



Our Promise:  
**Creativity and Challenge**

Epson Group  
Sustainability Report **2007**  
2006.4–2007.3

## Contents

- 3 Message from Management
- 5 Epson's Management Vision
- 7 Corporate Governance
- 9 CSR at Epson

## Customer Satisfaction—Epson and Its Customers

- 13 Dialog with PictureMate users
- 15 Quality
- 17 Safe, easy-to-use products
- 19 Service and support

## Environmental Conservation—Epson and the Environment

- 21 Dialog with Junko Edahiro, Chief Executive of Japan for Sustainability
- 23 Topic: Industrial inkjet applications
- 25 FY2006 performance against Epson's "Action 2010" General Environmental Policy
- 27 Environmental conservation
- 29 Product development and design
- 31 Materials procurement and green purchasing
- 33 Manufacturing process initiatives
- 36 Distribution initiatives
- 37 Reducing environmental impacts during product use
- 39 Recovery and recycling
- 41 Environmental management system and environmental accounting

## Individuality and Teamwork—Epson and Its Employees

- 43 Dialog with employees who used Epson's childcare system
- 45 HRD & training
- 49 Occupational safety and health programs

## Trusted Throughout the World—Epson and Its Suppliers

- 51 Dialog with Miyama Incorporated
- 53 Basic procurement policies and guidelines

## Development in Harmony with Society—Epson and Society

- 55 Dialog with primary school teachers who participated in Kids ISO
- 57 Corporate citizenship
- 61 Community engagement
- 65 Worldwide declarations of sustainability

### Editorial policy

This report is intended to communicate how Epson, guided by its management philosophy, is fulfilling its promise of "creativity and challenge." Epson spoke directly with stakeholders and gathered their opinions on how we are doing now and what we can do in the future.

**Referenced guidelines:** *Environmental Reporting Guidelines* (2003) of the Japanese Ministry of the Environment and Global Reporting Initiative (GRI) *Sustainability Reporting Guidelines* (2002),

**Reporting period:** April 2006 to March 2007 (\*Contains some information on activities conducted after March 2007)

**Scope:** This report describes the sustainability efforts of the Epson Group, including Seiko Epson Corporation and 105 affiliates (consolidated subsidiaries in which Epson owns a majority of voting stock). The scope of environmental reporting, however, covers Seiko Epson Corporation, 23 of its affiliates in Japan and 54 of its affiliates overseas that have acquired ISO 14001 certification and in which Seiko Epson owns a majority of voting stock.

\* "Epson" in this report refers to the Epson Group, and "our company" refers to Seiko Epson Corporation.

**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 schedule report:** June 2008

### 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.

**2007 Annual Report:** Corporate vision, review of operations, financial statements (published July 2007)

**2007 Sustainability Report:** Social and environmental performance

### Inquires about Sustainability Report 2007

Trust-Based Management Department, Seiko Epson Corporation  
3-3-5 Owa, Suwa-shi, Nagano-ken 392-8502, Japan  
Tel: +81-266-52-3131 (main)

## Corporate profile

**Name** Seiko Epson Corporation  
**Established** May 18, 1942  
**Head office** 3-3-5 Owa, Suwa-shi, Nagano-ken, Japan  
**Capital** 53,240 million yen (as of March 31, 2007)  
**Employees** 87,626 (worldwide consolidated); 13,039 (non-consolidated) (as of March 31, 2007)

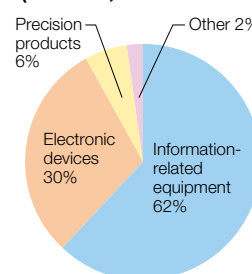
**Sales / Operating income (for fiscal year ended March, 2007)**  
 Consolidated: 1,416 billion yen / 50.3 billion yen  
 Non-consolidated: 837.1 billion yen / 49.8 billion yen

## Membership

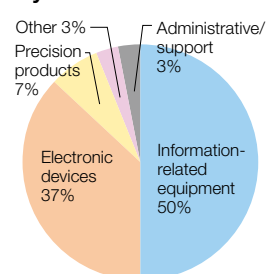
Japan Electronics and Information Technology Industries Association  
 Japan Business Machine and Information System Industries Association  
 Communications and Information Network Association of Japan  
 Japan Environmental Management Association for Industry  
 Nagano Employers Association  
 Nagano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



**Sales breakdown (FY2006, consolidated)**



**Employee breakdown by business**





## Message from Management

# Reviving the spirit of creativity and challenge to continue being a trusted company



### **The Epson management philosophy—grounded in CSR/trust-based management**

Epson's management philosophy affirms the importance of trusted relationships with our stakeholders and calls upon employees throughout the Epson Group to work together to build and develop trusted relationships by taking on ambitious challenges and exercising creativity.

Implicit in this philosophy of "trust-based management" are the concepts of corporate social responsibility (CSR), which we have worked hard to instill.

Nevertheless, last year we discovered that a former employee of Seiko Epson was involved in improper transactions worth approximately 100 million yen. As the chief executive officer, I wish to apologize for this deeply regrettable incident, and I want you to know that we are taking steps to prevent similar incidents in the future. Specifically, we are educating our employees in the essential tenets of trust-based management, beginning with Epson's Principles of Corporate Behavior, and are strengthening our system of internal checks to prevent and quickly detect any improprieties.

Seiko Epson, which participates in the United Nations Global Compact, promotes initiatives in the areas of human rights, labor standards, the environment and anti-corruption. Still, I believe the cornerstone of trust-based management is a commitment by our people to adhere to some basic rules of conduct: honoring commitments, telling the truth, and maintaining transparency. My personal creed is "do the right thing." Obviously, honoring commitments, telling the truth,

and maintaining transparency are the "right thing" and the most fundamental requirements for trusted relationships. Failure to maintain integrity will instantly destroy relationships we have spent years building. I thus believe it is vital to keep reiterating the concepts of trust-based management, repeating the same message until it eventually becomes indelibly ingrained in the Epson culture and fosters lasting trusted relationships with our stakeholders.

### **Reviving our culture of "creativity and challenge"**

Epson has been driving forward on a mid-range business plan called "Creativity and Challenge 1000." This three-year plan is designed to turn the company's fortunes around and restore growth momentum from FY2006. The plan sets a target of achieving at least 100 billion yen in pretax profit by the end of the 2008 fiscal year.

A good company, one trusted by stakeholders, creates sustained, healthy profits by providing its customers with high value, thereby enabling it to fulfill its obligation to give the profits back to its stakeholders—its shareholders and the communities in which it operates—through the payment of dividends and taxes. "Creativity and Challenge 1000" outlines sweeping reforms that will enable Epson to meet these obligations while positioning us to survive and thrive in the fast-paced business world of the 21st century. An important aim of these reforms, long term, is to revive our traditional corporate culture, which has long been defined by an emphasis on creativity and a willingness to accept difficult challenges.

Many years ago, I led an effort to develop the MJ-700V2C, a four-color inkjet printer that was, at the time, cutting edge. One thing I focused on was providing the project team's engineers with an environment in which they would feel comfortable taking on difficult challenges. I felt this was critical not only because Epson derives its strength from its people but also because Epson, as an employer, has an obligation to provide them with a creative outlet, a vibrant setting in which to pursue and achieve their ambitions.

