations. Epson Imaging Devices Corp. (Nagano, Japan) got off to an early start and has achieved nearly 100% compliance in its device operations. The company will need to continue to engage suppliers in information exchanges to stay on top of REACH requirements.

The REACH legislation is indicative of the trend toward requiring the management, tracking and control of all materials, including chemicals and other substances, throughout their life cycles. Epson recognizes this trend and is staying positioned to respond.

Building a system for disclosing and conveying information on chemicals

Through our participation in a consortium called JAMP (Japan Article Management Promotion), we have been

involved in developing and systematizing MSDSplus and Article Information Sheets (AIS). These tools are used to communicate information on substances of very high concern (SVHC) that are to be subjected to new controls under REACH. We intend to continue our involvement in developing systems that enable smooth disclosure and communication of information on chemicals and substances.

Green Office Supplies

Selecting eco-thoughtful office equipment and supplies

We limit our office equipment, stationery, and general office supplies purchases to the bare necessities. When purchasing the essentials, preference is given to goods that satisfy defined internal criteria for "green products."

In the past we reported that we maintained a 100% green purchasing rate in Japan. In January of this year, however, it was discovered that paper products we had purchased did not contain the level of recycled materials claimed.

We apologize for this error and will strive to provide scrupulously accurate information in the future.

Halting the sale of recycled paper products

In January 2008 we were notified that the claimed percentage of recycled material contained in base paper we had been purchasing from two Japanese paper companies was not accurate.

We took this matter very seriously and responded by discontinuing the sale of two of our products: business card-sized two-sided matte paper and recycled business card paper.

We apologize to customers who purchased these products. In the future we will work with our paper suppliers to ensure that the recycled paper we purchase meets our quality requirements and is accurately labeled.

Manufacturing Processes

Conserving natural resources and preventing unnecessary emissions in manufacturing



Global Warming Prevention

Reducing CO₂ and other greenhouse gases

Carbon dioxide emissions produced during the consumption of energy, most notably electrical power and fossil fuels, receive the most scrutiny as the primary cause of global warming and are thus the focus of the most intensive reduction efforts. However, there are other substances with an even higher global warming potential that should not be ignored. Perfluorocarbons (PFCs) and sulfur hexafluoride (SF₆), greenhouse gases used for cleaning and etching processes in semiconductor and liquid crystal display manufacturing, are two such substances.

Our initiatives in this area therefore revolve around (1) reducing CO₂ emissions by conserving energy; and (2) reducing global emissions of greenhouse gases other than CO₂.

To cut our CO₂ emissions, for example, we are improving monitoring and controls, increasing the energy efficiency of our plant facilities and production equipment, innovating our production processes, and introducing new energy sources.

As for emissions of greenhouse gases other than CO₂, we are taking a two-pronged approach. On the one hand, we break down the molecules before releasing these gases. On the other, we simply find ways to use them in smaller amounts.

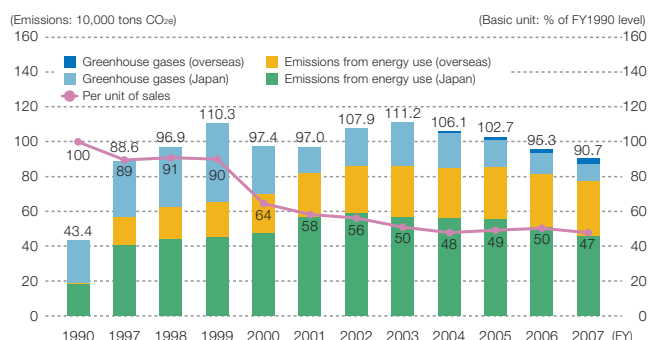
Mid-term reduction goals

Epson vowed in fiscal 2006 to cut its global consolidated greenhouse gas emissions by 50% in 2010 compared to the FY1990 level, calculated on the basis of emissions per unit of price-adjusted sales. In fiscal 2007 we began looking at long-term reductions of greenhouse gases as we formulated an environmental vision out to 2050.

In fiscal 2007 we met our goals of reducing our global consolidated CO₂ emissions by 53% and our domestic Japanese emissions by 45% compared to FY1990, on an actual per unit of sales basis. During the four years from fiscal 2003 we reduced total global emissions by more than 200,000 tons.

▶Reference: P17-P22 (special feature)

Greenhouse gas emissions



* FY1990 greenhouse gas emissions from sources other than energy use are calculated using the corresponding emissions in FY1995.

* Emissions of greenhouse gases other than CO₂ are calculated using the conversion coefficient published by the Intergovernmental Panel on Climate Change (IPCC) in 2001.

Ozone layer protection program

In 1988 Epson became one of the first companies to publicly declare a commitment to eliminating ozone-depleting CFCs. Less than four years later, in 1992, the company accomplished its CFC-free mission.

In September 2007 Epson was named the “Best-of-the Best” among Ozone Layer Protection & Global Warming Prevention Award recipients of the past decade in recognition of the company’s years of sustained activity to help contain global warming. Using this award as an incentive, we will forge ahead in our businesses while remaining mindful of the need to balance economic activity with environmental protection.

Energy Conservation

Saving energy through actions large and small

Epson is carrying out upwards of 1,000 separate actions to reduce CO₂ emissions. Conducted at all Epson sites, these actions range from simple measures, such as turning off unneeded lights, to complex actions, such as complete overhauls of production equipment.

Last year we re-examined the use of cleanrooms at one of our manufacturing plants in China. Seeking to reduce the amount of energy needed to maintain the cleanrooms, we took stock of all the operations being conducted in a cleanroom environment. We then selected only those operations that require cleanroom conditions and transferred all the rest to an ordinary plant with far lower energy requirements. By analyzing airflows and tweaking operations to maximize efficiency, this manufacturing plant succeeded in maintaining the required cleanroom class for the only work that needed it, molded parts ejection. These actions enabled us to slash the plant's annual CO₂ emissions by 300 tons, or 88.8%. The number of years needed to earn a return on investment: 0.85.



Local clean zone in Chinese plant

Zero Emissions

Recycling wastes and reducing resource inputs

Epson instituted a "zero emissions" program to promote the effective use of resources, reduce waste levels, and help extend the lives of final disposal sites.

Our zero emissions program is carried out on two defined activity levels. Level 1, which targets improvements at the emission stage, is defined as the 100% recycling of all waste material (excluding personal wastes) generated

from business activities. By the end of FY2003, all Epson sites and companies in Japan and all Epson manufacturing companies outside Japan had achieved Level 1. Sites that recently came under the Epson umbrella are also working to reach Level 1.

We are now shifting as a company toward actions to reach Level 2, which targets improvements in production processes. In Level 2, the aim is to reduce resource inputs by keeping an eye out for opportunities to reuse a factory's waste on-site as an ingredient in the manufacturing process.

Energy management awards

In March 2008, employees of Seiko Epson, Epson Imaging Devices, and Epson Facilities Engineering received energy management awards from the Energy Conservation Center of Japan on behalf of their companies.

Recipients

Excellent Energy Conservation Manager Award: 12
Excellent Energy Conservation Engineer Award: 2
Excellent Energy Conservation Technician Award: 3
Award for Successful Energy Conservation Practices in Factory & Building: Epson Sakata Plant

Initiatives at the Sakata Plant

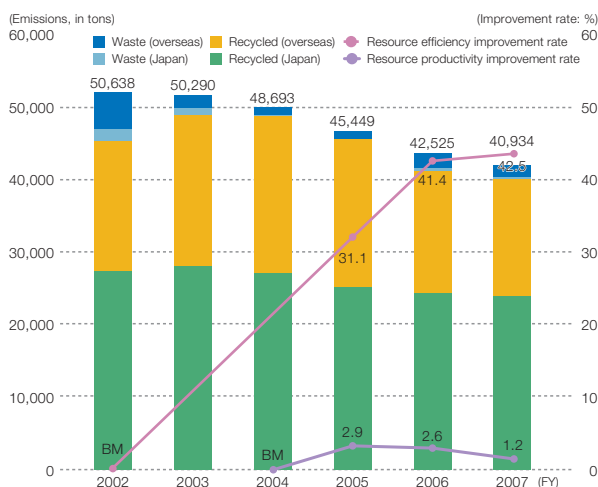
Our Sakata Plant received the ECCJ's Chairman Prize under the Successful Energy Conservation Practices in Factory & Building category. The plant was recognized for the Sakata Energy Conservation Project, a joint effort between the fabrication facility's production and facilities staffs to delve deeper into production processes and conditions so as to identify opportunities for equipment setting changes. The project team turned its lens on exhaust equipment (scrubbers), liquid cooling pumps and deionized water systems, changes to which have traditionally been difficult due to the magnitude of their effects on production. In connection with the liquid cooling equipment, the project team even took on the challenge of optimizing dry pumps. Their efforts have paid big dividends, in the form of a 1,271-ton decrease in annual CO₂ emissions.

In fiscal 2007 eight sites (five in Japan and three overseas), including all new applicable additions to the Group, achieved Level 1. Level 2 was achieved at four sites (two each in Japan and overseas). The Level 2 activities led to a 19.2% decrease versus FY2002 in the amount of waste emissions in FY2007.

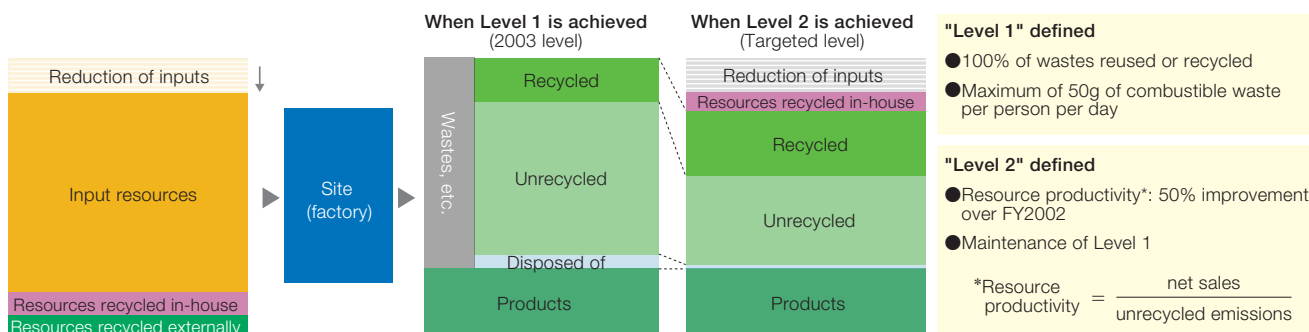


Containers for sorting waste at an Epson factory in China

Waste emissions trend



Zero Emissions Level 2 activities at Epson



Chemical Substance Management

Employing centralized data management to reduce global chemical use

Epson recognizes that all chemical substances involve at least some risk. Accordingly, we categorize them as "use prohibited," "reduce use and emissions," and "change to safer substances."

In 2003, we enacted a regulation that stipulates the proper control of chemical substances. Two years later, in 2005, we built and introduced a data management system called "E-Chem" that allows the centralized management of information on chemicals used at Epson sites around the world.

We continue to work aggressively to reduce emissions of chemical substances. In addition to programs designed to track, control and reduce chemicals subject to PRTR (Pollutant Release and Transfer Register) control, we have moved to reduce emissions of volatile organic compounds (VOCs). We also promote a variety of measures to reduce environmental emissions by identifying and adopting greener alternatives to certain chemicals, minimizing amounts used, and introducing combustion abatement systems.

Starting in 2007, all Epson business units began programs to manage, track, and reduce their own chemical emissions. We use 2005 emissions as a benchmark. The goal of the programs is to moderate emissions around the globe even as our operations expand. In 2007 chemical use increased compared to the prior year. The increase was primarily due to increased production volume and to the addition of new overseas manufacturing sites. Despite the increase, however, emissions of both VOCs and substances subject to PRTR reporting were lower than in 2005, mainly because we were able to reduce the overall amounts used and to adopt alternatives.

Factory Environmental Risk Management

Independent initiatives to control pollution

Epson conducts independent, voluntary inspections and lectures aimed at raising the environmental awareness of employees as a means to tightly control pollution.

Ministry of Economy, Trade and Industry lecture

We invited an official of Japan's Ministry of Economy, Trade and Industry to speak at Epson during Environmental Awareness Month (in June) about the practice of environmental management and effective pollution control. The lecture, attended by some 100 Epson employees, including relevant members of the executive staff and persons engaged in pollution control within our operations in Japan, served as a good reminder of the importance of compliant operations for managing pollution control.

Environmental meeting in China

With China introducing increasingly strict environmental legislation, Epson convened an environmental meeting to bring all concerned personnel up to speed on the latest developments and actions being taken in response. Our

affiliates in China have been highly proactive, particularly in addressing water quality concerns. For example, they have been working to improve service water quality, increase the rate at which factory wastewater is recycled, and strengthen quality controls for wastewater discharged from their factories. As there is a likelihood of further environmental changes and even stricter regulations, we



Environmental meeting in China

Epson Imaging Devices recognized with PRTR award

Epson Imaging Devices Corporation ("EID") enacts its own environmental strategy, which is modeled on Epson's General Environmental Policy. EID has been very active, setting itself up to manage chemical substances, engage the local community and schools, and so on.

