Sustainability Management and Financial Strategies

CFO/CSuO Message

Supporting the Implementation of Purpose Under a Financial Strategy Based on a Healthy Sense of Urgency

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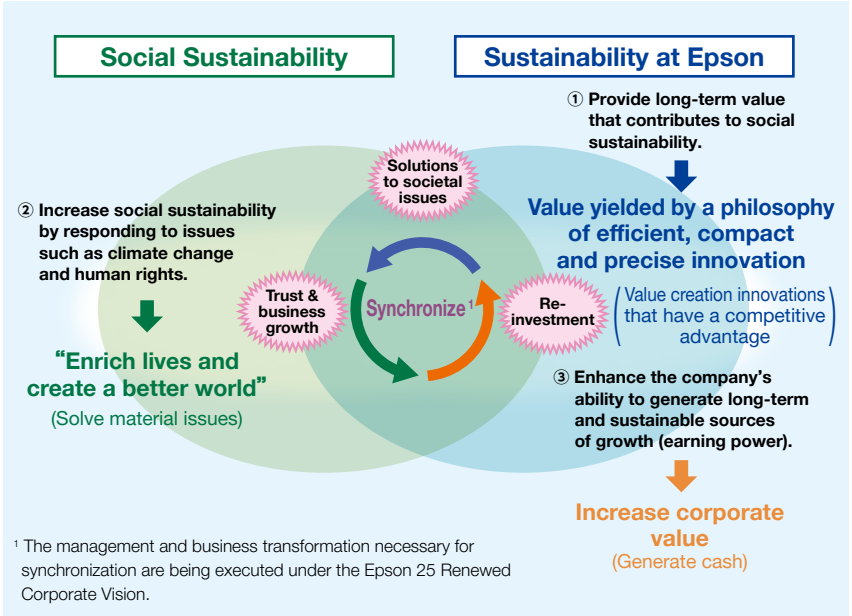
As both chief financial officer (CFO) and chief sustainability officer (CSuO), my mission is to enhance Epson's ability to generate long-term, sustainable sources of growth (earning power) by solving societal issues.

Epson's corporate management is rooted in the concept of materiality. Materiality is identified based on the impact of societal issues. We consider Epson's business activities to be a means of directly addressing these issues. In other words, by tackling societal issues, we will achieve business growth.

We will provide long-term value that contributes to social sustainability by solving societal issues with a philosophy of efficient, compact and precise innovation. This will enrich lives and help create a better world. This is purpose-based sustainability management. Guided by purpose, we will execute financial strategies and manage sustainability from a long-term perspective.

Sustainability Management at Epson



[1] The management and business transformation necessary for synchronization are being executed under the Epson 25 Renewed Corporate Vision.

* Illustration created by Epson based on Ito Review 3.0 (Ito Review SX Edition)

Revenue and Profit Growth Achieved Once Again by Pricing and Cost Control

In FY2022, we recorded year-on-year revenue growth, reaching ¥1,330.3 billion due to a combination of product pricing and an easing of supply constraints. Our costs rose along with parts, materials, and distribution costs and the expansion of production, but we still recorded ¥95.1 billion in business profit mainly as a result of pricing on our main products, judicious spending on priorities, and foreign exchange effects.

Revenue	Business profit
¥1,330.3 billion	¥95.1 billion
YoY Up 17.8%	YoY Up 6.1%
Profit from operating activities	**Profit for the year attributable to owners of the parent company**
¥97.0 billion	¥75.0 billion
YoY Up 2.7%	YoY Down 18.7%

[1] Business profit is similar to operating income under J-GAAP, both conceptually and numerically. Epson began using business profit as an indicator after adopting IFRS.

Average exchange rates during FY2022

USD	Euro
¥135.44	¥140.90
(21% depreciation YoY)	(8% depreciation YoY)

On the other hand, profit for the year decreased compared to the previous fiscal year, when there was an increase in deferred tax assets.

We were able to raise prices because, first, demand for products like inkjet printers remained robust, making them less prone to price erosion. Second, 83% of Epson's revenue comes from overseas, where it is easier to gain understanding of the need to pass on cost increases. And, third, our products have competitive advantages and strong customer loyalty. High-capacity ink tank printers are one of Epson's flagship products. Initially launched only in Indonesia in 2010, they are now sold in some 170 countries. By February 2023, cumulative global sales had topped 80 million units.

With distribution stabilizing, the competitive environment is expected to heat up in and after FY2023, but the trend toward decentralization is likely to continue. As decentralization progresses, smaller products will be needed. This is an area in which Epson's efficient, compact and precision technologies excel. We will continue to provide products and solutions that meet the changing needs of society.

Evolve Business Portfolio Management and Further Raise Capital Efficiency

We are pursuing a policy of emphasizing profit and capital efficiency, including setting ROIC as a financial target.

With ROIC as a measure of the performance of capital investments, we will tighten business portfolio management to enhance corporate performance.

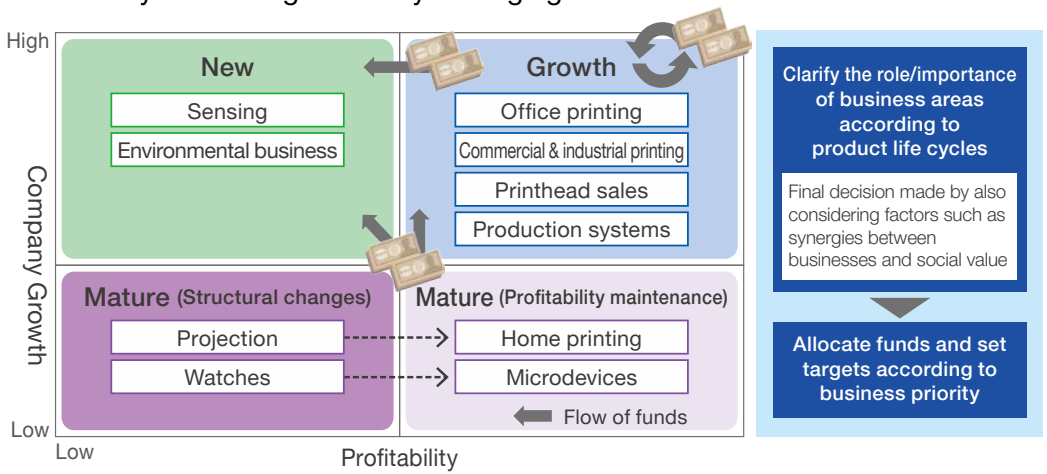
We are allocating capital resources as appropriate pursuant to a growth strategy under which we have grouped our businesses into a growth area, mature area, and new area. We think of business portfolio management as a three-step process. We are currently on step two.