Our goal with "Creativity and Challenge 1000" is to foster innovation by reshaping our business and management structures but also to solidify our existing assets—the technology, customer base and products on which Epson's business has been built. We are intent on taking care of our existing businesses both because our existing assets can be combined in new ways to produce effective innovations and because we are wary of inviting a loss of trust by becoming overly focused on the new at the expense of the old. We must constantly seek to uphold the principles of "trust and integrity" and "creativity and challenge" stated in our management philosophy.

### Directly linking ecology and economy

Environmental conservation efforts occupy a place of particular importance in CSR—what we call "trust-based management." Epson, which has long upheld "co-existence" as a core value and has always actively addressed environmental issues, intends to stay a business leader in this area.

In fiscal 2006, we launched "Action 2010," a general environmental policy that states specific environmental goals to be achieved by 2010, the midpoint of the Kyoto Protocol's first commitment period (2008–2012).

The major theme of this policy is the linking of economy and ecology. Ecological concerns are by no means incompatible with economic concerns. For example, efforts to minimize the consumption of energy during manufacturing enable us to provide products at lower cost. Consequently, the cost reduction initiatives outlined in "Creativity and Challenge 1000" will eventually tie into reduced environmental impacts, both directly and indirectly.

The development of environmental products will only grow in importance, as they provide society with value in the form of environmental conservation.

We are hearing from Europe, which is mounting the world's most progressive efforts to address environmen-

tal problems, that they want us to develop products that place environmental conservation front and center, and we expect this trend to spread across the globe. We intend to respond to these wishes by emphasizing the environmental features of our products in promotions.



### Raising quality consciousness

A variety of manufacturing companies have come under fire in recent years for quality problems, as well as for their attitude in addressing them.

As a manufacturer, Epson has gone back to the basics of "QCD+E" (quality, cost, delivery and the environment) to conduct its businesses with a focus on quality as well as environmental concerns. Quality is more than simply the quality of a product. Underpinning product quality and the trust we enjoy from society are our corporate quality and the quality consciousness of our people. In this sense, our efforts to revive "creativity and challenge" as the centerpiece of our culture are the key to raising quality consciousness.

Our primary mission as a manufacturing company is, I believe, to provide our customers with products and services that exceed their expectations. Put another way, our mission is to surprise and delight. As the originator of numerous world-first products, Epson is expected to go beyond providing reliability to deliver surprise and delight.

Today the Epson Group has 117 companies and nearly 90,000 employees worldwide. When I consider that our activities affect our employees' families, the communities we call home, and our expansive base of customers, the burden of expectations is immense. But bringing delight and creating new value is what the spirit of creativity and challenge is all about.

Seiji Hanaoka  
President and COO  
Seiko Epson Corporation

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



## The Epson Management Vision



To ensure that our business activities bring surprise and delight to customers with widely divergent sets of values, Epson seeks to create real customer value by adhering to its core beliefs in the power of trust, integrity, creativity and challenge.

## Vision

Epson's vision of the future

**Epson's Mid-Term Goal**

The creation of real customer value

## The "Creativity and Challenge 1000" Mid-Range Business Plan

A three-year plan  
that charts Epson's course from FY2006 through FY2008

Quality  
Philosophy

Management  
Philosophy

### 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.

Epson's management philosophy has been translated into 14 languages and is shared throughout the Epson Group

# Strategies & Actions

Strategies and actions to realize Epson's vision

## Mid-Range Business Plan "Creativity and Challenge 1000"

### Goals

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

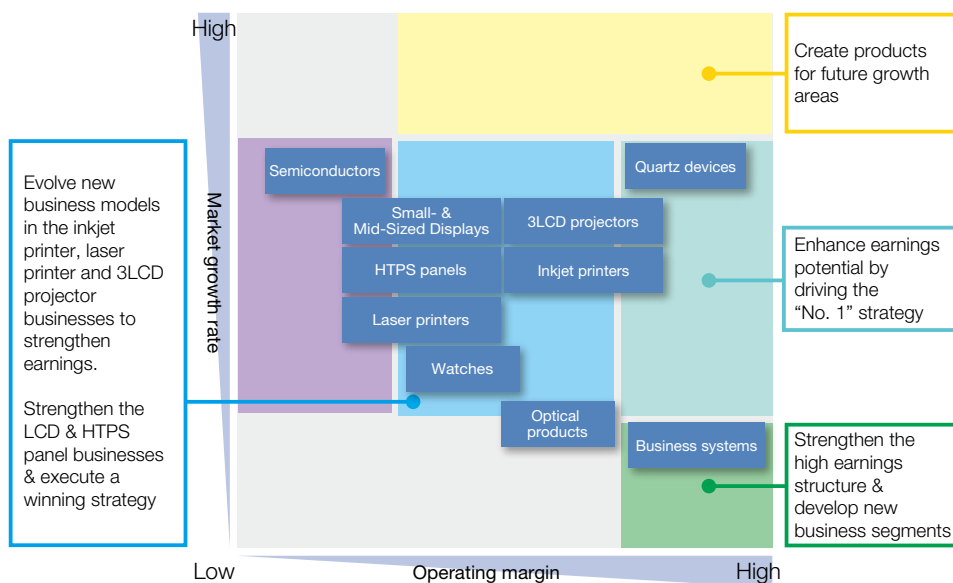
Achieve ¥100.0 billion or more in ordinary income in the fiscal year ending March 2009

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

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

### Epson's direction: our business and product portfolios

Redefine the mission and focus of businesses and products by managing our portfolio so as to secure sustained earnings



Analyzing our businesses using a variety of techniques, we identified business domains and product portfolios for the mid term. Having pinpointed the strengths and weaknesses of Epson's business structure, we are fortifying the businesses and products that are competitive while buttressing businesses in which growth has slowed. We are also bolstering our R&D, technology development, and product development capabilities to create new businesses and products that will drive future growth.

### Guidelines for corporate and personal conduct

#### "Principles of Corporate Behavior" & "Employee Code of Conduct"

Epson's Principles of Corporate Behavior and Employee Code of Conduct are the cornerstones of trust-based management.

Principles of Corporate Behavior, established in September 2005, spells out nine principles of expected conduct.

Employee Code of Conduct describes how employees should conduct themselves in relation to each of the nine principles stated in the Principles of Corporate Behavior.

### The nine principles

1. Acting ethically, building trust
2. Protecting people, assets and information
3. Generating value for our customers
4. Creating a safe, healthy and fair workplace
5. Fostering diverse values and teamwork
6. Co-creating with our business partners
7. Initiating honest dialogue with our stakeholders
8. Prospering with the community
9. Preserving the natural environment

# Corporate Governance Building Trust

## Approach to corporate governance

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

Seiko Epson redefined its management framework and reformed its governance system as outlined below to position the company to execute its mid-range business plan, "Creativity and Challenge 1000."

- Reduced the number of directors from 25 to 10 persons
- Shortened the terms for directors (from 2 years to 1 year)
- Introduced an executive officer system
- Discontinued the system of retirement benefits for directors and auditors, and introduced a remuneration system linked to the company's share price

Seiko Epson's board of directors meets once per month and convenes extraordinary meetings of the board as needed. Epson has a five-person board of auditors. To ensure the independence of audits and maintain transparency, three of the board's five members are external statutory auditors.