It also became the first company in the LCD industry to successfully eliminate the use of 2-aminoethanol, a chemical subject to PRTR reporting that EID used extensively (210 tons in 2005). By eliminating 2-aminoethanol from its operations in Japan, EID was able to dramatically reduce the total amount of its PRTR chemicals.

EID was honored at the 2007 PRTR Awards, sponsored by the Center for Environmental Information Science, for its outstanding performance in collecting and disseminating information about chemicals and risks. EID's triumph follows on the heels of last year's winner: Epson's Suwa Minami Plant.

have been sharing information about water and resources to ensure that we stay on top of the situation.

Soil and groundwater remediation

We continue to pump and treat groundwater that was contaminated by trichloroethylene due to past business activities at four sites in Japan. We are also evaluating bioremediation as a means to hasten the cleanup.

Violations, complaints, and accidents

In 2007 Epson exceeded regulatory limits for noise at the boundary of one of its facilities. We also received a complaint associated with an exhaust duct. These and several similar problems were addressed and corrected.

Exceeded regulatory limits: 2
Complaints: 2
Accidents: 1

Internal audits of pollution control management and waste management operations

In 2007 we audited 38 sites in Japan on the basis of internal pollution control management and waste management standards.

Epson audit teams assessed compliance with legal and regulatory requirements, as well as with internal standards. Although no major issues were uncovered, the teams found potential problems that require intra-organization communication or systemic adjustments, and corrective action has or is being taken.

 FY2007 PRTR data by site
<http://www.epson.co.jp/e/community/sr/>

 Groundwater trichloroethane concentration trend
<http://www.epson.co.jp/e/community/sr/>

 Trend of PRTR substance and VOC releases
<http://www.epson.co.jp/e/community/sr/>

Logistics

Innovation cuts environmental impact from product delivery



Reducing CO₂ from Transportation

Compiling data for compliance with Japan's revised energy law

Using methods recognized under the Revised Law Concerning the Rational Use of Energy, Epson has been monitoring its shipping volumes, energy usage, and CO₂ emissions while working to shrink its environmental footprint with the aim of reducing emissions by 1% versus the previous year per unit of sales.

In FY2007, CO₂ emissions from transport within Japan totaled 13,000 tons, 8.8% lower than in FY2006 per unit of sales. The challenge for FY2008 will be to also cut total CO₂ emissions from transport, including international transport, by 5% more year over year.

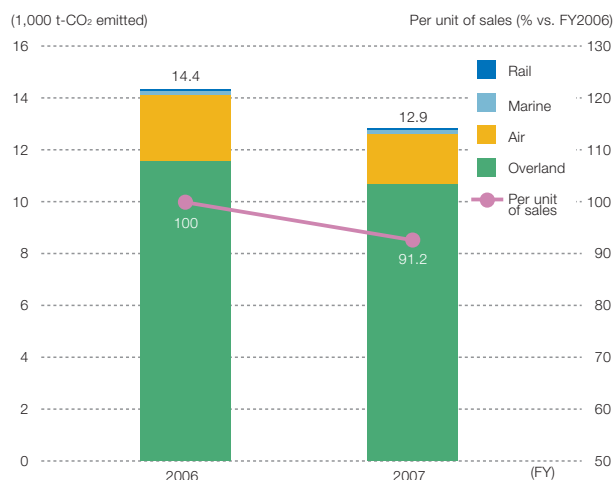
We have been gathering logistics data since FY2006. In the interest of greater efficiency, we have partially automated the process based on shipping histories and the like. We will gradually expand the scope of automated data compilation and improve data accuracy.

Initiatives overseas

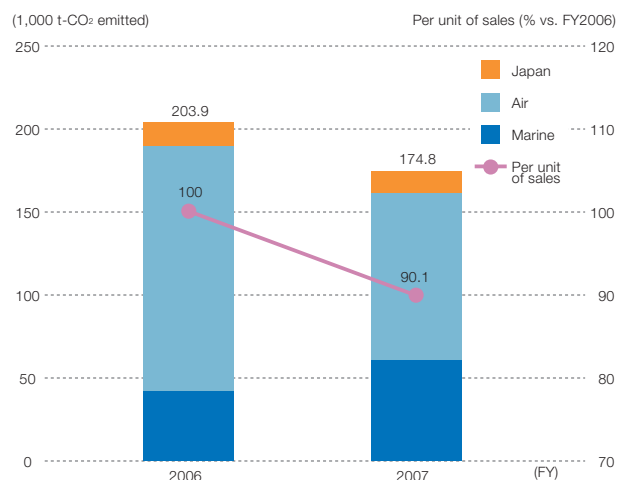
In FY2006, air transport accounted for about 70% of our total domestic and international CO₂ emissions from transport. Working with our affiliates around the world, Epson is making the modal shift from air to marine transport. Thanks to such efforts, in FY2007 we were able to reduce CO₂ emissions by about 30,000 tons compared to last year.

Epson Sales Japan Corp. (Tokyo) has designed a system that forecasts parts demand more than a year in advance. By using this system and accounting for delivery lead time, it has been able to switch from air to marine shipping for after-sale service parts from Singapore Epson Industrial Pte. Ltd. This innovation alone reduces annual emissions of CO₂ by about 3,000 tons.

CO₂ emissions from shipping in Japan



CO₂ emissions, domestic and international transport



Double-decker trucks shrink CO₂ footprint in Europe

In Europe, Epson ships 99% of its goods over land. Therefore, anything that makes truck transportation more efficient lowers our CO₂ output.

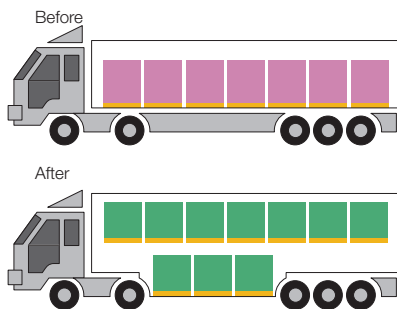
As a way to solve the CO₂ problem, Epson Europe B.V. (Netherlands) introduced double-decker trucks in Europe in place of conventional trucks.

The separate upper and lower decks of these trucks increase loading efficiency, carrying a combined 54 standard pallets of goods, compared to just 33 in a conventional truck.

Having the split deck does mean that full pallets can be no higher than 180 cm, but this has not been a hindrance, since customers were already asking that pallets be no more than 180 cm high, and some products do not allow stacking.

Thanks to the double-decker trucks, Epson has been able to shrink its fleet of trucks in Europe by 40% while carrying the same volume. This is one example of an initiative that benefits the environment while simultaneously cutting costs and enhancing customer satisfaction.

Comparison of conventional and double-decker trucks



Beds of a double-decker truck



Boosting efficiency of transportation in Japan

Our logistics company Epson Logistics (Nagano Prefecture), with the cooperation of our business partners, is cutting CO₂ emissions by adopting hybrid vehicles, using digital tachographs* and promoting "Eco-Drive," or eco-friendly driving habits.

Examples of Eco-Drive measures

- "e-Start" gentle acceleration
- Driving with minimal acceleration/deceleration
- Taking foot off the accelerator pedal early
- Eliminating engine idling
- Closely monitoring tire air pressure
- Driving with no more than the necessary cargo
- In summer, not carrying tire chains (which weigh about 100 kg)
- Only carrying as much fuel as necessary
- Avoiding illegal parking that can cause traffic jams

Initiatives such as these saved 45 tons of CO₂ emissions in FY2007.

*A digital tachograph is a recording tool that automatically stores a vehicle's operation history (speed, time, engine RPMs, number of sudden accelerations, etc.) on a memory card or other storage device.



Using a digital tachograph

Eco Products

Our products help customers reduce their environmental footprint



Mitigating Environmental Impacts During Use Environmentally advanced products yield customer satisfaction

Epson's products consume energy during use. When we design energy-saving products, our customers reap the benefits in the form of lower electric bills. At the same time, whether they realize it or not, they are lowering their contribution to global warming. Just as with quality and safety considerations, Epson understands how important it is to build products whose environmental performance the customer can feel good about.

Improving the energy conservation performance of products also enhances convenience for customers, who do not have to worry about batteries draining so quickly or about excessive heat build-up. Epson is advancing the art of product manufacturing in the belief that we have an obligation to promote environmentally advanced products and offer customers more convenience and peace of mind.

Customer Notices Helping customers understand environmental performance

Consumers have become more environmentally conscious in recent years. Energy consumption and the ease of disassembling products into recyclable components have joined basic performance and design as criteria for choosing which product to buy. To appeal to these customer needs, we use various media to provide environmental information so that consumers can appreciate Epson products' environmental performance.

Catalogs list the environmental performance of the different products and also include an environmental initiatives page for information on, for example, ink and toner cartridge collection programs.

On the Internet, a page focusing on Epson's environmental initiatives contains features on eco-friendly products. The page also discloses Epson's stance on preserving the global environment and explains the environmental labels that we place on our products.

Actively promoting EcoPoint products in Taiwan

Epson Taiwan Technology & Trading Ltd. notifies customers of its EcoPoint products, items that the company has independently designated as such because of their outstanding environmental performance.

EcoPoint products include selected inkjet printers and projectors. Whenever such products are launched, the Epson EcoPoint mark is placed on pamphlets and posters along with basic information explaining how these products are environmentally superior.



A product poster with the Epson EcoPoint mark

A common ink cartridge package box

Starting with shipments in December 2006, Epson has packed ink cartridges for large-format inkjet printers in the same type of individual package boxes throughout the world.

Cartridge package boxes previously came in many varieties according to model, color, type number and country. To give an example, Epson had 30 types of boxes for 110 ml seven-color printer cartridges (16 in Japan and 14 elsewhere).

Operations division staff and members of manufacturing and sales companies in Japan and abroad worked together to modify the package boxes. The new package is made of recycled brown corrugated Kraft paper. User instructions are printed in monochrome in seven languages. A separately attached label provides information unique to the product, such as the color.

The updated specifications reduce consumption of virgin pulp for package boxes, while monochrome printing reduces ink consumption and block copy to reduce the environmental burden.

In recognition of these efforts, Epson won the Electric/Equipment Packaging Category Award at the 2007 Japan Packaging Contest (hosted by the Japan Packaging Institute) in November 2007. In the same month, it was honored with an award in the Electronics category at WorldStar2007, an influential international packaging contest.

Before

Before using a common package box



After

The same type of package box is used around the world, with specific item information indicated by the label (this box is being used for 20 products in Japan and abroad as of September 2007)



Enhancing usability and energy performance

Ordinary CCD scanners use a cold cathode fluorescent lamp as a light source. The Perfection V500 Photo Colorio scanner, however, uses white LEDs. The Perfection V500 Photo provides best-in-class 6400 dpi resolution rivaling that of professional scanners, with the added benefit of much faster warm-up times than the preceding model (the Perfection 4490 Photo). The scanner provides all the light needed as soon as the power is turned on, and the light can be turned off right away when the user is finished, meaning great energy savings.



Perfection V500 Photo

Warm-up time shortened from 45 seconds to 0.15 seconds

Energy consumption in Ready reduced 53%

Three "smalls" benefit the user and the environment

The Endeavor ST110 desktop PC uses MoDT technology, originally designed to make laptop PCs energy-efficient and keep them cool. The result is a versatile desktop PC with the energy efficiency and trimness of a laptop.

The advantages of the product can be summed up as the three "smalls"—small energy, small sound and small size—and by the big contribution it makes to fighting global warming across its life cycle.



Global warming burden across product life cycle reduced 67% (vs. AT960)

Endeavor ST110

Large-format printer wins Eco-Efficiency Award

Epson's Stylus Pro 3800/3800C/3850 large-format printer received a special award in the product performance category at the 2007 Eco-Efficiency Awards held by the Japan Forum on Eco-Efficiency. It was also honored in the Energy Saving and CO₂ Reduction category at the 2007 Ecohitech Awards in Italy.

The Stylus Pro 3800/3800C/3850 prints on sheets as large as A2 yet is no larger than an A3+ printer. By paying careful attention to environmental performance, our design engineers also achieved sharp reductions in weight, energy consumption, complexity, and packaging volume compared to previous products.