Around 2019, Epson invested in all of its businesses based on a plan that assumed unrealistic revenue growth. When that growth failed to materialize, Epson was put in a very difficult position. Learning from this experience, we made the selective allocation of capital the first step in managing our business portfolio.

In step two, we clarified our investment policy and are efficiently circulating funds in areas that promise growth. A high percentage of Epson's sales are in mature businesses, including the printer business, where the market is expected to contract in tandem with the paperless trend. However, the printer business has the potential to create new value and growth by leveraging Epson's unique core technology to drive innovation. The goal is to develop, nurture, and monetize solutions based on new ideas. The driving force behind this effort is a strong sense of urgency. If mature businesses remain at the heart of a business portfolio, revenue and profit will decline. New businesses may initially lose money, but our mindset is to see how quickly we can nurture new growth.

In the third step, we will set ROIC targets for each business and improve capital efficiency.

Efficiently Circulating Funds by Managing the Business Portfolio



We began experimenting with the use of ROIC as a key performance indicator for our businesses this year, but I believe we should proceed cautiously to ensure it doesn't become just a numbers game. I feel that setting benchmarks is the most challenging part. Our approach is to set numerical targets and then identify and analyze variances in terms of performance versus plans by implementing the PDCA cycle. We want to determine whether ROIC can be effectively used as a meaningful metric for our management decisions.

Investing in New Businesses That Promise Growth

There are several angles from which to approach new business opportunities. (1) We can look to create value that is entirely new for Epson. (2) We can utilize our existing technology in new applications. Or, (3) we can expand the applications of existing businesses. Balancing investments across these areas is crucial. A representative example of (1) is corporate venture capital (CVC). Epson is actively investing in fields such as printing, robotics, AI, and extended reality (xR) through its CVC subsidiary, Epson X Investment Corporation.

We expect investments in (1) to contribute by keeping us informed about industry trends, new technological developments, and preparing us to adapt to environmental changes, thereby expanding our ability to respond. For (2), we are searching for way to apply our technology, including Dry Fiber Technology and MEMS technology, which we use in the production of printheads among other products, to open up new business opportunities. These investments are directed toward exploring new areas within our business portfolio. For (3), we are aiming to provide new services or solutions within our existing businesses or expand into new customer segments. I consider this to be a form of new business in a broad sense, and these investments are directed towards growth areas or mature areas.

If investments do not lead to profit, they are considered failures from a finance perspective. However, I want us to embrace the challenge of building new businesses for which we can see a path to growth and future profitability, even if they are losing money now. And, as a member of the management team, I will get behind anyone that is willing to do this.

One of the advantages of being both the CFO and CSuO is that we can formulate a long-term investment strategy with a view to future growth. While we have not yet made large investments, we are actively searching for nascent businesses that can drive the next phase of growth. During internal training sessions, especially those for members of management, I tell people to bring investment proposals that are going to torment me. When we identify attractive projects that can help shape Epson's future, I am prepared to invest in them quickly.

Increase Corporate Value Through Constructive Dialogue with Investors

We have maintained financial stability so far, but I am aware that there is still room for improvement in terms of market valuation metrics such as PBR. Institutional investors see Epson in one of two main ways. Because printers are our biggest product, some investors see Epson as operating in a market that is expected to shrink as processes go paperless.

Meanwhile, some see Epson as a company with growth potential due to our MEMS, sensing, and other key component technologies, as well as the potential to utilize inkjet technology to print on materials other than paper.
I believe that one of the reasons Epson's PBR hovers at around 1x is that we haven't adequately communicated how we are optimizing business operations based on business portfolio management or the untapped potential of Epson's technologies and businesses. To address this challenge, we will comprehensively consider measures that satisfy the interests and meet the expectations of investors. This will include measures to foster expectations of growth by executing and communicating our strategies.
Epson will continue to operate with a healthy sense of urgency, efficiently circulating capital and investing in growth based on business portfolio management. We will also persist in our efforts to communicate Epson's growth story. We anticipate that when these efforts yield results, it will be reflected in the stock price, PBR, and ultimately enhance the company's value.

* For more information about how we are enhancing corporate value, please see Epson's financial results and explanatory presentation for the first quarter of the 2023 fiscal year (ending March 2024), announced July 28, 2023.