Seiko Epson has built an internal compliance system to ward off any potential legal or internal regulatory violations within its operations. An internal audit office that reports directly to the president regularly audits operations, including those at Epson affiliated companies. The internal audit office evaluates the effectiveness of risk management, control, and governance processes; requests improvements where needed; and reports audit results to the president.

## System of internal controls

### Business execution system

Seiko Epson has developed a comprehensive system and organization, with well-defined lines of authority and accountability, to help ensure that business is executed properly and efficiently across the entire Group. Regulations require affiliated companies to receive prior approval from the parent company for certain actions, which they are then mandated to report. Af-

filiated company actions meeting certain criteria will become agenda items for the parent company's board of directors, thereby serving as a system of checks and oversight.

### Safeguarding and management of business information

Business information is safeguarded and managed in accordance with company regulations. This information is readily available for review by Epson directors and statutory auditors.

### Compliance

Seiko Epson has established a Legal Compliance Regulation that defines basic compliance expectations, organizations and systems. Further, the company has created guidelines that underpin its commitment to trust-based management: Principles of Corporate Behavior and Employee Code of Conduct, which is based on these principles.

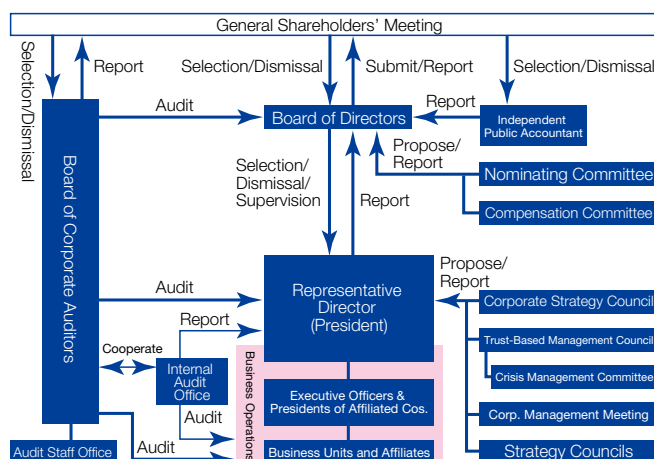
The president bears ultimate accountability for ensuring overall compliance at Epson, with executives (directors) in each consolidated business and operating field responsible for compliance-based management in their respective areas.

A Trust-Based Management Council for discussing compliance-related matters has been established under the supervision of the president. Full-time statutory auditors are among the body's members, providing a system that enables auditors to confirm the status of Epson's compliance program.

### Risk management system

Epson's Risk Management Regulation forms the basis for the company's risk management system. The regu-

Schematic model of Epson's corporate governance system





lation lays out the essentials of the risk management organization, defines roles and responsibilities, and describes procedures for managing risks.

A Crisis Management Committee, chaired by the president, has been established to enable the president to lead the entire company in mounting a rapid initial response.

#### ■ Audit system

Statutory auditors are authorized to attend sessions of the Corporate Strategy Council, management meetings and other important business meetings. They are thus in a position to conduct their audits with the same level of information as directors. In addition, Epson's statutory auditors are authorized to demand hearings from directors and other personnel in the execution of their audit duties. Statutory auditors also strive to enhance the efficacy of their audits by holding regular discussions with Epson's internal audit office and independent public accountant.

### Security

Epson maintains the security of its employees and of corporate assets (financial, material, intellectual, brand, data, and so forth). The company is also very sensitive to the property rights of other parties. We have established internal security rules to ensure that corporate assets are not exposed to risk from outside the company, and that employees do not put them at risk.

#### ■ Information security and privacy protection

Seiko Epson designated July 2006 as "Information Security Month." During the month, we sought to tighten information security by identifying explicit employee information security risks and by taking corrective action to counter those risks. Special attention was paid to stepping up efforts against spyware and file-sharing software. Epson is now conducting business at an information security level that conforms to international standards. Our data centers have earned Information Security Management System (ISMS) certification. The Business Products Operations Division, meanwhile, has fulfilled the requirements for ISO 27001, an international standard for information security.

Personal information protection efforts were also strengthened. Every Epson organization planned, implemented and checked its own actions with regard to personal information protection, and 46 of these organizations were internally audited to ensure that corrective measures are implemented where necessary.

In addition, Epson sales companies in Japan that possess personal information belonging to customers have implemented privacy programs and have fulfilled third-party requirements for approval to display the Privacy Mark.\*

\* Indicates compliance with JIS standards on privacy protection

#### ■ Internal information protection system

To date, Epson has been taking a standardized approach to protecting information assets from risks based on corporate guidelines and has been strengthening the efficacy of its compliance and crisis management programs. Going forward we will set even more rigorous objectives and increase the effectiveness of internal controls in an ongoing effort to improve the management system for protecting all corporate information, including trade secrets. With this in mind, we established, in April 2007, a Basic Information Security Policy that describes our information security governance approach and requirements. In line with this policy, we have appointed a chief information security officer, reorganized our implementation system and drafted a three-year plan with the goal of establishing information security governance within Epson by the end of the 2009 fiscal year.



Basic Information Security Policy  
<http://www.epson.co.jp/e/community/sr/>

#### ■ Risk management and operations audits

One of the critical missions of management is to manage risks that could impair our business and to create a system for responding to crises. We have addressed this mission by building a Group-wide risk management system tailored to our business structure and to environmental changes. This system is designed to prevent crises and to minimize damage should one arise.

Epson executives identify risks in their areas of control, assess potential impacts, specify important risks, and implement appropriate controls.

Epson's internal audit office conducts audits of all business entities in the Epson Group.

Auditors review and assess risk management, control and compliance systems and management processes, advising audited business units to implement improvements where needed and performing follow-up audits to monitor progress and confirm that its recommendations have been implemented. Audit results are reported to the president and at Corporate Management Meetings and Trust-Based Management Meetings.

# CSR Programs for Building Trust

## “Principles of Corporate Behavior”—key action themes and results

At Epson we believe it is our social responsibility as a corporation to ensure that our business is conducted with integrity and that our practices are consistent with our trust-based management philosophy. To specifically define these social expectations, we created Principles of Corporate Behavior in 2005.

Principles of Corporate Behavior sets forth nine basic principles of conduct that Epson Group companies, their officers and employees are expected to follow. Following these principles is essential if we are to meet our social responsibilities and maintain the trust of all stakeholders—our customers, shareholders, investors, communities, business partners, employees, as well as NGOs and NPOs.

In fiscal 2006 we stepped up our activities and set key agenda items for each of the nine principles. While many goals were achieved, there are many other areas in which we need to improve and set new performance goals. For these we have created a table of key agenda items for FY2007 and are further developing these actions.

CSR occupies an important place in our mid-range business plan (“Creativity and Challenge 1000”), and CSR activities engage the entire company. Moving forward, we will continue to develop a climate and strengthen systems that ensure that Epson employees worldwide “do the right thing.”