Praiseworthy performance

The Stylus Pro 3800/3800C/3850 was designed for more than just environmental performance. The printer's image quality, print speed, running cost, print driver features, and

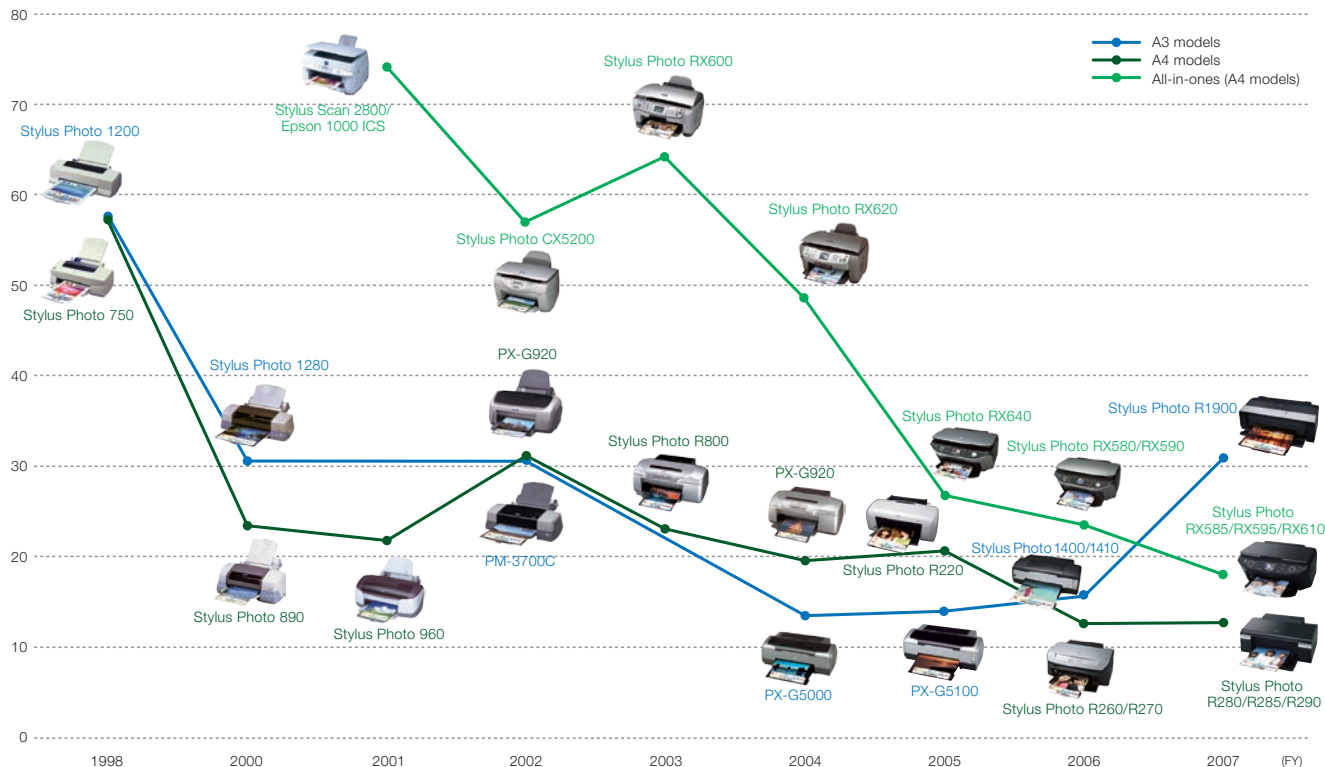
usability were also well received in Europe, where the printer walked away with honors at both the TIPA Awards 2007 held by the Technical Image Press Association and the EISA Awards held by the European Imaging & Sound Association.



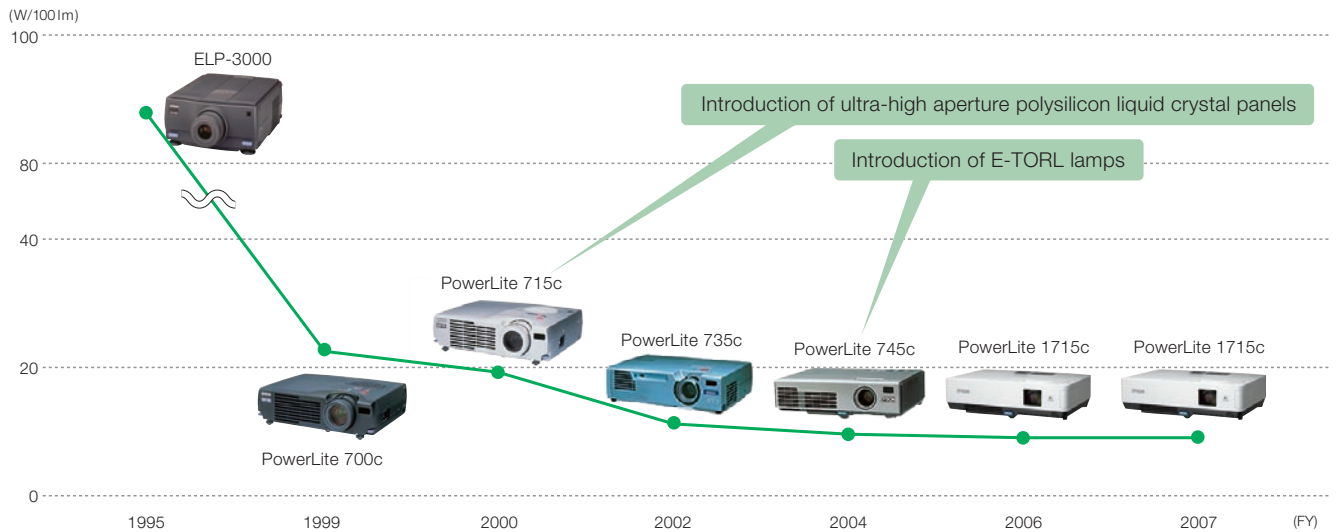
Stylus Pro 3800/3800C/3850

Comparison of total daily energy consumption for inkjet printers (by FY)

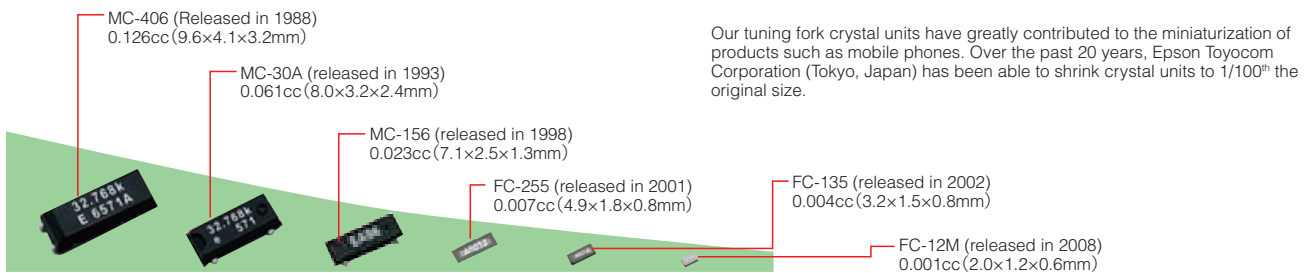
(Wh/day)



■ Operating energy consumption per 100 lumens for projectors



■ Tuning-fork crystal unit size reductions



Two awards for energy saving in South Korea

In August 2007, Epson Korea Co., Ltd. (EKL) received two awards from the non-profit, non-governmental organization Consumers Korea.

The Stylus Photo R1800 and R2400 inkjet printers were praised for their large reductions in power consumption in Sleep and Ready, earning the Energy Winner Prize in the standby power category.

Epson Korea also received a Standby Power Consumption award in the inkjet printer and multifunction printer categories at a ceremony recognizing companies for power-saving excellence.

LED driver control IC enables low-power displays with better readability

The S1F87110 is an integrated circuit that provides automatic dimming in real time for LCD backlights. Connecting an illuminance sensor to the S1F87110 allows it to adjust LED intensity automatically according to ambient light levels. This helps to achieve a low-power LCD screen with improved readability.



Recovery and Recycling

Taking responsibility for recycling end-of-life Epson products



Product Recovery and Recycling Maintaining legal compliance and driving voluntary initiatives

Epson monitors local and international legal and regulatory trends, keeps an eye on consumer needs, and is building a system for recovering and recycling Epson products at the end of their useful lives. We are also pursuing organizational and publicity programs to promote cooperation with governments and customers.

Initiatives in Japan

Epson recovers and recycles end-of-life personal computers as required by Japanese law.

We also voluntarily collect used information equipment

(printers, scanners, projectors, and so forth) from businesses and recycle it. Epson, which began this program back in 1999, was in fact the first company to have such a system.

In 2002 Epson became the first in its industry to acquire certification as a regional industrial waste agent. This program allows us to streamline the product recovery and disposal process for our corporate customers by eliminating excess paperwork and agreements with multiple handlers. In FY2007 we collected 83.0 tons of used equipment, 69.3% of which was reused or recycled. In addition, we are collecting used printer cartridges in a cooperative effort with the Bellmark Foundation and with retailers who provide space for in-store collection boxes.

“Ink Cartridge Home Coming Project” launched

In April 2008, six printer manufacturers (Epson, Brother, Canon, Dell, Hewlett-Packard Japan, and Lexmark) launched the “Ink Cartridge Home Coming Project,” a collaborative effort with Japan Post Holdings to collect some of the estimated 200 million cartridges currently used in this country. Although each of the companies had actively run their own independent collection efforts, the majority of used cartridges were still being disposed of as general household waste.

Aware of the limitations of the existing systems, the companies decided to launch a collaborative collection effort using the post offices and distribution system of Japan Post Holdings to improve customer convenience and boost the collection rate.

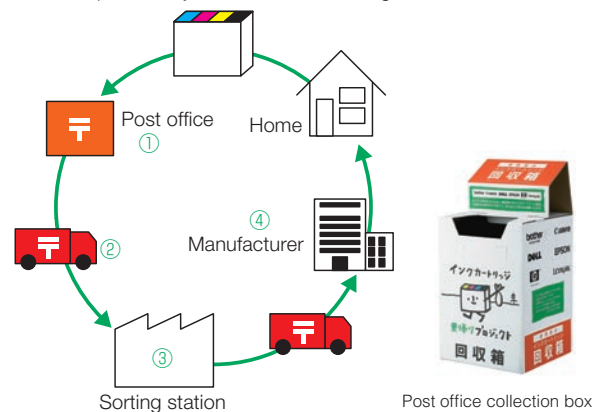
By providing collection boxes at post offices and by building an efficient collection scheme, the companies expect to see the number of recycled cartridges grow and stabilize.

Collected cartridges are transported to Epson Mizube, a

special subsidiary of Seiko Epson that employs a high percentage of persons with disabilities, for sorting and forwarding to the manufacturers.

Flow of the “Ink Cartridge Home Coming Project”

1. Consumers deposit their used ink cartridges in a collection box at their neighborhood post office.
2. The post office delivers the cartridges to the sorting station at Epson Mizube.
3. Epson Mizube sorts the cartridges by company and ships them forward.
4. The companies recycle the returned cartridges



Initiatives around the world

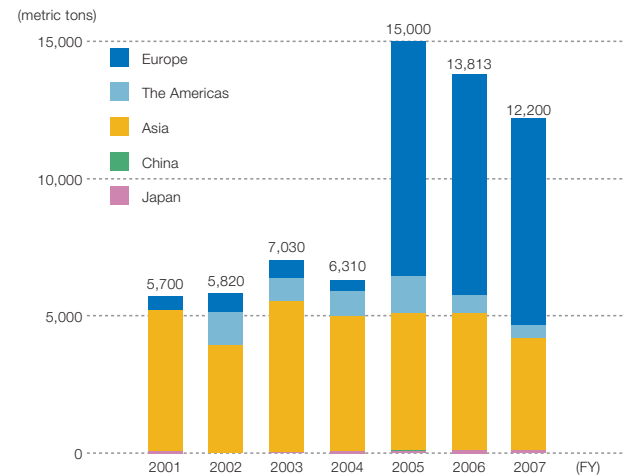
There has been a global upsurge in activity to amend laws concerning product recovery and recycling. Epson has thus laid out a worldwide system that enables it to remain informed and compliant.

In the European Union, manufacturers are required to build and pay for a collection and recycling system under the WEEE (Waste Electrical and Electronic Equipment) Directive. Associated national laws are being drafted and enacted in the 27 countries of the E.U. We are providing information to our partner recycling companies to remain compliant with the rules of each country.

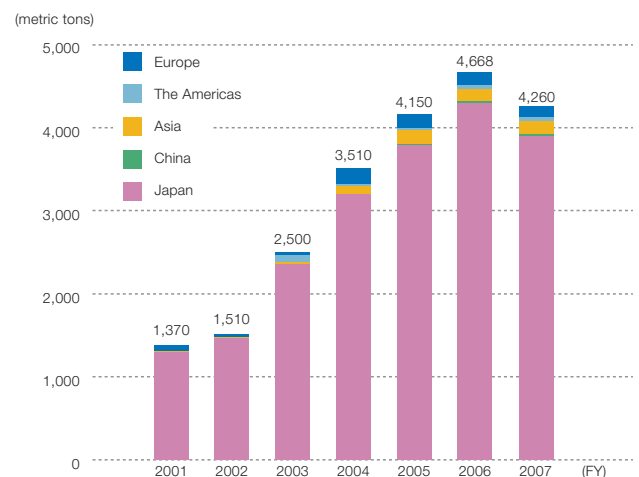
In China, meanwhile, we have been voluntarily collecting and recycling used products since 2003, well in advance of the full enactment of legal measures there regarding the recycling of waste electric and electronic equipment. We try to go beyond mere legal compliance and actively run voluntary programs designed with local needs and other considerations in mind.

Epson currently operates collection and recycling programs for products and consumables in 25 countries. Epson Australia Pty. Ltd., for example, is involved as a founding member in Cartridges for Planet Ark, a cartridge collection and recycling program that has helped reduce the amount of waste entering Australian landfills every year by approximately 5,000 tons.