Enhancing Our Nonfinancial (Future Financial) Initiatives

The environmental initiatives in Epson 25 Renewed cover 1) decarbonization, 2) closed resource loops, 3) customer environmental impact mitigation, and 4) environmental technology development. Customer environmental impact mitigation is the one where we can have the biggest impact, and that is where we are concentrating our management resources.
For example, we are contributing to the resolution of societal issues by providing eco-considerate products with excellent energy efficiency. The actions for to mitigate customer environmental impact align closely with Epson's core business activities.
In addition, our environmental investment plan calls for us to invest 100 billion yen over the decade until 2030, with a focus on areas 1, 2, and 4. In FY2022, expenditures were allocated towards projects involving renewable electricity (1. decarbonization), recycled plastics (2. closed resource loop), practical packaging applications for Dry Fiber Technology, and biomass plastic development (4. environmental technology development). We plan to continue investing as needed to achieve sustainability in a circular economy.
One of the sustainability risks for Epson is human resources. We must continuously hire and develop talented individuals to ensure future business growth.
It is important to broadly explore our options. For example, we should consider raising base pay. We should also look to co-creation and collaboration with partners to augment our staff of people responsible for DX and IT infrastructure. We must also spend and invest as needed. We'll keep refining our human resources strategy to help our organization adapt to future changes in society.
Intellectual property (IP), which underpins innovation, becomes all the more crucial as we pursue co-creation. We are prepared to fully invest in IP, the source of our strength and earning power and a major growth driver.
One of the things we need to do is to show how our nonfinancial initiatives are creating corporate value (earning power) for Epson. In addition to researching this in-house, I want to discuss it with people in the capital markets.

Environmental Initiatives

1 Decarbonization
- Renewable energy use
- Energy-saving facilities
- Greenhouse gas removal
- Supplier engagement
- Carbon-free logistics

2 Closed resource loop
- Effective use of resources
  - Reduce size and weight, use recycled materials
- Minimize production losses
- Extend product service lives
  - Refurbish and reuse

3 Customer environmental impact mitigation
- Lower power consumption
- Longer product life
- Fewer consumables and limited lifetime parts
- digitalization of printing
- Miniaturization of production machines

4 Environmental technology development
- Dry fiber technology applications
- Naturally derived (plastic-free) materials
- Material recycling (metal, paper)
- CO_2 absorption technology

Environmental Investment and Spending

- **Spend 100 billion over the 10 years to 2030** 1 2 4
  - Reduce GHG emissions[1] in the supply chain by more than 2 million tonnes
  - Use renewable energy to meet 100% of the electricity needs of the entire Epson Group by 2023[2]
- **Concentrate management resources on the development of products and services that reduce environmental impacts** 3

[1] GHG scope1, 2, 3 emissions
[2] Excludes some sales sites and leased properties where the amount of electricity consumed cannot be determined

Responding to TCFD Recommendations

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Responding to TCFD Recommendations

Epson sees climate change as a crucial societal issue that we should help to address given the magnitude of its global impact. We have set a target of reducing total emissions in line with the 1.5˚C scenario by 2030 to help reach the decarbonization goals of the Paris Agreement (keeping global average temperature rise well below 2˚C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5˚C). We revised Environmental Vision 2050 at the same time that we publicly announced Epson 25 Renewed, setting the goal of becoming carbon negative and underground resource free[1] by 2050. It is working toward these goals by decarbonizing, closing resource loops, providing products and services that have a smaller environmental impact, and developing environmental technologies.

[1] Free of non-renewable resources such as oil and metals

Scenario Analysis Findings

We analyzed scenarios based on the TCFD framework to quantitatively assess the financial impact of climate-related risks and opportunities on Epson's strategy. In a 1.5˚C scenario in which there is rapid decarbonization of society, we found that there is transitional risk of an increase in operating costs due to market changes, policies, and legislation, but we expect to limit the financial impact by strengthening products and services based on inkjet technology and paper recycling technology.
Even in a 4˚C scenario in which global warming has advanced because the world failed to take measures beyond what are currently being taken, we found that the impact of physical risks on our domestic and overseas sites due to extreme weather events would be small.

Strategy

Epson has determined that achieving sustainability in a circular economy and advancing the frontiers of industry are material matters. To address them, we are leveraging our efficient, compact, and precise technologies to drive innovation and further reduce greenhouse gas (GHG) emissions. In addition, actions to increase our resilience to climate change and to advance toward the realization of Environmental Vision 2050 are being carried out by the Environmental Strategy Council and its subcommittees. In FY2022, progress on the actions below were reviewed, discussed, and reported to senior management and management committees.

Increasing resilience	FY2022 initiatives & results	
Environmental Strategy Council	Decarbonization	• Examined a zero scope 1 & 2 emissions target, plans for upgrading equipment and facilities, and an emissions reduction scenario • Examined sustained and stable sourcing of renewable electricity in Japan • Engaged suppliers on subjects such as renewable electricity & sourcing of recycled materials
	Closed resource loops	• Examined closed resource loop indicators and targets to become underground resource free
	Customer environmental impact mitigation	• Examined the development of an objective and fair method for calculating avoided emissions for each product category to contribute to the mitigation of environmental impact in society
	Environmental technology development	• Created concrete plans of Dry Fiber Technology applications (developed packaging materials and biomass plastics) • Developed high-added-value recycling technology for scrap metal

Governance

Important matters related to climate change are supervised by the board of directors, which receives reports at least once a year from Epson's Sustainability Strategy Council. The council, which establishes and implements long-term strategy for the Epson Group's sustainability activities as an advisory body to the president, deliberates these matters in preparation for reporting.
In addition, Seiko Epson's president and representative director, the individual who has the highest responsibility and authority for climate-related issues, delegates responsibility for climate-related issues to the director of the Sustainability Promotion Office (a senior managing executive officer and board member), and the director of the Sustainability Promotion Office manages climate change initiatives, including TCFD. The framework is the same as the Sustainability Management and Financial Strategies organization chart on P26.

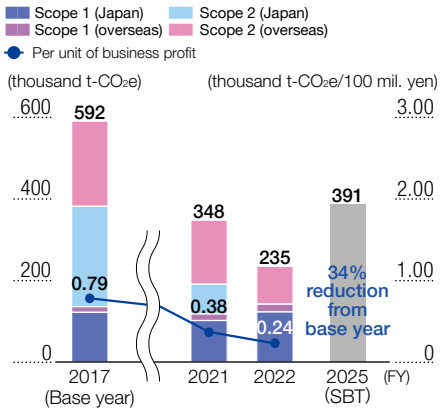
Risk Management

As the environment in which we operate grows more complex and uncertain, effectively dealing with risks that could have a significant impact on corporate activities will be essential in order to carry out business strategies and business objectives. Epson sees climate-related issues as risks that could significantly impact management and has established a process for identifying, assessing, and appropriately managing climate-related risks.