Principles of Corporate Behavior	FY2006 key action themes
<b>Acting ethically, building trust</b> We will abide by the law and conduct all our business with high ethical standards.	Build a more effective governance system Strengthen risk management Ensure uncompromising compliance
<b>Protecting people, assets, and information</b> We will maintain systems to provide the security of people and all corporate assets, and will be prudent in handling information.	Establish a security organization <ul style="list-style-type: none"> <li>• Information security</li> <li>• Physical security</li> </ul>
<b>Generating value for our customers</b> 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.	Provide customers with high-value products and services
<b>Creating a safe, healthy, and fair workplace</b> 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"> <li>• Prevention of excessive overtime work</li> <li>• Youth education</li> </ul> Maintain a workplace that embraces diversity
<b>Fostering diverse values and teamwork</b> We will draw strength from our diversity, creating a positive synergy between the individual and the company.	Hiring and placement for personal and organizational vitality Create a work environment that maximizes personal and organizational capabilities
<b>Co-creating with our business partners</b> 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.	Maintain trusted relationships with partners Extend our CSR standards across our supply chain
<b>Initiating honest dialogue with our stakeholders</b> We will maintain open lines of communication with our stakeholders, thoughtfully considering their views and suggestions.	Engage in effective communication Stakeholder engagement
<b>Prospering with the community</b> We will actively contribute to the communities in which we operate, as well as the international community, facilitating mutually beneficial relationships.	Contribute to society through youth education programs
<b>Preserving the natural environment</b> 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.	Promote Epson's “Action 2010” General Environmental Policy <ul style="list-style-type: none"> <li>• Reduce greenhouse gas emissions</li> <li>• Promote recycling</li> <li>• Reduce and tightly manage substances that impact the environment</li> <li>• Contribute to education and society</li> </ul>

## 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 principals on human rights, labor standards, the environment and anti-corruption.

Epson pledges to instill and communicate these principles both internally and externally, and will report its own performance with respect to these principles.



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 its stakeholder disclosures.

In FY2006 Epson was selected for inclusion in the SRI indices shown below.



FTSE4Good Global Index:  
 United Kingdom (May 2006)



Ethibel Sustainability Index:  
 Belgium (June 2006)



Morningstar Socially Responsible Investment Index (Japan, Sept. 2006)

FY2006 results of actions	FY2007 key action themes
Overhauled the corporate governance framework and systems ..... P7 Moved forward on preparations for J-SOX compliance (Japan) Deployed measures to prevent corrupt practices..... P54	Deploy proactive business management Rebuild a system for appropriately allocating management resources J-SOX compliance trial
Created an information security policy ..... P8 Implemented a stronger physical security system (at the Epson Innovation Center)	Strengthen and effectively implement security • Strengthen information security • Roll out physical security systems horizontally across the Group
Continued to assure product safety.....P15 Applied universal design concepts to products.....P17 Developed environmental products, such as recycled ink cartridges & FSC-certified photo matte paper .....P40, 38	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
Made our work environments safer and healthier by promoting NESP activities...P49 Installed measures to prevent excessive overtime work.....P46 Instituted a basic policy and program for promoting mental health and wellbeing..... P50 Revised our youth education and re-hiring systems.....P46 Conducted a fact-finding study at Epson affiliates around the globe and implemented improvements .....P46	Ensure safety and health via the New Epson Safety Program (NESP) Encourage a healthy life-work balance • Track hours spent at work (Japan) Maintain a workplace that embraces diversity • Implement corrective actions for issues identified at affiliates outside Japan
Promoted a policy of placing the right people in the right jobs Took action to deeply ingrain Epson values.....P45 Used survey results to assist professional growth and increase organizational dynamism .....P46	Hiring and placement for personal and organizational vitality Heighten awareness among middle managers of the importance of developing personnel on the job Provide systems and opportunities for employees to continue developing their professional knowledge and skills
Managed suppliers and extended our CSR standards based on procurement guidelines..... P53 Promoted the procurement of green production materials.....P31	Evaluate the CSR programs of all suppliers on the basis of our procurement guidelines Study guidelines revisions
Drafted new visual identity guidelines Launched a new web site on Epson technologies..... P62 Enhanced external communications with stakeholders.....P61, 62 Implemented activities to drive home Epson's "trust-based management" values... P63	Implement effective communications Facilitate further communication with stakeholders Enhance communication with shareholders, employees, customers, communities and other stakeholder groups
Enhanced program to contribute to youth education .....P57	Further enhance youth education programs Roll out volunteer programs that involve employees
Refer to pages 25 and 26	Promote Epson's "Action 2010" General Environmental Policy • Reduce greenhouse gas emissions • Promote recycling • Reduce and tightly manage substances that burden the environment • Promote educational and philanthropic programs



# Boasting a Spirit of Creativity and Challenge

—FY2006 Activity Report—

**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 an ethical manner, carrying out programs that contribute to the community and practicing what our management philosophy preaches.

Over the following pages we report on the programs and initiatives we have pursued to this end.



## Customer Satisfaction

### Epson and Its Customers

P13–P20

Epson's business domains are expanding, and our customers' wishes are growing more diverse. We keep our customers foremost in mind as we perform our jobs, and we seek to provide customer satisfaction in everything we do by remaining committed to the quality of our products and services and by maintaining a high level of quality consciousness.



## Environmental Conservation

### Epson and the Environment

P21–P42

Epson, the first company to eliminate CFCs from its manufacturing operations, has conducted a variety of programs over the years to keep it among the environmental leaders. As a company with environmentally aware employees and a strong environmental track record even through years of robust growth, we are driving environmental programs in pursuit of challenging objectives.



## Individuality and Teamwork

### Epson and Its Employees

P43–P50

Epson has fostered a free and open corporate climate. Employees are encouraged to express their opinions and themselves so that we may wring the maximum benefit from their personal creativity and sensibilities. Our vision is of Epson as a global enterprise that embraces diversity, individuality and different abilities and that pools these strengths to achieve the overall goals of the Group.



## Trusted Throughout the World

### Epson and Its Suppliers

P51–P54

We recognize that we cannot be a sustainable enterprise by ourselves; we need to evolve in step with society. The same goes for relationships with our suppliers and other business partners. We are building bonds of mutual trust and promoting CSR programs throughout the global supply chain.



## Development in Harmony with Society

### Epson and Society

P55–P64

Epson gives back to society through a variety of philanthropic and other corporate citizenship programs. As a social entity, Epson has an obligation to provide information to stakeholders. We will continue to reporting to fulfill our obligation for transparent, fair management.



## Dialogue

### Customer Satisfaction—Epson and Its Customers

## Maintaining a customer focus to improve products and services

Epson's biggest mission is to satisfy its customers with Epson products and services and to delight its customers beyond their expectations.

To aid us in fulfilling this mission, we asked a panel of PictureMate owners to tell us how they feel about their mini photo labs, what improvements they'd like to see us make, and what they'd like us to do in the future.

#### A desire to make products that appeal to printer users

**Mr. Uyama** The number of opportunities to print photos increased quite a bit once I became a father, so I started looking for a small photo printer. I read a feature article on photo printers in a magazine, narrowed down my choices, and then went to a store and spoke with a sales person before eventually deciding on a PictureMate. What makes a PictureMate so convenient is that you don't have to connect it to a PC. So when friends or family come over, I can simply print out photos on the spot and hand them out as gifts. Printing speed is also faster than I thought.

**Ms. Suzuki** I wanted a compact photo printer, so when I saw a PictureMate advertised on television, I went on the Internet to gather more information to inform my buying decision. I took the printer with me on a visit to my parents' house. My relatives loved it that I was able to immediately print out and give them photos that we'd just taken. I couldn't have done that with my old printer.