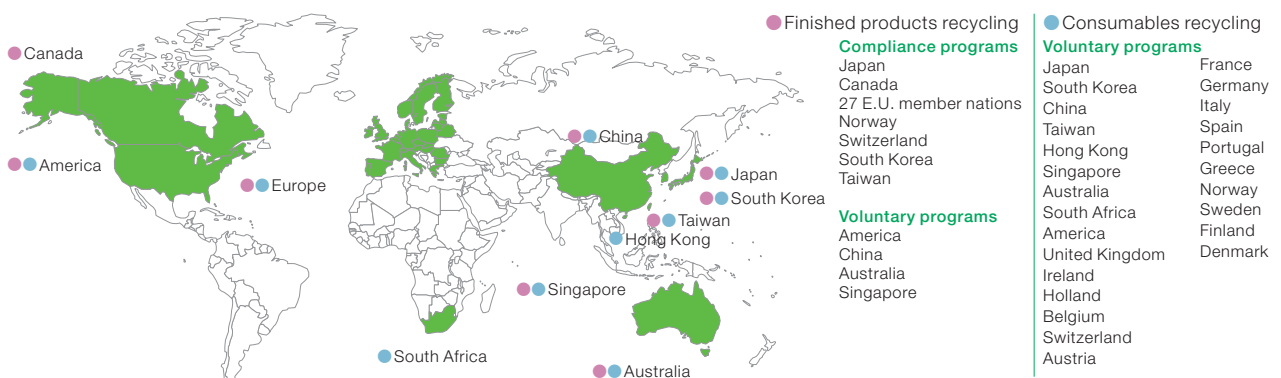
Collection of finished products



Collection of ink & toner cartridges



Recycling Programs



Business Activities and Environmental Measures

Key measures in Epson's General Environmental Policy and material flow results



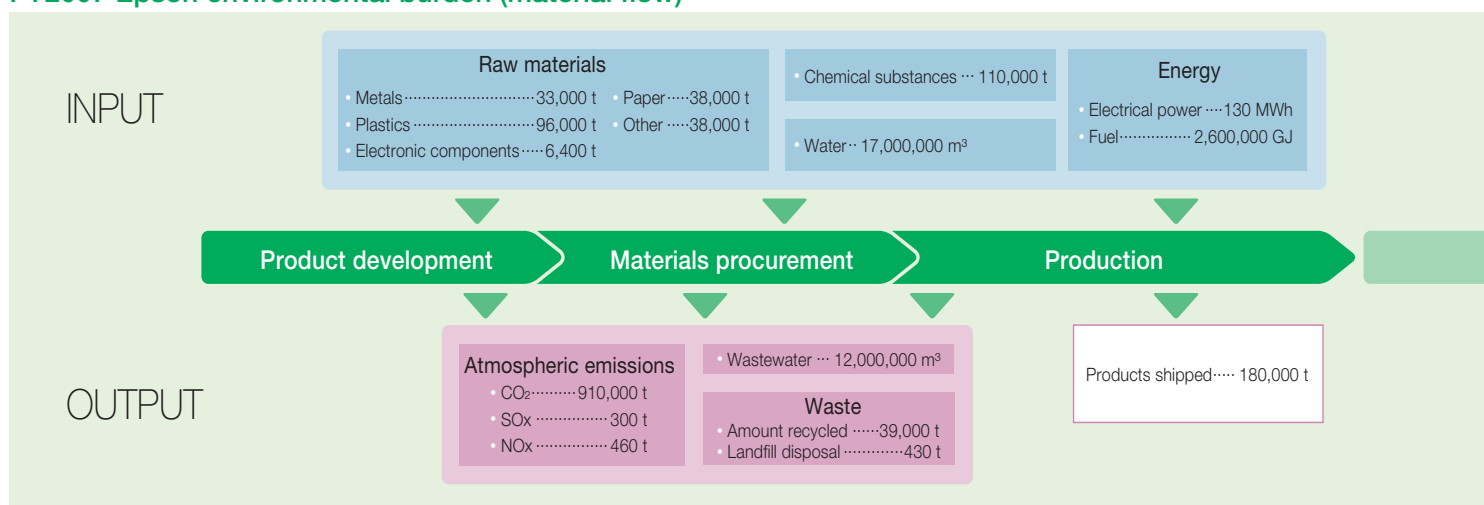
Action 2010 General Environmental Policy results for FY2007

Area of initiatives	Key measures	Measure details
Prevention of global warming	Seek to achieve the industry's greatest reduction in greenhouse gas emissions through product and factory countermeasures	
	1. Pursue environmental technology development and secure intellectual property	(1) Apply for and win environment-related patents
	2. Reduce CO ₂ emissions from factories and sites (further CO ₂ emissions reductions from global business activities)	(1) Reduce energy consumption (including production process innovation) (2) Reduce greenhouse gases (PFCs, etc.)
	3. Effectively use environmental performance (quality) data as sales promotion tool	(1) Acquire environmental labels
Resource recycling and conservation	Contribute to the building of a society having an environmentally sound material cycle with thoroughgoing, effective use of resources	
	1. Develop and design products that conserve resources and are easy to recycle (Further pursue resource-saving and recyclable design)	(1) Maintain recyclable rate and recoverable rate (at design stage) (*See note A)
	2. Promote resource saving initiatives (maximize resource efficiency)	(1) Reduce waste through the effective use of resource inputs (materials, production materials, etc.) (2) Reduce waste by taking measures against the source of waste, e.g. improve process design, increase yield
	3. Strengthen recycling business model	(1) Build, operate and follow through on a recovery and recycling system in the five major regions (Japan, Europe, Americas, Asia, China) based on region-specific action plans
Chemical substance control	Reduce environmentally harmful materials and maintain and further strengthen their management	
	1. Reduce chemicals in line with environmental policies and measures for reducing the environmental impact of products (making greener products)	(1) Eliminate halogen and PVC from plastic components (*See Note B) (2) Respond to other substances of environmental concern (Be, Sb, Bi, rare metals, chlorinated paraffins, etc.)
	2. Reduce the environmental impact of sites (make sites greener)	(1) Reduce site emissions
	3. Build and operate a general management system for chemical substances	(1) Establish operations system (2) Expand operation of control system [products: IMDS (International Material Data System), sites: E-Chem]
Education / social contribution	1. Perform actions that effectively contribute to communities in each region	(1) Promote unique tree planting events (2) Provide environmental education for children in various countries and regions

*Note A: The recyclable rate and recycling rate do not include thermal recycling. The recoverable rate includes thermal recycling.

*Note B: Products newly planned for FY2006 and beyond: eliminate from packaging material *Note C: Resource efficiency = consolidated net sales divided by emissions volume

FY2007 Epson environmental burden (material flow)



The Action 2010 General Environmental Policy is a mid-range business plan that sets out Epson's environmental initiatives from FY2006-2010. FY2007 results for the key measures in Action 2010 are as below.

Action 2010 General Environmental Policy overview and future initiatives

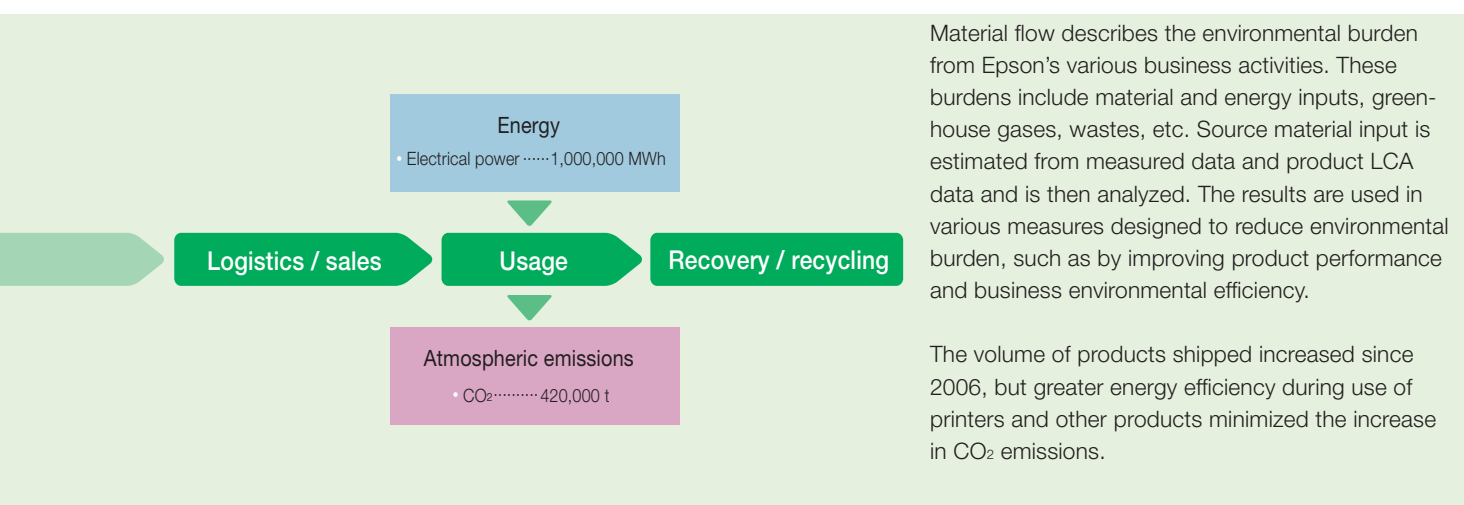
Prevention of global warming Achieved CO₂ emissions targets (consolidated and in Japan). Aim to achieve our targets in average emissions over five years, paralleling the first commitment period of the Kyoto Protocol (2008-2012).

Resource recycling and conservation Prepared for a joint ink cartridge recover and recycling project in Japan (beginning April 2008). Did not achieve resource efficiency target but did reduce absolute volume. Will continue to further reduce emissions through our "zero emissions" initiatives.

Chemical substance control Completed preparations for pre-registration to comply with REACH regulations. In FY2008, we will consider our response to REACH as it concerns finished products.

Grade-Target achievement rate (%) A: 91% or higher; B: at least 71% but less than 90%; C: at least 51% but less than 70%; D: less than 50%

FY2007 targets	FY2007 results	Grade (achievement rate)
Increase number of applications by 10% over FY2006	Achieved 89.8%	B (89.8%)
Global consolidated: Reduce 50% per unit of price-adjusted sales (vs. FY1990)	Reduced 52.9%	A (106%)
From energy used in Japan: Reduce 28% per unit of price-adjusted sales (vs. FY1990)	Reduced 44.8%	A (160%)
Acquire environmental labels following plans in each business area	Type I: 100%; Type II: 86.4%; Type III: 87%	A (94%)
Achieve 100% with products covered (recyclable rate 75wt%)	Achieved 92.5%	A (92.5%)
Achieve 100% with products covered (recoverable rate 85wt%)	Achieved 93.6%	A (93.6%)
Improve resource efficiency 15% over FY2004 (*See Note C)	1.2% improvement [in terms of absolute quantity, waste was reduced by ~1,500t (3.5%) vs. FY2006]	D (8%)
Recycling rate 65% (Japan)	69.3% (Japan)	A (107%)
Achieve 100% elimination of halogen and PVC from packaging material	Packaging material halogen elimination achievement rate: 100%, PVC elimination achievement rate: 100%	A (100%)
Study and consider response	Participated in writing "Guidance Notes for REACH" and explaining to industry	B
Pursue initiatives to reduce emissions of PRTR substances and VOCs	Maintained FY2005 emissions levels	A
Build and operate a product chemical content assurance system	Finished getting ready to pre-register preparations in REACH	B
Operate IMDS system (1 site)	Evaluated JAMP AIS (Article Information Sheet)	B
Continue using tree / vegetation planting to reduce environmental impacts	Continued to perform Indonesia tree planting, year 7	A
Provide Kids' ISO training (major countries and regions)	Trainings given in Japan (number of students: 272), supported implementation in Taiwan	A



Human Resources

Human capital = assets on loan from society

Offering an environment where individuals can maximize and capitalize on their talents



Building an Organization that Fully Capitalizes on the Individual

Epson's Human Capital Vision defines the well-rounded individual

To operate a business and provide value to our customers, it is essential that we create an environment in which employees can rely on and respect one another while sharing a vision and fully expressing individuality in pursuit of shared goals. Regarding our employees as assets on loan from society and as the driving force behind the realization of our corporate vision, we maintain an organization that encourages self-reliance and personal growth and that urges employees to make the most of their unique talents.