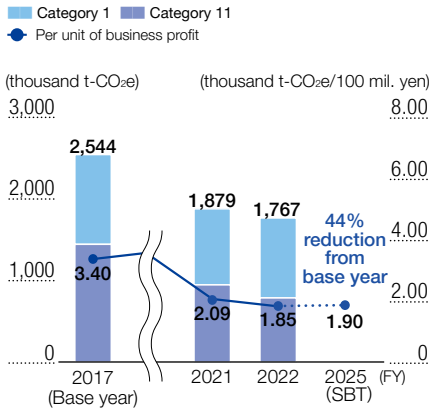
Indicators and Targets

We are actively working to mitigate the environmental impact of business activities throughout the value chain by drawing on the strength of our efficient, compact, and precise technologies to enhance the environmental performance of our products and by switching to sources of renewable electricity. Our FY2022 GHG emissions (Scopes 1, 2 and 3) are depicted in the graph below.

Greenhouse Gas Emissions (Scopes 1 & 2) [2]



Greenhouse Gas Emissions (Scope 3: Categories 1 & 11) [3]



See the back cover for footnotes [2]

[3] Coverage of science-based target,
Category 1: Purchased goods and services, Category 11: Use of sold products
* Category 1: The National Institute of Advanced Industrial Science and Technology IDEA Ver.3.2 is used for calculations in FY2022.

Go to website for details
Responding to TCFD Recommendations
https://corporate.epson/en/sustainability/initiatives/tcfd.html

Climate-Related Risks and Opportunities in a 1.5˚C Scenario / Achievements

Epson identified and evaluated scenarios in the categories of transition risk, physical risk, and opportunity to evaluate the importance of climate-related risks and opportunities. Seven evaluation items were selected. We evaluated the business and financial impact on the basis of the scenarios corresponding to temperature rise of 1.5˚C presented by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA), as well as on the basis of internal and external information.

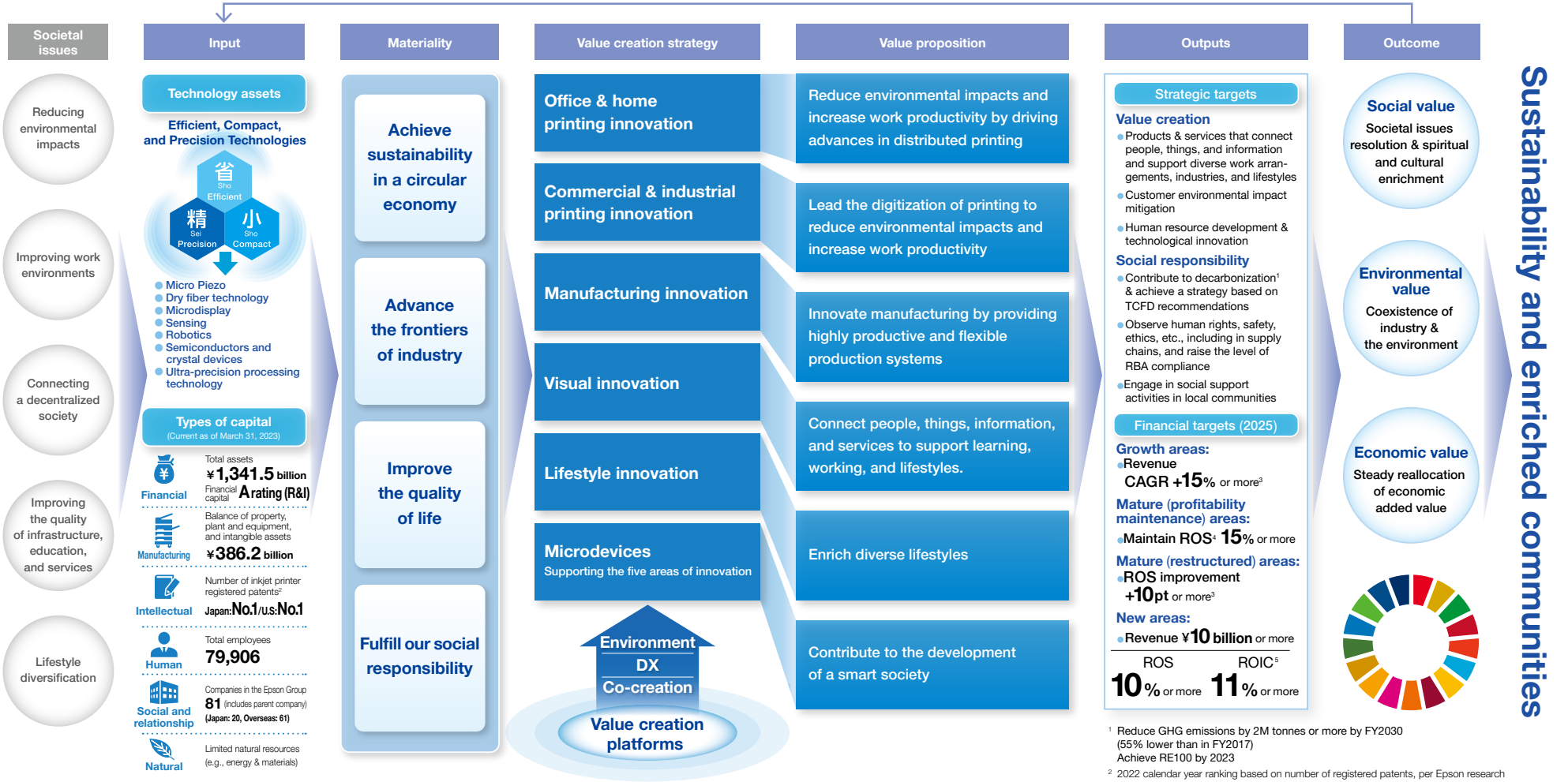
Epson will spend 100 billion yen over 10 years from 2021 to 2030 (¥25 billion up to 2025 and ¥75 billion between 2026 and 2030) to accelerate decarbonization, close resource loops, and develop environmental technology. Solutions to climate-related risks align with our goals of achieving sustainability in a circular economy and advancing the frontiers of industry. They will also lead to opportunities for business expansion with Epson's low environmental impact products and services that save electricity and reduce waste. The results of scenario analysis-based evaluations on climate-related risks and opportunities and initiatives to address them are as follows.