**Ms. Yasuma** I wanted a photo printer. With a PC printer, you have to go through the bother of starting up your computer and transferring data to your hard drive. Two main features sold me on the PictureMate. First, I can print photos quickly and simply by plugging my digital camera's memory card into the printer; and, second, I was attracted to the cute framing options.

**Takatsuna** Epson's PictureMate printers were designed and developed to be portable so that they could be used anywhere in the home to conveniently print photos without a PC. I'm very pleased to hear that the intent was successfully conveyed.

**Kawahara** As a printer user myself, I had always wanted a printer like this. One of the things we were careful to do when designing this printer was to limit the number of buttons on the printer and to make them large. Our intent was to keep the appearance simple and to present the least intimidating interface possible.

**Ms. Suzuki** I don't like operating equipment, so I really like the fact that the PictureMate has so few buttons.



Photo on opposite page (from left)

**Manabu Kawahara**, Manager, Imaging Products Design Center  
**Yoshitomo Takatsuna**, Manager, Consumer Products Planning Dept.  
**Ms. Tomoko Yasuma**, Tokyo  
**Mr. Akihisa Uyama**, Chiba  
**Ms. Mari Suzuki**, Tokyo

**Ms. Yasuma** For sure, there are not many buttons and the operations are limited. The instructions that appear on-screen are so easy to understand and follow that even my five year old can print photos. It's a lot of fun, so we always print out photos together. Even my parents would be able to print photos.

### Producing a chain of smiles and delight beyond expectations

**Mr. Uyama** The manual had very little difficult technical information. I found it easy to read and understand.

**Takatsuna** We prepared two types of manuals: an ordinary manual, and a conveniently portable manual that presents only basic, simple instructions. We also provide a case inside the product box for carrying a power cable, ink, paper and other supplies.

**Ms. Yasuma** Not only is the printer simple, the prints are also beautiful. If you use the paper that Epson recommends, the color and so forth are superb and very satisfying.

**Mr. Uyama** I read that sublimation printers are supposedly better for photos, but the PictureMate made fantastic New Year's greeting cards that contained a mixture of text and photo images. A lot of people commented on how beautiful the photos came out, so I really couldn't ask for much more.

**Ms. Suzuki** You can use the printer without having to pore over the instruction manual, and I was impressed with the quality of the very first print I made.

**Takatsuna** The basic printer functions had to be preserved even in a smaller form factor—the printer had to be both fast and produce prints that customers would be satisfied with. Our engineers struggled quite a bit to make it happen.

**Kawahara** I think a lot of people buy a printer based on the printer's specifications. To convey a sense of performance via the design, a designer usually ends up trying to make the printer look stylish and expensive. That usually means they try to make it look feature-packed. For the PictureMate, however, we made a conscious effort to tone down these design elements. Instead, we sought to highlight ease-of-use and simplicity.

**Ms. Yasuma** The printer's white case stands out among other printers. It looks like a cosmetics box.

**Kawahara** I'm really happy to hear you liken the printer to a familiar object in the home, because that's exactly the kind of reaction we tried to provoke with the design.

Now that you've used your printers, what kind of



changes or improvements would you recommend?

**Ms. Suzuki** I'd like the LCD screen to be a little larger, to make it easier to tell on-screen whether red-eye correction is needed.

**Mr. Uyama** A slightly larger screen would be easier for me to see, too. A softer touch when pressing buttons would also improve usability.

**Kawahara** The concept of this product is "ease of use." When you consider the needs of older users, it seems that we may have to make some improvements in terms of LCD screen size, letter size, and so on.

**Takatsuna** We intend to look into a variety of options, such as increasing the size of the LCD monitor or enabling the printer to be connected to a TV for photo previewing.

**Mr. Uyama** One feature I would like to see is a message letting you know how many more prints you can make with the ink you have left.

**Ms. Yasuma** I think children would love to have photo paper with preprinted frames. Also, you could incorporate accessories and fashion elements like those for mobile phones. The PictureMate is already a fairly iconoclastic printer, but I think you could make it even more so by offering different case color variations.

**Ms. Suzuki** To make the printer a little easier to transport, it would be nice if you could make it slightly lighter and store paper in the body. Hey, what if you could use the printer itself to take pictures?

**Takatsuna** Based on what I've heard today, I want to come up with a printer than anyone can use anywhere, anytime.

**Kawahara** This printer is the type of product that generates a "chain of smiles"—smiles break out the instant a photo is output, and grins spread when the photo is handed to someone. Going forward, I want to design printers that are easy to use and that make people smile.

## Customer Satisfaction

# Satisfying customers by providing a sense of assurance with safe, quality products



### Approach to Quality

#### Responding to customer expectations by setting our sights on defect-free products

Manufacturing at Epson is based on a desire to satisfy customers. We seek to design, engineer and improve our processes—from planning and design to manufacturing, sales, service and support—so that we are able to deliver products and services that meet customer expectations and quality requirements.

To achieve this, we believe it is important to use the customer experience in product design, development and manufacturing. Our CS/QA organization spearheads numerous ongoing programs designed to capitalize on knowledge of customer experiences. For example, we have (1) a program that enables product

planners and design engineers to hear directly from customers; (2) a program to innovate and improve the product development process; and (3) a program to revise quality specifications to realign them with customer needs. Our corporate quality programs reach beyond improvements in our products and services and extend into the standardization of practices to prevent accidents, the analysis of causes of accidents that occur, and the development of measures to prevent their recurrence.

In addition, we have begun building a “CS and Quality Value Chain” that will tie customer needs, wishes and opinions that come out of the customer experience to products. Through these efforts we intend to maintain the kind of quality that earns repeat business.

## 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

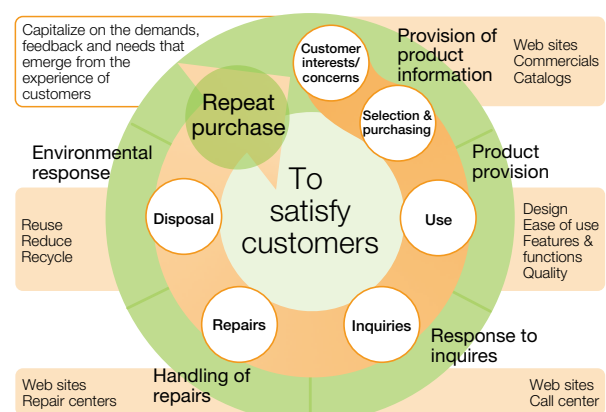
1. We will solve problems by directly observing all of our operations and processes.
2. We will quickly complete the Plan, Do, Check & Act (PDCA) cycle in all situations.
3. We will thoroughly analyze any failures, and establish procedures based on that analysis, so that mistakes are never repeated.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

### Initiatives to Improve Safety

#### Beefing up facilities for flammability testing and substance emissions measurements

We began product safety testing in a new facility at our Hirooka Office in 2006. We are developing technologies that will enable us to reproduce safety incidents that have occurred in the field, analyze their causes,

### Epson quality value chain





Flammability test



Substance emissions testing

and develop safer products.