Established during fiscal 2004, Epson's Human Capital Vision expressly states a goal for employees to provide maximum customer satisfaction through every job, being a business professional trusted over all others by the customer. A message from Epson's president during fiscal 2006 cited human resources development and a reforming of our corporate culture as priority issues for the company. The notice called on management personnel to adopt a new mind-set, new capacity as individuals and new capacity as management to train and foster individu-

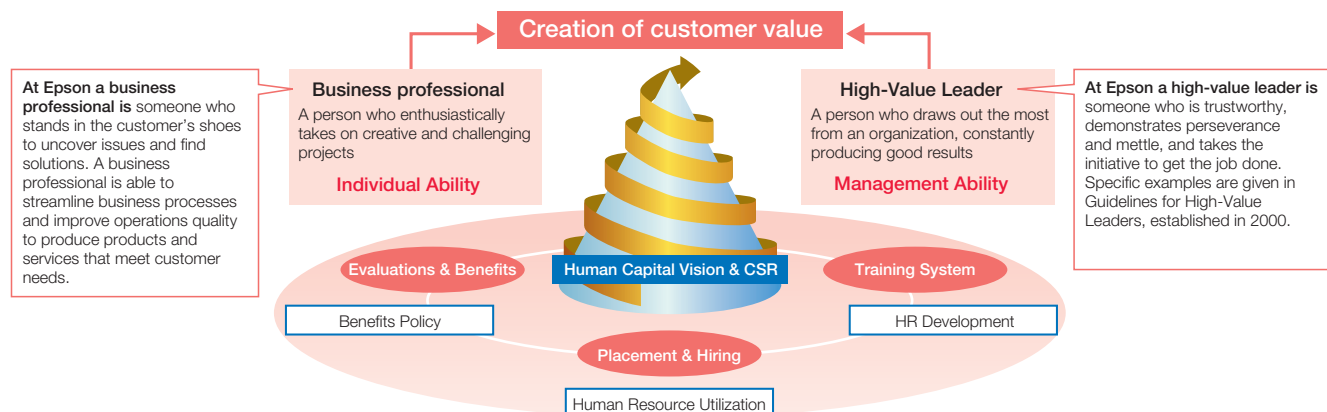
als through their jobs. During fiscal 2007, we established the Human Resource Development Manager Meetings to support the mid-range business plan in human resources, investigating a framework for developing employees while maximizing the distinctive qualities each division brings to the organization as a whole. For their part, employees are responsible for following the Principles of Corporate Behavior and the related Employee Code of Conduct, which Epson strives to instill through job training and workplace initiatives.

Human Resource Development & Training

Energizing individuals and the organization via corporate culture reforms

Epson continues to intentionally create an environment in which each employee understands the "big picture" of the value chain, and can grow as a business professional who takes individual responsibility to create customer value. One way we do this is through an employee motivation survey. Historically, Epson has used an employee satisfaction survey as an index of employee satisfaction. While we could track improvements in satisfaction, the method was difficult to translate into motivation leading to the next step, and it did not link directly to the creation of a strong organization. The employee motivation survey digs down

■ HR policies and the ideal employee for inspiring customer trust and happiness



to find the situations in which employees feel personal satisfaction and growth, leading to better results. The goal here is to clarify the conditions in which both organization and individuals can become proactive and energized. To create a repeating cycle of improvement and growth, the survey results for each section within a department are forwarded to the respective section manager. The results are reviewed with the section as a whole and then discussed in detail, including the factors that led to the results and how improvements can be made. This process provides a clear roadmap for realizing section goals.

Two major issues uncovered during the fiscal 2007 employee motivation survey were a lack of initiative on part of younger employees (ostensibly the driving force of workplace activity), and the sense that workplace training did not lead to improvements in individual skills. These company-wide issues are taken up for discussion by a special committee, serving as an opportunity to further publicize emerging trends, and as issues of focus for human resource improvement.

Workplace Diversity

Abolishing discrimination and unfair labor practices around the world

At Epson, we work hard to eliminate discrimination and unfair labor practices of any type in every location worldwide. We signed the United Nations Global Compact in 2004 to clarify our stance to the international community, as well. Under our human rights and labor policies, established in 2005, we define our stance toward human rights, the elimination of harassment and discrimination in any form, our respect for local culture and customs, opposition to child labor and forced labor, and support for friendly labor-management relations. We published the human rights and labor policies in Japanese, English and Chinese for distribution throughout our organization worldwide. During fiscal 2007, a total of 30 incidents were reported to the company compliance, sexual harassment, "power harassment" hotlines. The company responded seriously to each incident, while strictly protecting the privacy of individuals involved. During fiscal 2005, we created an independent checklist, using it to gain an understanding of the current state of ethics, human rights, and labor conditions at our manufacturing affiliates around the world and confirm the absence of unfair labor practices. During fiscal 2008 we will be confirming labor practice levels and areas for improvement at our local sales affiliates throughout Asia.

Curbing Excessive Overtime

Labor and management unite behind work hour management

Epson has established the Excessive Overtime Work Prevention Committee as one means to bring labor and management together to combat excessive overtime.

Naturally, Epson is in strict legal compliance with labor laws and has created operations manuals dealing with overtime work. We have also rolled out a workplace time management program across the entire organization, performing follow-up with persons putting in too many hours and raising awareness of employees and management about labor hour optimization as we strive to transition from the optimization of time management to the optimization of work hour management.

During fiscal 2006, we replaced the former system for tracking working hours (in which each employee was responsible for reporting his or her own working hours) to a system wherein hours are tracked by recording the times that employees swipe in and out with their employee ID cards.

Each month we send a record of working hours to each individual by e-mail, urging them to manage their work hours effectively.

This system was adopted in all plants during fiscal 2007. The next step is to sponsor activities to roll out the system to our group companies.

Optimizing contract manufacturing in Epson semiconductor operations

The Epson Semiconductor Operations Division (Fujimi Plant, Sakata Plant) has been proactive in optimizing the practical use of manufacturing outsourcing. The fundamental concept behind the division's approach presumes an increased manufacturing capacity and an interdependence with the contractor/employees as manufacturing partners, designed to build a optimal contract manufacturing process that regularly requires external personnel. During the initial implementation stages, the Semiconductor Operations Division worked closely with contractors to optimize the process, spending three years training manufacturing leaders at the contractor, creating labor management, health and safety management systems, operations management systems and more. During fiscal 2007, we conducted these initiatives at the Fujimi Plant as a model facility and won high praise from the Council for Promoting Manufacturing Outsourcing Improvement.

Work-Life Balance

Expanded childcare leave to foster the next generation

Epson is working to expand its childcare and family leave programs, reflecting our concern for our employees as well as our concern for fostering the next generation of society. Specific initiatives include a significant extension of eligibility for shortened working hours (parents are now eligible for shortened hours until their child enters elementary school, at age 6), a “bring your child to work” day, days for leaving the office on time (e.g. no overtime), paid leave for certain childcare issues, expanded eligibility for medical leave (e.g. allowance to apply medical leave to not only to personal and family illness but also to school events), partial assistance for home care services, and more, all applied equally to both female and male employees. During fiscal 2007, 443 male employees and 1,348 female employees took medical leave for purposes of childcare, with the maximum consecutive number of days taken for leave being 34 days and 60 days for male and female employees, respectively. These numbers reflect how our employees are able to take advantage of the work-life balance programs offered by Epson.

Epson has been certified by the Nagano Labour Bureau as a “conforming general employer” under the Law for Measures to Support the Development of the Next Generation and recognized as a company actively supporting the upcoming generation. Epson was also selected as a winning entry in the “Governor’s Award for Corporations Supporting Employee Child Care” sponsored by the Social Department Labor Welfare Division of Nagano Prefecture.



We intend to continue building an environment in which both women and men will be able to balance family and work effectively while proactively conducting institutional reforms.

Women Expressing their Talents

Valuing a heritage of gender equality

Since its first day in business, Epson has fostered a corporate climate that forbids discrimination in hiring and promotions on the basis of gender. Epson was one of the first companies in compliance with the Law Concerning Equal Employment Opportunity for Men and Women. In 1983, we completely eliminated gender-based pay differ-

ences, and many female employees, regardless of job classification, have taken advantage of our Job Challenge program (after several years of employment, individuals are eligible to apply for transfer to another department or region) and our overseas training programs. In 1989 we adopted a childcare leave program. Since the program's inception, 95% of female employees have returned to work after taking childcare leave (100% in 2007). Female employees average 20.9 years of service at Epson, exceeding the 17.4 year average for male employees.

Historical trends for childcare leave

Fiscal year	Individuals on childcare leave				Individuals on nursing care leave
	Overall	Females	Ratio of females granted leave*1	Males	
2007	71	70	100%	1	3
2006*2	59	57	97%	2	2
2005*2	85	82	100%	3	5
2004	71	71	99%	0	5

*1 Number of individuals granted childcare leave / eligible individuals
Eligibility: Individuals who have had a child and are eligible for childcare leave

*2 An error in the 2007 version was corrected.

Employing Individuals with Disabilities

Social inclusion of persons with disabilities

Epson has a policy of providing people with employment opportunities matched to their abilities. We employ individuals with disabilities for a wide range of positions at all of our locations, as well as within a special subsidiary, Epson Mizube Corporation. Epson Mizube, established in 1983 with 15 employees, currently does business at six sites and has a workforce of 130 employees, 77 of whom are individuals with disabilities. The company has three departments. The Products department mounts circuit boards, processes lenses, builds lamps, assembles and inspects parts for electronic, information and precision products, and cleans cases and IC chip trays. The Office Services department provides printing, copying and other services. And the Cleaning department launders the garments used in Epson's cleanrooms. We assign jobs according to individual abilities and utilize employee ideas on work methods and on workplace operations and conditions. Epson Mizube workers also participate in the collaborative ink cartridge collection and recycling program described on page 53, sorting cartridges by manufacturer.

Also in Japan, Tohoku Epson Corporation is promoting the employment of individuals with disabilities through its special subsidiary Epson Swan, Ltd., established in 2002 to launder cleanroom garments used at Tohoku Epson.

Overseas, Suzhou Epson Co., Ltd. last year established a cleanroom garment laundering department to provide employment for individuals with disabilities, making it the first foreign-owned company in China to create and expand employment opportunities for persons with disabilities. The laundering operation provides employment for 18 individuals with disabilities.

Epson has adopted several other initiatives to assist employees with disabilities. For example, sign language interpreters are hired to allow deaf employees to receive the same in-house training and advancement interviews with supervisors as other employees, and subtitles have been added to e-Learning course videos. Despite these efforts, the FY2007 ratio of disabled employees in the group declined to 1.99%, down from 2.01% in the previous year. This decline was due to the conversion of a joint

venture firm into a wholly owned subsidiary. We are above the legally mandated ratio of 1.8%. Nevertheless, we still feel that we must work harder to reach the Seiko Epson Group goal of 2.1%, in line with guidelines for governmental and public offices.

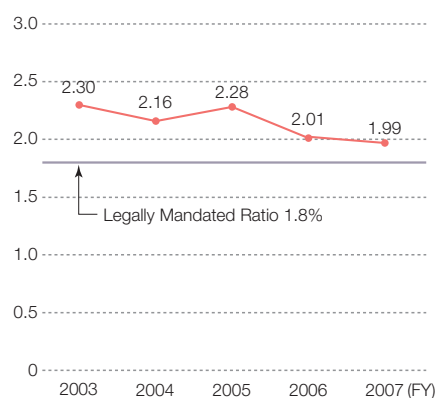
Labor-Management Cooperation Fostering communication and partnership between labor and management

Seiko Epson's labor union has a cooperative relationship with management.

The two parties maintain open lines of communication and work together to implement solutions to labor issues. For example, labor-management committees are formed to discuss and resolve issues on various topics ranging from support for the upcoming generation of employees to reemployment, wages, and the prevention of excessive overtime hours. The idea is for the two sides to put their heads together to come up with satisfactory solutions.

During fiscal 2007, the two sides focused on actions to curb excessively long working hours.

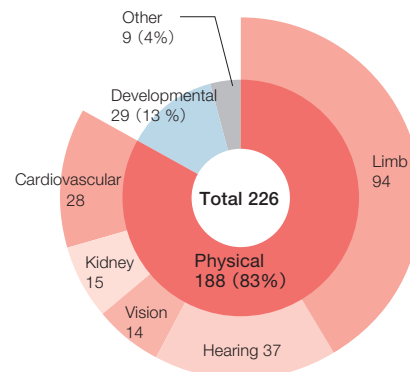
■ Employees with disabilities at Epson (Japan)



■ Employee benefits

Category	Benefits
Childcare	Childcare leave, shorter working hours, discount coupons for home childcare services
Nursing care	Nursing leave, shorter working hours
Retirement	Retirement allowance [defined contribution pension plan, defined benefit pension plan (pension fund)], asset-building pension scheme assistance, etc.
Health	Sick leave, in-company therapy (massage), medical leave, injury/sickness allowance, extended injury/sickness allowance, childbirth/childcare allowance, childbirth allowance, assistance for medical checkups, assistance for brain checkups, rehabilitation leave, 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
Housing	Company housing/singles apartment allowance, asset-building housing savings, asset-building housing loan, housing finance loans, etc.
Transfers	Company housing/singles apartment allowance, transfer allowance, travel expenses for temporary home visits, family separation allowance, homesitting allowance, education expense assistance, etc.
Business travel	Per-diem for domestic and international business trips, allowance for overseas business trip preparation, vaccination allowance, use of company jet (between Nagano-Tohoku Epson and Nagano-Epson Imaging Devices Tottori Plant)

■ Employees with disabilities (Japan), by type of disability (as of June 2007)



Occupational Safety and Health

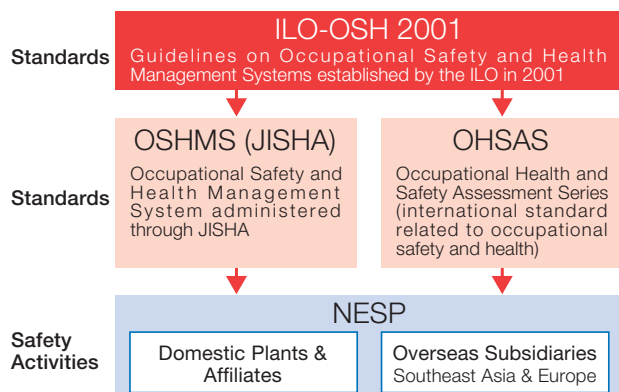
Occupational safety and health underpins corporate activities

Occupational Safety & Health Principles Rolling out global-standard occupational safety and health programs

The Seiko Epson Group believes that the bedrock of a business is composed of healthy employees and a willingness to ensure a safe and healthy environment in which every employee feels a sense of security. Spurred by our president's declaration that "safety is the lifeblood of the company," Epson has been proactively promoting a global standard in occupational safety and health.