Category		Evaluated Risks & Opportunities	Actualization[4]	Business Impact			Financial Impact[5]	FY2022 Actions	Results of Actions Implemented in FY2022
Transition risks	Market changes, governmental policies, laws, regulations	・Paper demand	Short-term	Impact	• We were unable to detect a strong relationship between climate change and changes in paper demand, but demand for printing and communication paper is assumed to be on a declining trend. Even if the shift to paperless advances further due to changes brought about by COVID-19 (such as the contraction of office printing because of decentralization), we expect to limit the financial impact through stronger products and services that leverage inkjet and paper recycling technology (reduce printing costs and environmental impacts while increasing the ease of printing) and through effective messaging about the usefulness of paper information.			Small	• In office & home printing, sales of printers increased in terms of both units and revenue. Ink cartridge sales decreased as at-home print demand normalized, but sales of high-capacity ink bottles and ink for office shared printers grew along with an increase in the number of machines in the field. The financial impact of fluctuations in demand for paper in the market targeted by Epson was limited.	Small
		(Environmental Vision 2050 initiatives) ・Decarbonization ・Closed resource loops ・Environmental technology development	Short-term	Impact	• Decarbonization of products, services, and supply chains as well as advanced initiatives in resource recycling are needed to respond to the shared global societal issues of climate change and resource depletion. • Scientific and specific solutions are necessary to develop environmental technologies linked with the rapid decrease of environmental impacts.	Response to risks	● Decarbonization • Renewable electricity use • Energy-saving facilities & equipment • Greenhouse gas removal • Supplier engagement • Carbon-free logistics	Invest a total of approximately ¥100.0 billion by 2030	• Maintained sourcing of 100% renewable electricity at all sites[6] in Japan in 2023 and expanded the switch to renewables overseas (FY2022 renewable electricity usage rate: 79%) • Established a policy for the long-term sourcing of renewable electricity	**¥4,530 million** (Breakdown) Investment: ¥2,020 million Expenses: ¥1,100 million Labor costs: ¥1,410 million Total cumulative spending & investment on Environmental Vision 2050: **¥7,850 million**
							● Closed resource loop • Use resources effectively • Minimize production losses • Extend product service lives		• Expanded the use of recycled plastic in products and extended the useful lives of products through refurbishment and reuse • Acquired land for a new factory to recycle used metals as raw materials for metal powders. Completed the basic design of the Epson Atmix recycling factory. (Construction began in 7/2023 & is scheduled for completion in 6/2025)	
							● Environmental technology development • Dry fiber technology applications • Naturally derived (plastic-free) materials • Material recycling (metal, paper) • CO_2 absorption technology		• Developed practical packaging by using Dry Fiber Technology to defibrate cotton scraps and carried out development work on cellulose composite bioplastics Selected CO_2 absorption technology and invested in environment related & materials development	
Physical risks	Acute	・Damage to business sites due to floods	Long-term (end of 21st century)	Impact	• Based on the results of the latest FY2022 risk assessment for 36 sites (17 sites in Japan and 19 sites overseas), the changes in future operational risks due to flooding (rivers overflowing), high tides and drought are limited. • Short-term climate change risks to the supply chain will be addressed in line with our business continuity plans.			Small	• Assessed the latest risks based on the IPCC Sixth Assessment Report for 36 sites (17 in Japan, 19 overseas). - Confirmed that changes in Epson's future operational risks caused by floods (river flooding), high tides and drought are limited implemented BCP measures against the risk of inundation of facilities on lower floors of Toyoshina Plant[7]	Small
	Chronic	・Damage to business sites due to rising sea levels ・Impact on operations due to drought								
Opportunities	Products & services	(Environmental Vision 2050 initiatives) ・Customer environmental impact mitigation	Short-term	Assumed scenarios	• The need for environmentally considerate products and services will increase due to the introduction of a carbon tax, soaring electricity prices, rising waste disposal costs, sustainable production volume, and reduced resource use.	Business opportunities	• In the growth areas defined in Epson 25 Renewed, we expect to grow revenue at a CAGR (compound annual growth rate) of 15% by providing 1) inkjet office printing, commercial & industrial inkjet printing and printheads that reduce environmental impacts, increase work productivity, and reduce printing costs; and 2) production systems with expanded use of new production devices to reduce environmental impacts.	Large CAGR of 15% is expected in growth areas by FY2025	• Promoted initiatives in the growth areas (office printing, commercial & industrial printing, printhead sales, production systems) under Epson 25 Renewed	FY2020 → FY2022 Revenue **CAGR +16%**[8]
		・Environmental business	Short-term	Assumed scenarios	• Market growth is expected in the areas of global warming prevention, waste treatment, and effective utilization of resources. • The shift to a circular economy is expected to drive market growth for recycled plastics, high-performance biomaterials, bioplastics and metal recycling.	Business opportunities	• Generate revenue by upcycling (enhancing functionality), eliminating plastics (packing and molding materials), creating new high-value-added materials and carrying out other measures through the establishment of technologies, such as Dry Fiber Technology applications, including paper recycling, development of naturally derived materials (elimination of plastics) and recycling of raw materials (metal and paper) as effective solutions for combatting global warming and shifting to a circular economy	Medium	• Explored business plans for creating an environmental solutions business centered around Dry Fiber Technology through business and technology development activities	–