We also introduced additional equipment for analyzing emissions of volatile organic compounds (VOCs). Products are placed in special temperature- and humidity-controlled chambers and observed to determine whether they release harmful gases or other substances. We have been testing our products based on strict, independent criteria since 2004.

#### Global Quality Improvement Programs

##### International efforts to achieve uniform global quality

The Epson Group runs a global standard quality control system based on corporate regulations governing quality assurance and product safety. Product safety and environmental conformance requirements are spelled out in the Epson Quality Standard (EQS). We meet and in many cases exceed the requirements set forth in national safety standards, laws and regulations around the world.

We hold monthly customer satisfaction/quality assurance meetings to share information and drive improvements on the basis of information gathered from

around the world.

Our global E-KAIZEN program, moreover, engrains continuous improvement activities in our day-to-day operations. The program includes group-wide presentations of best practices, awards for important contributions to corporate performance, and the holding of study groups. Steady improvement activities such as these have earned Epson international recognition, including such prestigious awards as the Kaoru Ishikawa Prize for QC circles in Japan and the National ICC Convention 3-Star Award in Malaysia.

#### ■ Handling product defects

When Epson needs to notify the public of important precautions, defects, or safety measures concerning products on the market, we publish Important Notices on the Epson website and promptly provide relevant information to the media.

We have built a quality crisis management system that enables us to respond quickly in the event of a quality failure.

The system is used to share important internal safety and quality information and to institute corrective actions across the Group. Information on supplier product quality or safety issues is also shared so that we can determine any impact on our products and take early action if needed.

#### “Important Notices” issued in FY2006 (in the Japanese market)

- Epson identified a defective printer address that had the potential to prevent the MAXART PX-5800 color inkjet printer from being recognized or printing over a network.
- Epson identified a potential virus infection in some “Photo Fine Player P-2500” multimedia storage viewers.

These issues were a great inconvenience to our customers, but by enlisting the cooperation of our customers, we were able to perform the necessary repairs, replacements and so forth.



## Customer Satisfaction

# Providing easy-to-use, compelling products for all



Buttons incorporating universal design principles

### Product Usability and Convenience

#### Delivering a sense of assurance and delight through our products

Epson aims to continue delighting its customers with products they can use with a sense of assurance.

Progress in Ease of Use is an initiative that Epson has supported company-wide since 1999 to incorporate usability enhancements into the product planning and design stages. Starting in FY2005, Epson strengthened these efforts with the aim of further improving the

usability of all Epson products under the Epson Universal Design initiative.

In addition, Epson has been using its products and technology to help foster the innate curiosity of children and assure their wellbeing. Among the many ways we do this is by providing Epson products for use in classrooms and Epson GPS chips built into mobile handsets.

## Making ink cartridge packages easier to identify

When you need to buy replacement ink for your inkjet printer, you should be able to instantly identify the package you need. Epson has sought to do just this since 2003, when it began using design techniques to differentiate packages in Japan. For example, the package for a certain type of ink may be identified by a photographic image of balloons or flowers, while the last digits in the model number are boldly presented. Once consumers remember the pattern or design used for their ink, they can reach straight for the package they need.



Pigment/dye identifying marks  
The same marks are used on packages of paper, making it easy to determine ink and paper compatibility.

A different image is used for each model number of ink

Indicates the ink color

Indicates the supported printers



Last digits in ink model number are enlarged.

## Joint development of a Braille label-writer

The SR6700D label-writer sold by King Jim Co., Ltd. creates Braille labels. Epson helped develop and commercialize this label-writer based on King Jim's product plan and specifications. The product was commercialized with the hope of helping visually impaired persons lead safer, easier lives by making it simpler to create and attach Braille labels.

Since the SR6700D's May 2005 launch, King Jim says that users report finding the label-writer exceptionally handy not only because they are able to create Braille labels even without much more than a rudimentary knowledge of Braille, they

can also use it as an ordinary label-writer. Epson is thus pleased to have cooperated in a small part of King Jim's normalization effort.



King Jim's Pro SR6700D "TEPURA" label writer



Sample label

## Large-format inkjet printers in the classroom

Large-format printers such as the Stylus Pro 7800 are commonly used in retail outlets and to print posters, but they are also proving useful in the classroom. Any area of an image to which a teacher wants to draw attention can be rendered easier to see and understand by printing it in a larger size. Students can write comments directly on the printout. UltraChrome pigment ink used in the Stylus Pro 7800 has a lightfastness rating of 70 years and ozone resistance rating of 30 years. Their longevity, combined with outstanding water-fastness, means these prints can be kept for years and used for reviews.



## Dust-proof projector withstands desert conditions

A projector is equipped with a cooling fan that constantly draws air inside the projector body to prevent overheating. In dusty environments, dust would collect inside the projector, reducing picture brightness or causing failures. The dust-proof PowerLite 6100i projector employs two filters, one for dust and the other for tobacco. It also features a re-engineered internal airflow that creates cleanroom-like conditions inside the projector housing. This projector can safely be used even in challenging desert environments in, for example, parts of China, Egypt and Mexico where projectors are being used in the classroom.

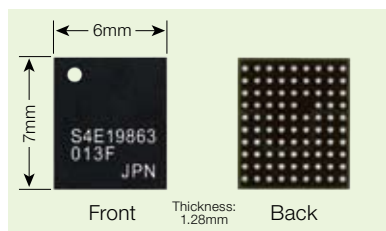


## Ultra-compact GPS modules

Epson's global positioning system (GPS) module is a semiconductor package that can be built into mobile phones and car navigation systems to provide users with local geographical data and directions to their destination.

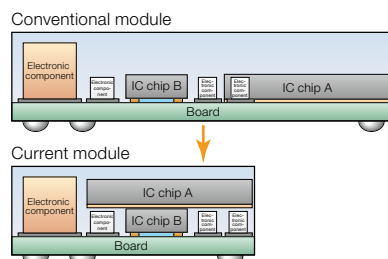
These GPS modules also provide peace of mind, because parents can use them to check the whereabouts of their cell-phone toting children. Devices equipped with a GPS module send and receive various radio frequencies and must demonstrate electromagnetic compatibility. Epson combined its technical strengths to produce a module that is ultra-compact

yet also highly immune to electromagnetic noise.



GPS module "S4E19863"

### Schematic sectional view of GPS module



Epson developed a two-tier, stacked package structure wherein the layout of electronic components and wiring board are optimized so as to squeeze a GPS offering a world-class scale factor (sensitivity) into an ultra-compact package.

## Answering customer demands for thorough and practical support and service



### Responding to Customer Demands

#### **“All services for the benefit of customers”**

The quality of our support, repair and other services is as important as the quality of our products. After all, consumers want to know that we will be there for them if something goes wrong.

At Epson we try to provide the best customer experience by ensuring an approach that is summed up in the motto “All services for the benefit of customers.” We continue to improve our programs through a global service and support network and information sharing.

#### ■ **Speeding up our response to customer inquiries**

Epson has set up call centers worldwide that are dedicated to responding rapidly and accurately to our customers. To avoid customer dissatisfaction caused by long delays, we are always seeking to improve and optimize our call centers by, for example, analyzing call traffic and by staffing centers according to traffic intensity. To enable customers themselves to solve problems or find answers whenever possible, we maintain and update our user manuals and online help on a regular basis.