In fiscal 2000, Epson established the New Epson Safety & Health Program (NESP), an original occupational safety and health management system, and rolled the program out to the entire group. NESP activities are based on an occupational safety and health management system (OSHMS) conforming to International Labour Organization (ILO) guidelines. Operated under the three pillars of safety, health and disaster prevention, NESP has been expanded throughout the worldwide Epson organization. Company-wide rules and systems for NESP activities helped the system become collectively certified under JISHA (Japan Industrial Safety & Health Association) OSHMS standards in fiscal 2003. By 2007, 13 sites had been recertified throughout Japan, with six affiliated companies newly certified as the program continues to expand.

■ NESP framework



Eliminating Accidents by Expanding NESP Globally Adoption of accident analysis that incorporates human factors

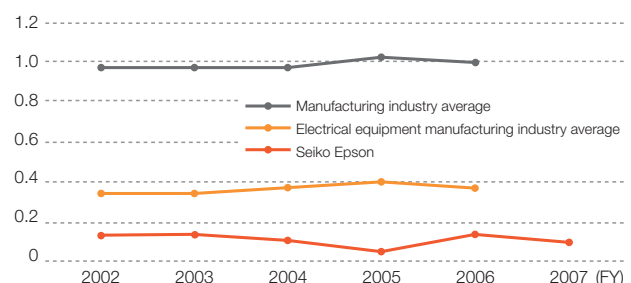
In Japan, Epson is promoting continuous improvements in NESP activities. Overseas, we have formed specialist project teams to provide education, support and leadership, focusing on training dedicated local staff members.

Our analysis system incorporates the human factor as a means to prevent the recurrence of past industrial and occupational injury accidents with the understanding that nearly 90% of all industrial and occupational injury accidents are caused by human error.

Teaching Safety Awareness by Example Ingraining safety awareness from top to bottom

To heighten group-wide safety awareness, corporate officers and internal General Safety and Health Controllers both inside and outside Japan declared their commitment to safety and health, personally signing a "safety flag," replicas of which have been distributed to all plants in the group.

■ Trends in occupational injury accident frequency rate



Occupational injury accident frequency: the number of injury accidents per 1,000,000 work hours, where an injury accident is defined as an accident that causes a worker to miss one or more days of work.

$$\text{Occupational injury accident frequency rate} = \frac{\text{the number of injury accidents}}{\text{total work hours}} \times 1,000,000$$

The company's Overall Safety and Health Controller works to instill safety awareness throughout the entire Epson organization by regularly inspecting sites in Japan and overseas, providing guidance for improvement, making keynote speeches to local management, and hosting round-table conferences with local executives. The Overall Safety and Health Controller made the rounds at 12 different locations in Japan during fiscal 2007.

Expansion of Basic Health Management Policy Mental healthcare activities focused on maintaining well-being

Epson's Basic Health Management Policy, established in April 2005, identifies three major goals in addition to occupational illness prevention: (1) Reduce the number of people at risk of lifestyle-related illnesses, (2) Prevent over-work-related health issues, and (3) Prevent stress-related health issues. Specific measures and targets were incorporated into the "Healthy Epson 21" program, and Epson continues to promote self-health management among its employees, as well as pursue its obligation to ensure a safe and healthy work environment.

In 2006, Epson established a mental health policy and mental health program to help maintain employee well-being by coordinating and promoting (1) self-care, (2) education to enhance the awareness of supervisory personnel regarding the need to lend an ear to their employees and improve the workplace to relieve stress, (3) professional in-house counseling, and (4) care through external medical institutions.

Epson codified and implemented a framework for job reinstatement during fiscal 2007. In addition to mental health education targeting management over the past several years, we also distributed a pamphlet titled, "A Mental Health Reader," to every employee and temporary staff worker in Epson group companies.

We are also working to promote a better awareness and understanding of self-care by providing on-line mandatory education in strategies to relieve personal stress. In December 2007, we distributed a handbook to managers to help them improve the care they give to their employees.



At Epson, our mental health initiatives are designed to teach basic knowledge and achieve a shared understanding of mental health and mental health management group-wide.

Disaster Prevention

Taking responsibility for security, safety and trust in the workplace and in the community

Epson has a responsibility to the community to prevent accidents and disasters that are preventable. In pursuit of this responsibility, and to continue to earn the trust of the community, Epson has organized its own company fire brigade.

Every year on August 31st—designated as "Epson Disaster Prevention Day"—all Epson group companies in Japan conduct a full-scale fire and disaster drill with the cooperation of local fire departments.



Fire brigade competition

Come, See, Touch and Feel: NESP Fair 2007

In fiscal 2005, Epson sponsored the first NESP fair to publicize its "zero accident" goal and to help foster a culture of safety and health.

The fiscal 2007 NESP fair included physical demonstrations that allowed visitors to safely experience getting body parts entangled in mechanisms and caught in pinch points. We have worked hard to make this an interactive fair, providing measurements of blood flow and artery hardening to attendees, as well as teaching a class in using an automated external defibrillator (AED) as an occupational injury preparedness measure.

Epson sponsored "mini" versions of the NESP Fair 2007 at our Sakata Plant, Tohoku Epson Corp., and the Chitose Plant. Health-oriented fairs were held at the Hirooka Office, Shimauchi Plant, Matsumoto Minami Plant, and Fujimi Plant. We plan to continue to expand the number of locations that host the NESP Fair.



CSR Procurement

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

Revised Procurement Guidelines

Promoting CSR across the supply chain

Epson is committed to practicing socially responsible procurement. Operating under a spirit of fairness, coexistence and co-prosperity, we seek to build mutually beneficial trusting relationships with our partners and suppliers around the world.

A considerable and growing amount of global attention is now being focused on the CSR activities of multinational corporations and their supply chains. Recognizing the heightened expectations, Epson has been driving a number of initiatives designed to further promote socially responsible practices among its suppliers.

We established formal procurement guidelines in 2005 that spell out our basic procurement policies and the expectations we have of our suppliers. Our procurement guidelines cover requirements to ensure compliance with laws, social norms and ethics in areas such as child labor avoidance, respect for human rights, the environment, and health and safety. The guidelines were revised in 2008 to incorporate our own international Supplier Code of Conduct in light of that fact that the majority of our manufacturing activities are conducted in China and Southeast Asia and that we are increasingly switching from a Japanese supply base to local suppliers.

Procurement Guidelines table of contents

1. To Our Suppliers
2. Basic Procurement Policies
3. Partnerships
4. QCD
5. Compliance with the Epson Supplier Code of Conduct
 - Basic approach to the establishment of the Epson Supplier Code of Conduct
 - 1) Compliance with laws, regulations and social norms
 - 2) Respect for human rights
 - 3) Ethical conduct
 - 4) Health and safety
 - 5) Environmental preservation
6. Periodic Evaluations and Detailed Evaluations

Our Challenge in FY2008

Continuous Challenge Activity

- 1) CSR and Chemical Assurance System Audit
- 2) TPM (Total Productive Management)

<Request to vendors>
Please keep your cooperation for these activities.

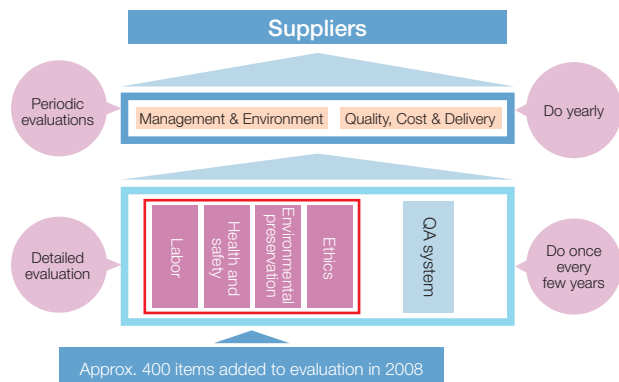
In line with the revised Procurement Guidelines, we will be taking concrete steps to ensure supplier CSR by, for example, explaining our intent and requirements to suppliers, conducting on-site evaluations with a CSR checklist to check compliance, and providing auditor training.

Suppliers will generally be evaluated on a periodic basis. If necessary, we will conduct detailed evaluations of a supplier's performance in the areas of labor, health and safety, environmental preservation, and ethics. We plan to begin implementing evaluations in 2008. In 2007, with the cooperation of suppliers, we conducted trial on-site evaluations at eight supplier facilities.



Supplier training

Epson's supplier evaluation system



Web Procurement Guidelines
<http://www.epson.co.jp/e/community/sr/>

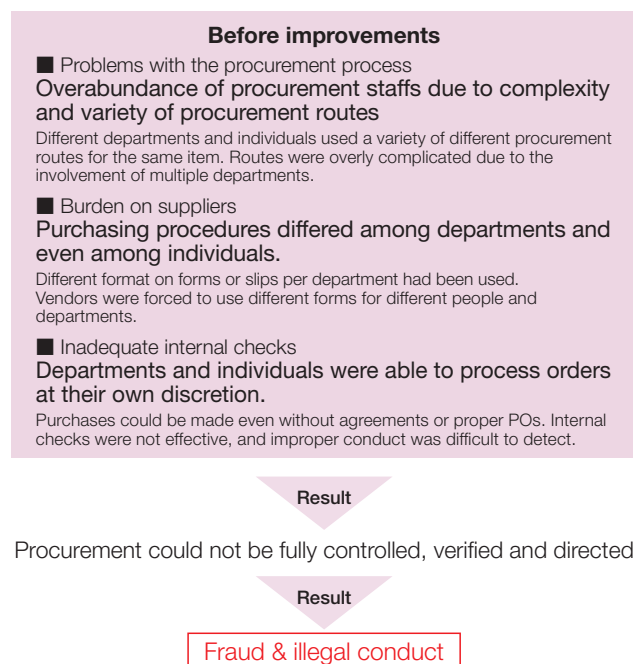
Strengthened Internal Controls

Preventing corruption systematically

In June 2006, we discovered that a former employee with purchasing authority had been misappropriating funds meant for shortening prototype part lead-times. We take this incident very seriously and have taken corrective actions such as fortifying our systems and installing further controls to prevent it from happening again. We immediately conducted a fact-finding survey on our procurement operations. What we found was that although our direct production materials (the parts and materials used in our products) were being tightly controlled, indirect production materials (materials used in prototypes and equipment) and non-production materials (supplies for routine operations) on the other hand were not. The complexity and sheer number of different procurement routes conspired to create conditions ripe for oversights. We also found that 30% of our procurement staff had become entrenched in the same position for years.

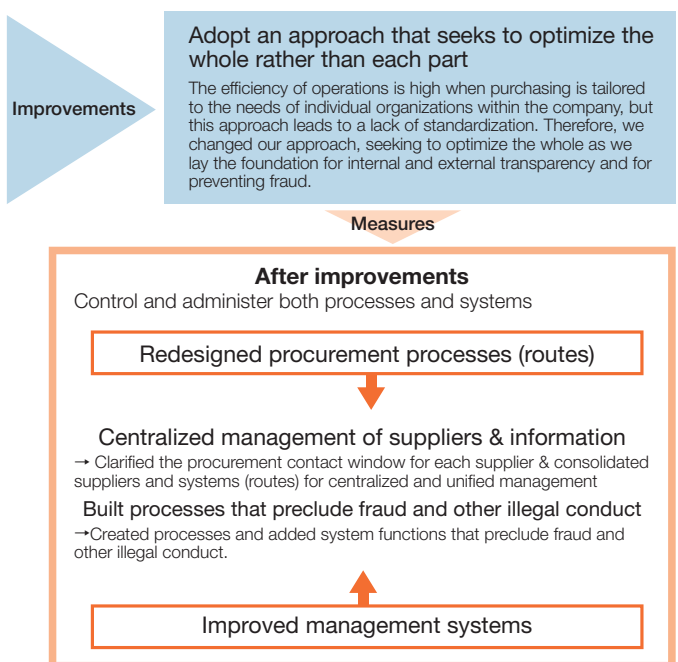
With these findings in hand, we set up a Procurement Compliance Committee in May 2007 and began drawing up a vision of how procurement within Epson should be. In addition to undertaking the foregoing new measures, we continue to promote the system we introduced in July 2006 for qualifying our procurement personnel.