[4] **Actualization** Short term: ≤ 10 years Medium term: 10-50 years Long term: > 50 years
[5] **Financial Impact** Small: ≤ 1 billion yen Medium: 1-10 billion yen Large: >10 billion yen
[6] Excluding some rental properties housing sales sites where the amount of electricity consumed cannot be determined
[7] A major domestic site with a long-term flooding risk (end of 21st century)
[8] Comparison of the FY2020 outlook when Epson 25 Renewed was announced and FY2022 results

Value Creation Story

Epson has identified material sustainability issues that we can address to help solve societal issues. We will achieve sustainability and enrich communities by using our unique core technology to drive innovation and provide social, environmental, and economic value. This is aligned with the sustainable development goals (SDGs) and demonstrates how we plan to realize the aspirations embedded in the corporate purpose.



1 Reduce GHG emissions by 2M tonnes or more by FY2030 (55% lower than in FY2017)
Achieve RE100 by 2023
2 2022 calendar year ranking based on number of registered patents, per Epson research
3 YoY comparison
4 Business profit / revenue
5 Return on invested capital

Sustainability Management

Sustainability Management

Epson's Management Philosophy, which states our commitment to customer satisfaction and sustainability, embodies the ideals of the SDGs and sustainability management. Guided by this philosophy, we are contributing to social solutions. With the world looking for a pathway to true sustainability, we practice sustainability management to both drive business growth and solve societal issues with partners who share our vision of enriching the world for future generations.

Sustainability Promotion Organization

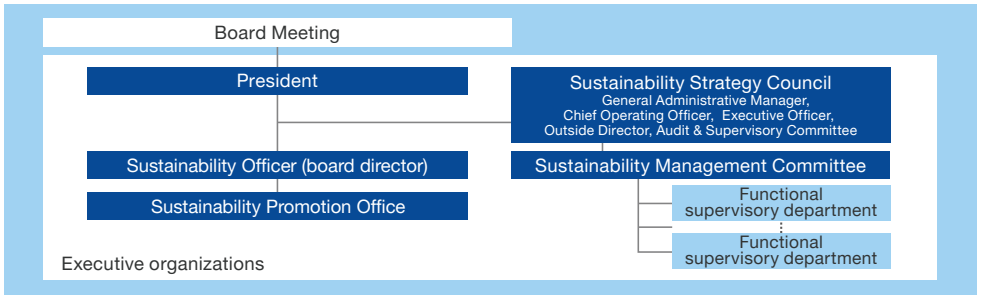
Epson's Sustainability Promotion Office reports directly to the president. The office is headed by a senior managing executive officer who has responsibility and authority for sustainability activities (sustainable growth based on societal needs) across the entire Epson Group.

The Sustainability Strategy Council, which is made up of senior executives along with outside directors and members of the Audit & Supervisory Committee, serves as an advisory body to the president. It is responsible for deciding Group-wide sustainability strategies. The Sustainability Strategy Council reviews social trends, formulates the Group's long-term sustainability strategies, reviews actions taken, and discusses initiatives for addressing important issues.

The Sustainability Management Committee is subordinate to the Sustainability Strategy Council. It studies and discusses matters related to sustainability that require specialized knowledge. This council, which is composed of the general managers of certain supervisory departments, advises and reports to the Sustainability Strategy Council.

The Sustainability Promotion Office handles the administrative affairs of these two meeting bodies, regularly reports to the board, and endeavors to increase the activity effectiveness.

■ Promotion Organization



Deciding Materiality

Epson is working to help solve societal issues and achieve the SDGs in line with the Epson 25 Renewed corporate vision, which was established in 2021. When creating the vision, we evaluated from both a corporate and societal perspective the societal issues and sustainability megatrends made corporate and societal perspective by the SDGs and ISO 26000. In doing so, we identified four material issues ("materialities") that Epson should address to solve societal issues.

The Process for Determining Materiality

Selecting societal issues	Filter and select which societal issues to address based on an assessment of social trends on the horizon, ESG investor expectations, and Epson's own direction.
Evaluating importance	Consider materiality while evaluating the importance of selected issues to society and to Epson at Corporate Strategy Council meetings, etc.
Analyzing validity	Have outside directors and Audit & Supervisory Committee members analyze the validity of the materiality selection process and conclusions at meetings of the Sustainability Strategy Council and Board of Directors.
Deciding materiality	Identify and decide on materiality at meetings of the Sustainability Strategy Council.

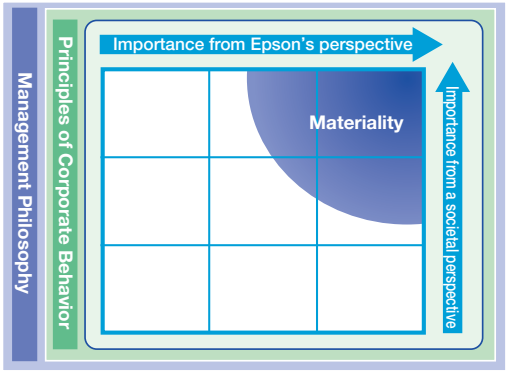
Four material issues that Epson should address

- Achieve sustainability in a circular economy
- Advance the frontiers of industry
- Improve the quality of life
- Fulfill our social responsibility

Evaluate the topics from a corporate and societal perspective

Material Trends and Frameworks Referenced

- The Sustainable Development Goals (SDGs)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Macro trends in the social and economic fields, including climate change (European Green Deal Policy, Paris Agreement, etc.)
- Global Japan: 2050 Simulations and Strategies
- GRI Standard
- SASB Standard
- ISO 26000
- Socially Responsible Investing (SRI) survey items
- Responsible Business Alliance (RBA) Code of Conduct



Key Sustainability Topics and KPIs

To increase effectiveness with which we can address the materialities, we mapped 12 key sustainability topics to the materialities, considered how we could contribute to solving societal issues, set concrete key performance indicators (KPIs), and then got to work.
In FY2022, some of the KPIs were incorporated in evaluations used to determine executive management compensation, thereby clarifying management responsibility for sustainability. Third-party sustainability evaluation results were also used in the past when deciding executive management compensation, but we made executive management's role and responsibility for sustainability even clearer by directly linking their compensation to performance as measured by the KPIs.