In addition, we began using our intranet to share information on customer needs and expectations across the Epson Group, to help mold our future products and to improve our services. Each department has always sought to respond rapidly to the voice of the customer. Today, in addition to that, major issues that emerge from customer interaction are shared across the enterprise and employees are surveyed to learn more. The survey results are also shared internally, and employees are again invited to share their own ideas and opinions.

This program provides us with a good opportunity to remind ourselves of the importance of customer feedback, to reconsider customer satisfaction issues, and to improve service.

#### ■ **Global support case study**

At Epson Hong Kong, Ltd. (China) our service representatives visit laser printer customers who have three months remaining on their warranty period to perform periodic maintenance free of charge. By speaking directly with our customers, our representatives are able to find out their wishes and determine exactly how they use their printer, which then enables us to tailor our services more closely to their needs. This program has gone a long way toward boosting customer satisfaction.

Epson Korea Co., Ltd. (Korea), meanwhile, has launched a technical web forum for service engineers. By sharing information on product problems and exchanging technical information among themselves, our service engineers have been able to reduce the rates of repeat repairs and service calls, as well as share information on service parts in inventory. These have also led to speedier repairs.



Answering calls in customer support



## Epson Express Center—solving customer problems on the spot

In Europe we are enlisting the cooperation of retailers in setting up Epson Express Centers. After undergoing a certain amount of maintenance training, retailers are able to provide customers with in-store service to solve their product problems.

The fact is that about half of all products brought in for repairs don't need them: the problem can often be solved by performing head cleaning or other simple maintenance. When problems cannot be solved by maintenance, customers are provided with a refurbished replacement product. By providing

customers with a temporary replacement, we are able to shorten the amount of time that the customer is inconvenienced by not being able to use the product.



In-store Epson Express Center

## Epson Direct's highly rated support & service

Epson Direct Corporation (Japan), which sells built-to-order personal computers online, strives to provide customers with convenience and ease-of-use via programs to improve product quality and enhance after-sale service.

### Increasing quality and reducing the failure rate

Epson Direct holds a series of six cross-organizational meetings at certain points in the product life cycle, from product planning to after the sales launch. In addition, from the point of order through process quality, shipping and after-sale service, all information is managed on a database in real time.

By evaluating suppliers and inspecting their factories, Epson Direct aims to raise the quality of the parts it purchases and its own final products. These efforts have had the cumulative effect of reducing the product failure rate and providing products

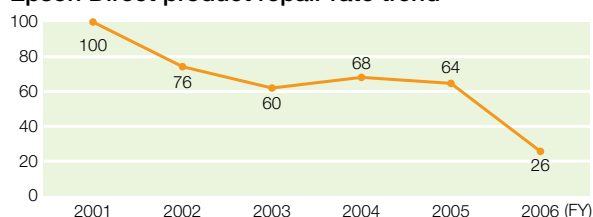
that are easy for customers to use.

### Fast and meticulous support and service

Epson Direct regularly surveys many of the customers who contact its call center, which handles 170,000 calls per year, and repair center. The company follows up on individual customers who gave Epson Direct a low score, collecting invaluable information that can be used to improve. In April 2006, moreover, Epson Direct earned certification for compliance with COPC-2000®, the global standard for call center quality management. We are committed to providing support and service that heighten customer satisfaction.

The efforts were recognized in 2006, when Epson Direct ranked 1st in the *Nikkei Business* After-Service Survey and 2nd in the PC Maker Support Rankings.

### Epson Direct product repair rate trend



\*Shows the repair rate for products that began shipping in each year (avg. for all PCs)

\*When FY2001 is assumed to be 100

### Case study: Epson Direct service and support

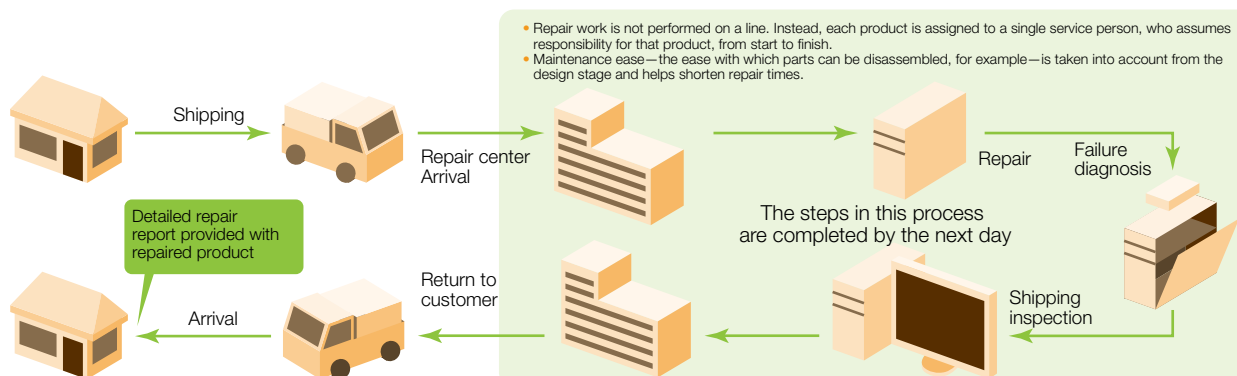
**Telephone support reservations:** Reservations for support at the desired day and time can be made online

**Mail support:** Inquiries received on a special online form will be answered within two business days

**Online registration for repair service:** Open 24 hours a day, 365 days a year

**One-day turnaround:** Repairs are completed within one day of product receipt, excluding days in transit

### Flow for one-day turnaround on repairs





## Dialogue

### Environmental Conservation—Epson and the Environment

## What Epson, as a manufacturer, can do for the environment

The act of producing and selling goods provides consumers with value, but it also impacts the environment.

For an outside perspective on how an enterprise should approach this dilemma and on Epson's environmental and corporate programs we spoke with Junko Edahiro, NPO representative and tireless champion of a sustainable society.

#### Aiming for recycling-oriented use as well as manufacture

**Ms. Edahiro** First, I'd like to hear Epson's take on global warming—where we stand now and what the future holds.

**Sakai** Epson has long been a proactive proponent of environmental action, as demonstrated by our early initiative to eliminate CFCs and reduce carbon-dioxide emissions from our plants and offices. When it comes to greenhouse gas emissions, however, traditional approaches may not work. We are coming to a point where a fundamental change in thinking and actions may be required if we are to further reduce total greenhouse gas emissions.

**Ms. Edahiro** Humans currently release 7,200 million tons of CO<sub>2</sub> into the air every year by burning fossil fuels. The earth is estimated to be able to absorb about 3,000 million tons; the accumulated excess is the trigger for global warming. When you embark on a mission to decrease total emissions, I think you first have to recognize that the supportable limit for the entire world is only about 3,000 million tons. In other words, you have to start with the overall goal, then set your own targets and do what you can to contribute. You have to then find ways to narrow the gap between

your results and your target.

**Sakai** We recognize that we will have to switch over to a system that enables us to collect and recycle the products we sell. We may well have to modify or change our product concepts or radically alter our business models themselves. Customers are going to be looking for that, and we are starting to recognize that on the management level.