■ Procurement process and control system improvements



Procurement management improvements

- Deployed the scope of supplier management beyond direct production materials to include indirect production materials and non-production materials
- Clarified procurement contact window within Epson in order to consolidate suppliers
- Classified all suppliers into one of 5 control levels according to their importance level; e.g. suppliers of parts directly associated with Epson products are assigned a higher level of risk management than suppliers of non-production materials.
- Consolidate and optimize the processes for correction to variation in expertise and decision-making that existed when we had a wide variety of procurement process and departments in charge.
- Began building work processes that will stamp out procurement misconduct



Corporate Citizenship

Proactively engaging communities as a good corporate citizen



Basic Policy on Corporate Citizenship

Contributing to the creation of a better society

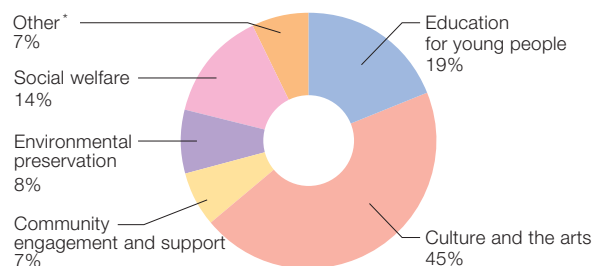
Epson established a Corporate Citizenship Philosophy in 2004 that outlines our desire to develop in harmony with communities and help build a better society as a socially progressive company. Our Corporate Citizenship Policy, created at the same time, sets forth five areas of priority for action.

Epson also emphasizes giving back its technological expertise through activities rooted in the countries and regions in which it operates. In fiscal 2008, we are increasing employee involvement in volunteer activities to strengthen our ties to the community. Our corporate citizenship expenditures in fiscal 2007 totaled nearly 700 million yen. As a good corporate citizen, we will continue to contribute to the creation of a better society through a wide range of support programs.

Five areas of priority for corporate citizenship

- Education for young people
- Culture and the arts
- Community engagement and support
- Environmental preservation

Breakdown of corporate citizenship expenditures



* Includes disaster relief

Presenting Activities Online

Reporting on community engagement as an "open" company

In November 2007, we added a new section to our homepage to introduce Epson's various corporate citizenship initiatives. This section is regularly updated with information for a broad audience, including community members and our employees' families.



Education for Young People

Labor union provides educational aid in Cambodia

The Seiko Epson Labor Union believes that being in a happy community is essential to living a fulfilling life. In 2001, we launched the "Happy Smiles Program," which involves community engagement throughout the world. We began providing educational aid to foreign countries in 2001 through the Shanti Volunteer Association. By 2004, we had constructed three schools and continue to provide support with teacher training workshops, professional development to improve the quality of primary education through libraries, and picture book donations.



Giving picture books translated into Cambodian

Corporate Citizenship
<http://www.epson.co.jp/e/community/sr/>

Education for Young People

Graduation ceremony at in-house school

Due to Mexico's lack of a comprehensive education system, people have varying levels of education. Epson de Juarez, S.A. de C.V. (EDJ, Mexico) established an in-house school with outside teachers who provide primary and secondary education for employees. In fiscal 2007, three people graduated from the primary school and 24 people graduated from the junior high school. The graduates were awarded diplomas by Rene Estrada of the Chihuahua state education ministry in the city of Juarez, where EDJ is located. So far, a total of 262 people have completed the program and another 124 students are balancing their work and studies as they strive to graduate.



Awarding of diplomas

Education for Young People

IT grants for schools

Epson Thailand Co. Ltd (ETH) provides support for the Ministry of Education's School E-Center program, which is designed to promote information technology in schools. This partnership between the Thailand Ministry of Education and IT companies promotes the advancement of IT at nearly 800 schools in underprivileged regions. ETH provides financial and technical support for promoting IT at Ban Chang-Lang Primary School in the Trang Province of Southern Thailand. ETH will continue to focus on providing educational opportunities for young people.



Helping to promote IT

Education for Young People

Support and participation in Kids' ISO

Epson, together with our labor union, participates in and provides support for the Kids' ISO Program. Our employees, acting as instructors, score and evaluate children's workbooks. In fiscal 2007, the sixth year of the program, 281 children participated.

One particular standout was Azusagawa Primary School, a public school in Matsumoto, Japan. Every participating student was awarded a primary level international certificate and the school itself received top honors. A total of 1,004 students have participated in the program since 2002. In an effort to expand our support of environmental education beyond the borders of Nagano Prefecture, we provided 300 free workbooks to Tokyo and 500 to Hokkaido.



Children who earned international certificates

Environmental Preservation

Tree-planting on Kalimantan

Since 2000, Epson has supported tree-planting efforts on Kalimantan, in Indonesia. The program utilizes agro-forestry, an agricultural approach that combines crops such as rice and corn with trees such as mahogany. This helps achieve sustainable use of forests by providing wages for maintaining the forest while harvesting the crops. The forestry cooperative received an award from President Yudhoyono in November 2007 in recognition of its many years of contributions.



Trees are regularly maintained after planting

Environmental Preservation

Shinshu Energy Patrol Team

Epson participates in the Shinshu Energy Patrol Team that encourages engineers to get out of the office and provide energy-saving consulting and advice to companies and stores in Nagano Prefecture. The program started with Epson distributing examples of how we conserve energy to neighboring companies. In fiscal 2007, we performed energy diagnoses at 41 business sites and helped cut CO₂ emissions by as much as 3,800 tons. Since the program's inception in 2000, a total of 149 companies and facilities have been diagnosed.



The team performs an energy diagnosis

Social Welfare

Donating bottle caps to neighborhood schools

Our business sites in Japan donated nearly 100 kilograms of bottle caps to nearby schools as part of a low-key corporate citizenship program. The proceeds from the bottle caps are sent to the Japan Committee Vaccines for the World's Children, which uses the money to purchase polio vaccines and other medicines for children in developing countries.

This round of donations can be used to provide vaccines for nearly 100 children. Comments from the schools that received the bottle caps: "I was surprised that the bottle caps we usually throw away can be used to buy vaccines for children in developing nations," "I believe that these kinds of programs provide a valuable opportunity for students to learn about the preciousness of people's lives."



Students receiving the bottle caps

Social Welfare

Epson Green Carnival 2008

Epson Hong Kong Ltd. (EHK) and the Epson Foundation held this year's Epson Green Carnival to coincide with the Hong Kong Green Council in January 2008. EHK was proud to be the title sponsor for the carnival. This was the fifth year of the carnival, which is designed to teach children about the importance of environmental awareness and ways to apply it to their daily lives. The event included an eco-creative tournament to encourage recycling. In addition to stage performances and educational exhibits, children used recycled materials and propellers to make hovercrafts. This year, more than 6,000 students and parents attended the event.



Participants in Epson Green Carnival 2008

Social Welfare

Special lesson at a hospital school

Epson held a special lesson on "Sea Creatures and the Seas of Okinawa" for students who attend school in the Nagano Prefecture Children's Hospital. The classes were led by an Epson Sales Japan employee who carefully talked about the various sea creatures shown in 40 underwater photographs that she took in Okinawa. The students expressed a strong interest in the unknown world under the sea, asking many questions about the creatures and about diving. Epson also provided a specialized display panel for the Intensive Care Unit located next to the school to display the underwater photographs used in the lesson.



Special lesson at the hospital

Community Activity Participation and Support

Employees help clean up local communities

Epson offices worldwide help keep communities clean with local cleanup activities. Employees picked up and sorted litter scattered alongside roadways, walkways and in the landscaping. They also worked hard on cleaning the windows, stairways, and platforms in nearby train stations, drawing praise from railway workers and passengers alike. We believe that such efforts help boost employee morale and promote health in addition to contributing to the local community and helping maintain Epson's image as a good corporate citizen.



Employees clean along a roadway

Community Activity Participation and Support

Charity Run

Epson set up a charity program for the annual Suwako half-marathon. The company set aside a certain amount for every employee who completed the race. The proceeds went toward donations of Epson products to social welfare facilities under the name of the company and the employees who completed the marathon. A total of 141 Epson employees completed the race, resulting in the donation of Epson computers and projectors to a local support center for persons with disabilities and a school for children with disabilities. The donations were presented by one of the employees who completed the marathon.



Participants in the Charity Marathon

Community Activity Participation and Support

Support for local hockey club

Epson Iberica S.A.U. (EIB, Spain) provides operational support for the Cerdanyola Hockey Club, a local roller-hockey club based in the Cerdanyola district of Barcelona. Roller hockey is a popular sport in Europe. It even has a professional league. The Cerdanyola Hockey Club is the oldest roller hockey club in Spain. Epson provides support for the club every year as part of our efforts to contribute to local communities and support sports.



Cerdanyola Hockey Club

Culture and the Arts

Donation of Piezographic art to Tampere, Finland

Epson created ten Piezographic reproductions of the works of the painter Higashiyama Kaii and put them on display at the Spirit of the East exhibit commemorating the 60th anniversary of the United Nations in New York, from December 2005 to March 2006. After the exhibit ended, the mayor of Tampere, Finland asked to have the images permanently displayed at a city museum. Epson donated the reproductions to Tampere as part of our efforts to support culture and the arts.



Tampere City Museum

Communication

Deepening trusted relationships through constructive communication



Our Basic Approach to Communication

Truthfully and accurately provide information and seek out stakeholder opinions

As a company with a global business presence, Epson's public relations, advertising, and other communication efforts are deployed globally to earn the trust of our stakeholders around the world.

In addition to providing honest, accurate information that stakeholders want and need, we hope to foster bidirectional communication by offering useful information and new suggestions that bring surprise and delight to people's lives.

In 1998, we established a Global Communications Standard that forms the basis of all communication in the Epson Group. Then in 2004, we formulated our Ethics and Compliance Guidelines as a way to ensure ethical and positive communications.

Our public relations activities focus on the timely and adequate delivery of information on our activities and initiatives, even if the information is of a negative nature. We also conduct press forums and press tours for the mass media to create opportunities for our messages to reach the widest audience possible.

As part of our commitment to the protection of personal data, we established a Personal Data Protection Policy in 2004 and obtained PrivacyMark accreditation in 2005.

Communication with shareholders and investors

Epson reports and discloses information about its business activities and financial standing in security reports, business reports, and consolidated financial statements in accordance with regulatory and stock exchange requirements. We also release an Annual Report and Shareholder Newsletters as a voluntary means of disclosing information.

In addition to these documents, we post the presentation materials used in our earnings announcements and a video file of the proceedings on our investor relations website. In January 2008, we renewed the design of our investor relations website to improve usability and added a new corner for individual investors. This new corner provides useful information that gives investors a better understanding of Epson by explaining our strengths and past actions in addition to our financial results. We will continue utilizing this website to deliver information in a timely manner.



General Shareholders' Meeting

The General Shareholders' Meeting provides an excellent opportunity to directly communicate with our shareholders. We have been listening to the opinions and "voice" of our shareholders by handing out questionnaires at the meetings since 2006.

In response to shareholders' requests at the 2007 meeting to hear more about the future of Epson in addition to past results, we gave a presentation on the core Micro Piezo technology used in our inkjet printers and how it can be applied to various domains in the future. We set aside a space at the informal discussion after the meeting to show examples of how the technology can be used in displays, circuit boards, and other areas in addition to printers. In addition, we included articles on the technology in the Shareholder Newsletter to tie it into the General Shareholders' Meeting.

Going forward, Epson plans to create various opportunities to listen to and act on the opinions of its shareholders.

Communication through the Internet

Epson takes full advantage of the Internet to deliver a wide range of information to stakeholders worldwide. In March 2006, we combined several Epson Group websites in Japan under one address to make a more user-friendly experience. The site also contains information on CSR activities and other contents that could not fit in this report.

We added a new section in 2007 titled “Epson Technology” that showcases numerous Epson technologies. The section contains a page dedicated to our core Micro Piezo technology with simple explanations on the advantages and characteristics of Epson’s unique inkjet technology and its future potential. In addition, we made it easier to find information on the special website we opened in September 2006 to show how Epson’s technologies will lead to a brighter future.



In our global websites, we are incorporating the concepts of usability and universal design to ensure the dissemination of consistent information as One Epson. In 2007, we opened Epson Innovation to introduce our technologies. This visually driven website lets users experience the various situations and ways in which our products can be used.



Epson Innovation

Epson America, Inc. launched a site titled Epsongality where users can select an appropriate printer by answering a series of questions, including when and where they will use the printer and how much they are willing to pay. With humorous questions and videos to go along with the navi-



Epsongality

 Epson Technology
<http://www.epson.co.jp/e/community/sr/>

 Epson Innovation
<http://www.epson.co.jp/e/innovation/>

gation, users can have fun while selecting their printer.

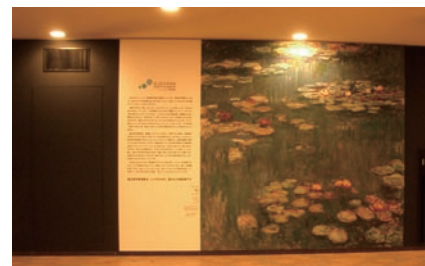
We will continue our efforts to use the latest Web technologies to create user-friendly websites that make information easy to find.

Art exhibits

Epson became the official partner of the new OPEN Museum project started by the National Museum of Western Art. We will be supporting the project for three years, beginning in fiscal 2008. OPEN Museum aims to encourage open museums where people can network through art and develop connections with various organizations and institutions. This is the first partnership between a public museum and a private enterprise in Japan.

The museum lets patrons get up close and personal with reproductions of famous works such as Monet’s Water Lilies. These works of art have been meticulously recreated on a large-format inkjet printer using Epson’s Micro Piezo technology.

Going forward, Epson will continue to use its imaging devices to accurately reproduce the colors and textures of famous works so they can be enjoyed by as many people as possible.