Materiality	Key Sustainability Topics	Opportunity (○) / Risk (●)	Initiative Topics	LTI[1] Index	Key Performance Indicators (KPI)	FY2022 Targets	FY2022 Results	FY2023 Targets	case study
Achieve sustainability in a circular economy	Decarbonization initiatives	○ Growing need for environmentally friendly products and services due to the introduction of a carbon tax, soaring electricity prices, rising waste disposal costs, and the need to produce the right amount of products and reduce resources ○ Market growth in the fields of global warming countermeasures and waste treatment and effective utilization of resources ○ Market growth in recycled plastics, bioplastics, and metal recycling due to the shift to a circular economy ● Growing momentum toward a paperless office from the perspective of forest protection awareness ● Increase in operating costs due to changes in policies and regulations ● Credit loss and damage to corporate value due to delayed response to decarbonization and resource recycling ● Damage to corporate value due to failure to achieve plans for or delays in the development of environmental technologies that will lead to a reduction in environmental impact	Using energy-saving equipment and facilities, removing greenhouse gases, engaging suppliers, and pursuing carbon-free logistics to become carbon negative by 2050	●	Scopes 1 and 2 GHG emissions reduction ratio	Reduce by 21% compared to FY2017	Reduced by 60% compared to FY2017	Reduced by 65% compared to FY2017 (SBT: FY2025 target 34%)	
				●	Scope 3 GHG emissions (per unit of business profit) reduction ratio	Reduce by 30% compared to FY2017	Reduced by 45% compared to FY2017	Reduced by 45% compared to FY2017 (SBT: FY2025 target 44%)	
			Using renewable electricity		Renewable electricity adoption ratio	Maintain at 100% domestically	Maintained at 100% domestically Achieved 79% globally	Global 100%	P41-44 Value Creation Platforms
	Closed resource-loop initiatives		Becoming underground resource[2] free by 2050: - Using resources efficiently by reducing size and weight, using recycled materials, etc. - Establishing closed-loop production systems that minimize production losses		Closed-loop materials usage ratio (until FY2022) Sustainable resource ratio[3] (from FY2023)	≥ 20%	21%	Sustainable resource ratio 27% (Defined and started applying from FY2023)	
					Final landfilled ratio[4]	≤ 1%	0.79%	≤ 1%	
	Customer environmental impact mitigation		Maximizing avoided emissions with products and services that have a lower environmental impact[5]		Emissions avoided through products & services	≥ The previous year	297,000 tonnes-CO_2e A 107% YoY	Start calculation using a new logic and set a target	P33-34 Value Creation Strategy
	Environmental technology development		Eliminating virgin plastics and closing resource loops by using Dry Fiber Technology to produce recycled materials and natural materials. - Packaging materials - Housing materials		Progress of development process	- Packaging: Verify practical use for Epson products - Housings: Begin technology verification for practical use	- Packaging: Achieved practical application to watches (cotton scraps) - Housings: Improved the impact resistance of cellulose composite biomass plastic	Expand the scope of practical use	P45-46 Value Creation Platforms
			Establishing high-added-value recycling technology for used metal		Progress of development process	Develop technology for expanding the types of materials recycled	Higher performance of Epson Atmix's powder: Developed a high-voltage-resistant insulating film	Make practicable use of technology that adds value to metal powder (molding materials)	
Advance the frontiers of industry	Improving productivity through digitization and automation	○ Transition to resource-saving and highly efficient production processes due to diversifying consumer needs and the growing importance of environmental considerations ● Loss of business opportunities due to delays in launching products and services that meet market demands	Leading the digitization of commercial and industrial printing with inkjet technology and diverse solutions, to create clean, space-efficient workplaces, reduce environmental impact, and improve productivity		Average sales growth rate of commercial and industrial inkjet printers compared to the previous year	—[6]	—[6]	10%	P35-36 Value Creation Strategy
	Improving working environment and educational environment	○ Decentralization of offices due to diversification of work styles and advancement of information technology ● Loss of business opportunities due to delays in launching products and services that meet market demands	Reducing environmental impact and improving productivity with inkjet technology and open solutions, to lead the evolution of home study and distributed office printing		Average sales growth rate of high-capacity inkjet printers for SOHO and home users compared to the previous year	—[6]	—[6]	5%	—
		○ Need for automation using robots to compensate for global labor shortages against a backdrop of declining birthrates and aging populations ● Loss of trust and damage to corporate value in the event of an accident that causes life-threatening or serious physical harm to a user when the robot is used	Eliminating labor shortages through automation using robots		Number of labor shortages eliminated[7]	—[6]	—[6]	28,000 people	P37-38 Value Creation Strategy
		○ Increasing need to resolve stress burdens and lowered work efficiency due to reduced physical communication in telecommuting and web conferencing ● Decreased need to connect the real and remote due to increased office attendance following the decline of the coronavirus	Providing a fair, natural, and comfortable communication environment without boundaries, combining the real and remote, with both a sense of presence and information content		Number of co-creation and collaboration projects, or number of partners	—[6]	—[6]	Co-creation / collaboration project: 1	
		○ Increasing use of ICT to bridge the gap in learning places and opportunities in developing countries ○ Dissemination of digital educational materials and educational platforms ● Delays in sound budgeting for and investment in education due to delayed economic development and political instability in developing countries	Creating homogeneous learning opportunities through smart, portable displays that enable large-screen communication in a compact form, to mitigate learning disparities stemming from differences in regional and social conditions		Number of local demonstration programs through co-creation and collaboration	—[6]	—[6]	Number of value demonstration programs: 20	P39-40 Value Creation Strategy

[1] Compensation evaluation indicator
[2] Non-renewable resources such as oil and metals
[3] Ratio of sustainable resources (renewable resources + closed loop resources + less-depletable resources) to raw materials
[4] Ratio of landfilled amount of production resources against the volume of resources injected
[5] Quantified the contribution of products and services toward GHG emissions reductions
[6] Materialities of "Advance the frontiers of industry" and "Improve the quality of life" as well as their targets were adopted in FY2023.
[7] Converted based on the effect of Epson's internal projects

Key Sustainability Topics and KPIs

Materiality	Key Sustainability Topics	Opportunity (○) / Risk (●)	Initiative Topics	LTI[1] Index	Key Performance Indicators (KPI)	FY2022 Targets	FY2022 Results	FY2023 Targets	case study
Improve the quality of life	Proposing diverse lifestyles	○ Growing need for data utilization to help improve performance in various sports due to diversifying lifestyles ○ Emergence of new data service businesses such as health support ● Decline in presence due to evolution of competing data services ● Impact on the data service business due to declining interest in health consciousness	Enriching the diverse lifestyles of people through lifestyle-related disease prevention and helping people improve their sports performance by providing personalized value in an easy-to-understand visual manner using proprietary sensing technology and algorithms		Percentage of revenue that the data business in support services[8] accounts for	—[6]	—[6]	30%	—
	Realizing an abundant and colorful life	○ Demand for luxury goods that cater to diverse values, hobbies, and tastes ● Declining presence in the wearable device market due to changing values	Providing attractive and high-quality products with our efficient, compact, and precision technologies and our artisanal skills, to enrich the diverse lifestyles of our customers		Sales growth rate of attractive, high-quality products compared to the previous year	—[6]	—[6]	4%	
Fulfil our Social Responsibility	Increasing stakeholder engagement	○ Growing stakeholder interest in sustainability ○ Growing worldwide interest in business and human rights ● Loss of trust from stakeholders and damage to corporate value due to inappropriate responses to issues ● Occurrence of human rights violations in the Company and its supply chain	Responding to needs and social demands by strengthening dialogue with stakeholders		Evaluation indices of external evaluation agencies	Acquire high recognition[9]	Acquired high recognition	Acquire high recognition[9]	—
	Realizing responsible supply chains		Realizing responsible supply chains	●	CSR risk levels of suppliers	CSR risk rank of main suppliers (direct materials): 0% high risk, ≤ 6% middle risk	- High risk: 0% - Middle risk: 9%	CSR risk rank of main suppliers (direct materials): 0% high risk, ≤ 4% middle risk Main suppliers (indirect materials): 0% high risk	P49-50 Value Creation Platforms
	Respecting human rights and promoting diversity	○ Improvement in corporate performance by fostering a free and open organizational climate ○ Growing worldwide interest in business and human rights ○ Transformation in awareness and understanding of DE&I and social minorities ● Decreased engagement and lack of innovation due to slow progress in improving organizational culture ● Damage to corporate value in the event of serious human rights violations, including those in the supply chain ● Decreased engagement due to slow progress in DE&I	Creating a free and open organizational culture		Organizational climate assessment score for "strength to work in teams"	Reset KPI due to change[10] in assessment method with introduction of the motivation cloud (employee engagement survey)	Set the following targets for FY2025: - Engagement rating: A (score of 58.0 or higher) - Number of workplaces with D rating: zero	Motivation Cloud - Engagement rating: BB (score of 54.0 or higher) - Number of workplaces with D rating: 31	P51-55 Value Creation Platforms
			Respect for human rights through dissemination of the new "Human Rights Policy" within the Group		Embedding and improving the commitment for respecting human rights, human rights due diligence (DD) and relief mechanism	Announce the Human Rights Policy and assess and improve the state of human rights DD & remediation mechanisms	Disseminated the Human Rights Policy by launching training and identified the current status and areas for improvement of human rights DD and relief mechanism	Embed and improve a PDCA cycle for respecting human rights - Japan: Establish a system for cooperation with various help desks - Overseas: Establish a system for gathering information and understanding the situation by clarifying rules for receiving reports from help desks of overseas affiliates	
			Utilizing human resources in a way that respects diversity	●	Female management position ratio (the Company)	Female manager ratio: 5%	・Female manager ratio: 4.1%	Female manager ratio: 5% Female assistant manager (senior staff) ratio: 8%	
					1 or more female executive officers by FY2025 (in Japan)	Promote the participation of woman training	・Two managers participated in external training		
	Strengthening governance	○ Strengthening of the governance system leading to acceleration of strategy implementation and increased responsiveness to change ○ Competitiveness increase through appropriate risk-taking ● Delays in strategic progress and decreased organizational power due to governance failures ● Generation of losses and loss of public trust due to noncompliance	Reinforcement of compliance management platform	●	Number of serious compliance violations[10]	No serious compliance violations	No serious compliance violations	Serious compliance violations: 0	P57-68 Strengthening Governance
			Enhancement of Group compliance level		Implementation ratio of compliance training (e-learning) to all Group employees[11]	Completion rate in Epson Group: 100%	In Japan: 99.0% Overseas: 98.5%	Completion rate in Epson Group: 100%	

[1] Compensation evaluation indicator
[6] Materialities of "Advance the frontiers of industry" and "Improve the quality of life" as well as their targets were adopted in FY2023.
[8] A business model that transforms data into algorithms and provides value
[9] Sustainalytics: Low; FTSE: 4 or higher; Top 50 or higher in "Toyo Keizai CSR ranking"
[10] Cases of violation that correspond to timely disclosure matters
[11] Scope: Epson and its global subsidiaries