Water Lilies in the entrance of the National Museum of Western Art

 Epsongality
<http://www.epsonality.com/>

Epson-sponsored contests

Epson holds two separate contests to showcase digitally created works of art.

The Color Imaging Contest, which began in 1994, receives a wide range of unique entries that combine multiple elements. The only requirement is that entries be output digitally. An increasing number of entries have come from overseas, providing the opportunity for cross-cultural exchange. In 2007, there were a total of 9,470 entries from Japan and eight other countries in Asia.

In 2006, Epson launched the Epson Photo Grand Prix. This contest judges the overall strength of the entries, including post-processing.

We will continue to contribute to the development of digital expression by providing opportunities for the next generation of photographers and creators to demonstrate their works and develop new abilities.



Winning entry in the Color Imaging Contest



Winning entry in the Photo Grand Prix

Eco-Products 2007

Epson erected a booth at the Eco-Products 2007 fair. The booth was designed under the concept of “leaving a beautiful planet and environment to our children and the future.” The booth highlighted the environmental performance of Micro Piezo technology and showed how consideration for the environment factors into the product life cycle of our Stylus inkjet printers.

Our individual business sites also engage in various activities that contribute to the community and help the residents develop a deeper understanding of our company. Our Shiojiri Plant (Nagano Prefecture, Japan) invited 37 Shiojiri primary school students to a tour of Eco-Products 2007 to raise the environmental awareness of the next generation. The students showed great interest in the environment, asking many questions about the exhibits.



Eco-Products 2007

Acceptance of eco-internship students

The Japanese Ministry of the Environment began an eco-internship program in 2007. Epson and four other companies participated in the program, which sends undergraduate or masters students to intern at the environmental management divisions of private companies. This gives students the opportunity to deepen their understanding of environmental management at corporations and think about ways for the society to solve environmental issues.

Epson accepted two students and had them participate in job training at our recycling center and other activities. This program gave us the chance to hear opinions directly from some young leaders instead of only customers and employees. The students commented on how the internship increased their interest in the environment and gave them a sense of the progressiveness of Epson's initiatives.



Training at the recycling center

Media communications

For Epson to maintain and enhance its corporate value throughout the world, we must protect our intellectual property rights on a global level. In 2007, we engaged in efforts to improve awareness of intellectual property rights in China.

Epson began a joint project with Peking University in November 2007 to train professional journalists who are familiar with intellectual property rights. In doing so, we aim to raise awareness of intellectual property rights in the media and encourage objective reporting in China.

In December 2007, the general manager of the intellectual property rights division at Epson (China) Co., Ltd. attended the 2007 Chinese International Consumer Electronics Intellectual Forum held in Shanghai and gave a presentation on our intellectual property rights strategy and problems facing Epson in terms of managing and protecting intellectual property rights. We plan on expanding our awareness-raising efforts to other regions in the future.



Joint project in China

Communication with employees

At Epson, we believe that each employee's understanding of the company is the driving force behind all our business activities. This is why we promote various means of communication with our employees, including, since 1956, our company newsletter.

One of our latest efforts to spark further internal communication began in 2007 with the introduction of Palette, an internal social network service. This service gives employees the opportunity to strengthen their bonds by sharing ideas and information on both business matters and personal interests.

Our legal department has published a monthly newsletter named "Gekkan Houmu" since 2006 to explain, in plain terms, the importance of legal and ethical issues that affect the company in the context of social trends. The circulation has quadrupled to 1,800 copies since its inception.

In 2007, we reviewed and revised our Legal Guidebook series into more reader-friendly booklets to facilitate and enhance legal understanding among our employees.



Corporate Profile

Name Seiko Epson Corporation
Established May 18, 1942
Head office 3-3-5 Owa, Suwa-shi, Nagano-ken, Japan
Capital 53,204 million yen (as of March 31, 2008)
Employees 88,925 (worldwide consolidated); 13,000 (non-consolidated)
 (as of March 31, 2008)

Sales / Operating income (for fiscal year ended March 2008)

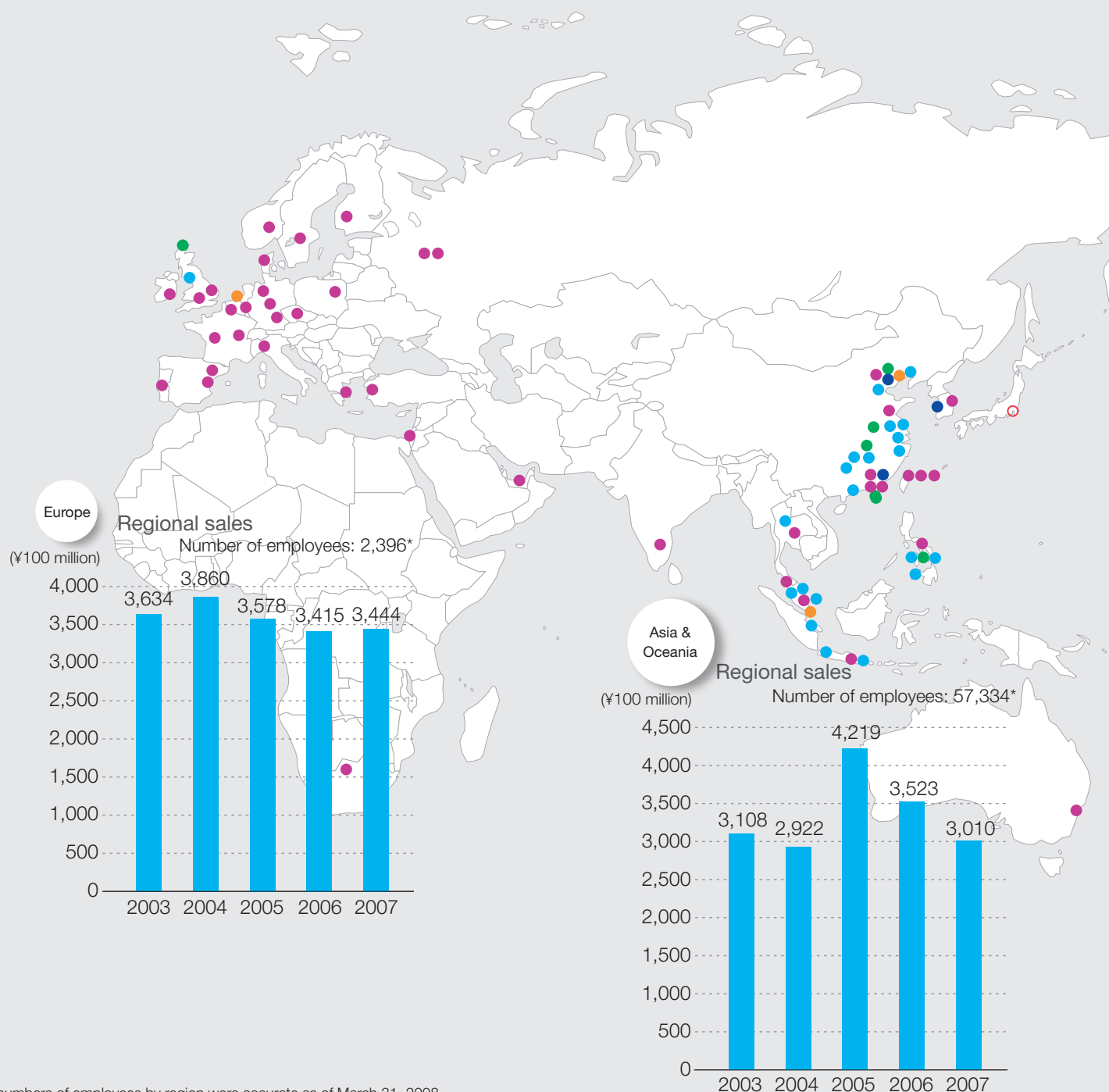
Consolidated: 1,347.8 billion yen / 57.5 billion yen

Non-consolidated: 802.3 billion yen / 24.1 billion yen

Membership

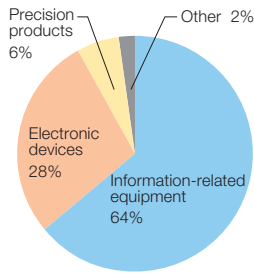
Japan Electronics and Information Technology Industries Association
 Japan Business Machine and Information System Industries Association
 Communications and Information Network Association of Japan
 Japan Environmental Management Association for Industry
 Nagano Employers Association
 Nagano Association for Conserving Environment

Epson global network

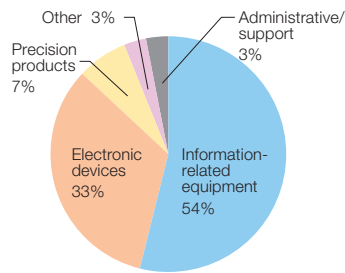


*The numbers of employees by region were accurate as of March 31, 2008

Sales breakdown (FY2007, consolidated)

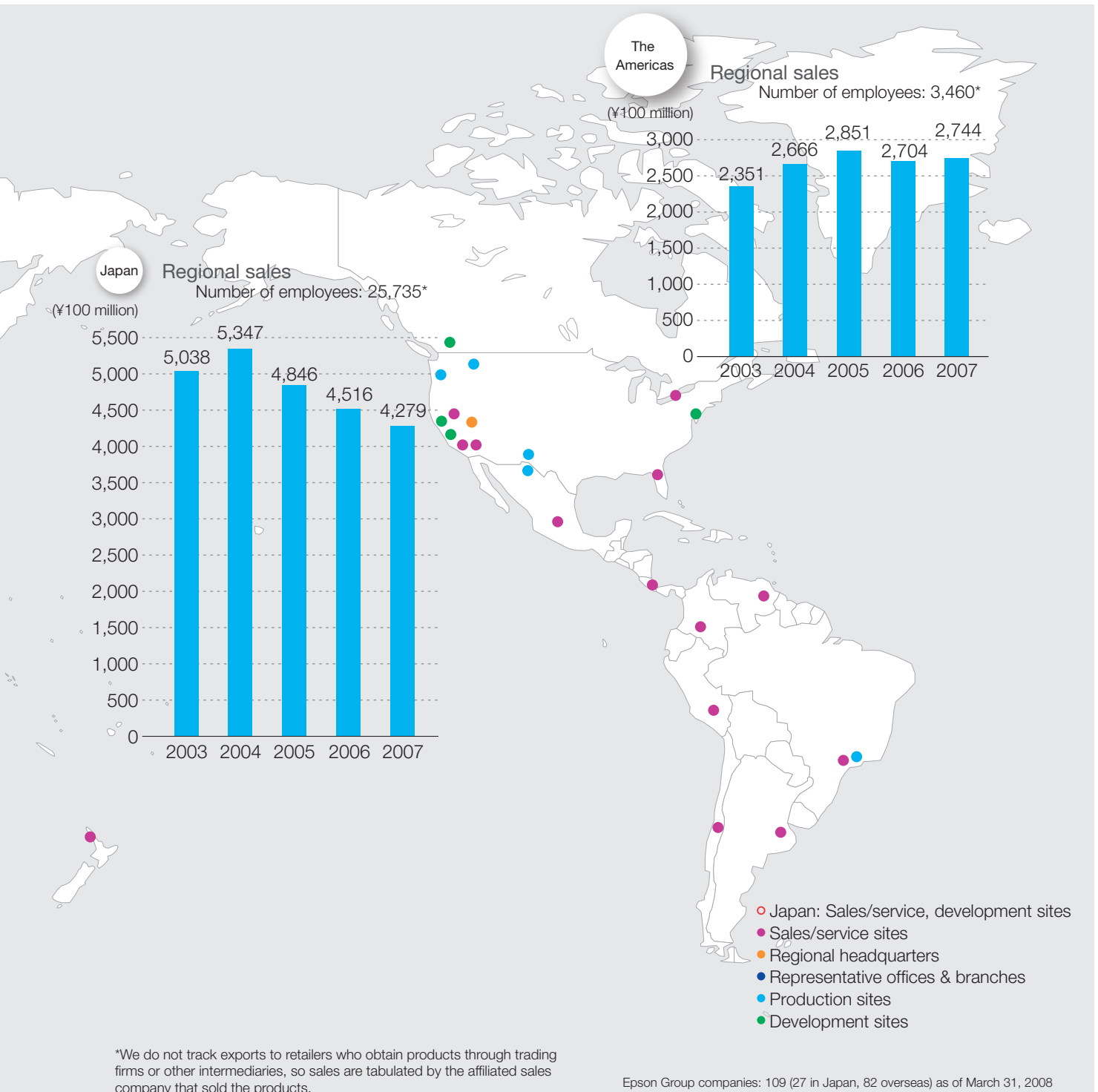


Employee breakdown by business



Editorial policy

The initiatives contained in this report are intended to demonstrate how Epson is guided by its management philosophy. The feature articles at the beginning of the report show Epson's approach over the years to the hot topics of "quality" and "environment," as well as the "spirit of human development" that has been part of Epson since its inception. By proactively exchanging ideas with outside parties on a continuing basis and incorporating their opinions in these feature articles, Epson is striving to create a report that is not limited to one-way communication.



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About the design of our logo:

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.



- The paper used in this report was tracked through a chain of custody certified by the Forest Stewardship Council (FSC) to ensure it was produced with wood from sustainable forests.
- Printed using petroleum solvent-free, zero-VOC
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