**Ms. Edahiro** In other words, you're talking about making a closed-cycle system...

**Sakai** To achieve a closed-cycle system, we would have to change the way our products are now produced and even the way they are used. Obviously this type of system would have to be implemented in a business where we wouldn't expect steep growth. One option we are considering involves building trusted relationships with special customers in certain niches. We will need to enlist the understanding and acceptance of the special customers and convince them to buy our products. The products they buy will be recycled and reborn as new products. Without such a business model, we would find it very difficult to reduce total emissions.

**Ms. Edahiro** I agree. Regardless of how far you reduce emissions per product, your total emissions will increase as long as you continue to increase the

**Ms. Junko Edahiro**, Co-Chief Executive of 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. Her translations includes *An Inconvenient Truth*, by Al Gore; *Limits to Growth*, by Donella Meadows; and *The Ultimate Success Secret*, by Dan S. Kennedy.

**Akihiko Sakai**, Seiko Epson Executive Officer and General Manager of the Corporate Strategy Office

number of units you produce. However, companies obviously have to consider the bottom line; they can't simply constrain the volume of products they produce and sell. All companies would like to reduce their total emissions, but it is difficult to come up with ways to control volume while turning a profit.

I think companies have to take the long view. If you're thinking long term—say, 10 or 20 years down the road—you'll come up with different ideas than if you're thinking short-term, like the next quarter. There might be some short-term pain, but if you make your time-frame and your vision known, people who understand and agree with that vision will support you.

**Sakai** I think we as an organization have to move forward in step with our shareholders and employees who appreciate that kind of philosophy, integrity and character. Perhaps we should place more emphasis on the meaning of corporate individuality and dignity.



**Ms. Edahiro** I'd like to return to something you mentioned earlier. If your ideal is ultimately to create a closed-cycle system wherein end-of-life Epson products are reduced to their raw materials and recycled, you'd have to build a system that ensures their return or collection.

One possibility would be to provide printers as a rental service, instead of selling them. If a printer is connected to a network, Epson could monitor its status, provide advice or notify users that it's time to replace a module. I think it would be wonderful if Epson could support such a printing system.

**Sakai** There's no way we could close the cycle without creating a model that would allow us to connect directly with customers. And that's kind of the direction we want to move.

**Ms. Edahiro** I think the key to realizing such a system lies in recognizing that your current efforts are not going to take you there and making a commitment to achieving a perfectly closed system.

**Sakai** In other words, a vision of the future. Having formed the vision, we are thinking about what we can do now.

### Epson's mindset is a natural outgrowth of a rural life

**Ms. Edahiro** I've heard that, compared to the aver-

age big-city dweller, a fairly high percentage of Epson employees who work in Suwa, a relatively rural city well outside the Tokyo metropolis, feel they have enough time for themselves. This is a good thing.

**Sakai** In the smaller towns and cities of Japan, everyone is involved in the community. Given the high level of investment they have in their local communities, our people are perhaps more sensitive to the quality of life and the quality of the environment. I think the feelings of our employees are evident in our company policies.

**Ms. Edahiro** I think it is extremely important for you yourselves to choose how you want to grow. I think both companies and individuals should identify the path they want to take, to make it clear what they need to do to reach their true objectives. Epson embraces the community and diversity and has always had a climate in which these are celebrated, but I think one Epson strength is that it recognizes that there is no point in growth for growth's sake, that there is a type of growth that is best for your company. I get the feeling that Epson can take the lead in proposing new, more sustainable product and business models.

**Sakai** We have begun stressing "environmental progress" and "environmental growth." We hope that consumers with whom these concepts resonate will give our products a closer look. A product has to be more than just recyclable or contain recycled content: it has to have an advanced design and function as an advanced product.

Our sales revenues have not risen sharply since 2001, but there may be a silver lining because it has given us reason and a good opportunity to consider other business models.



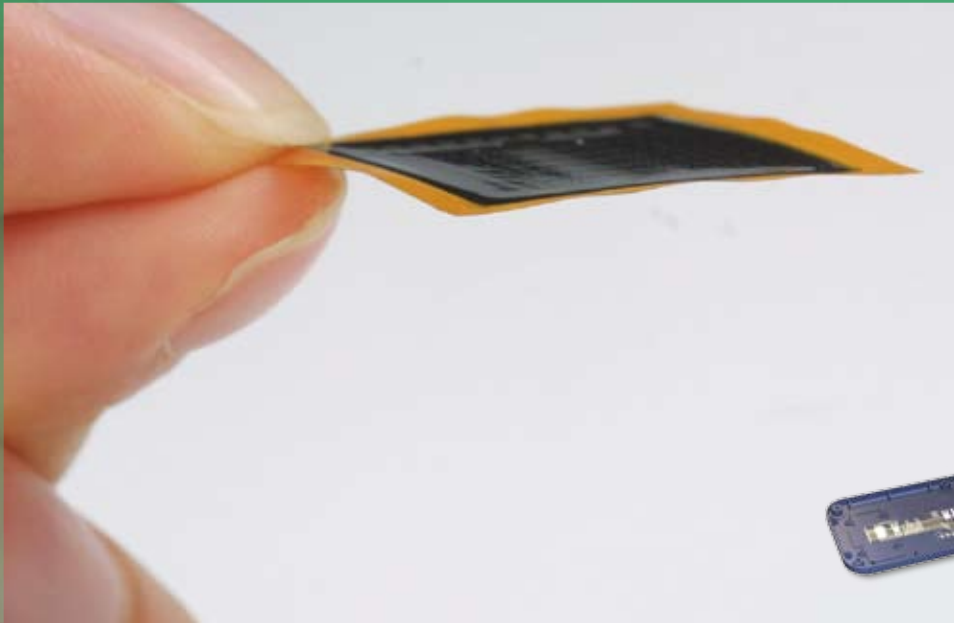
**Ms. Edahiro** I think it would take considerable daring for a company to stop, step back and think, though, in reality, I don't think there's that much to lose. After all, new growth isn't necessary if you set your mind on maintaining long-term relationships with your employees, shareholders and a limited number of loyal

customers and if you can provide high-quality goods and services to win more loyal customers.

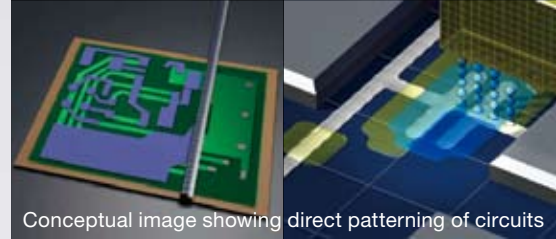
**Sakai** We are looking to identify core policies and scenarios on which to try developing new business models. When we do come up with a new model, I'd like to discuss it with you and get your ideas. We are committed to confronting environmental problems on a long-range horizon and are always looking for things we can do to contribute.



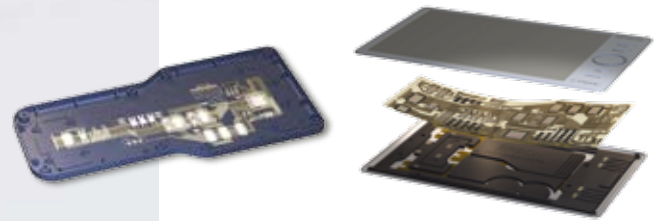
# Industrial inkjet technology for a smaller environmental footprint



Conceptual image of future fabrication system for electronic components



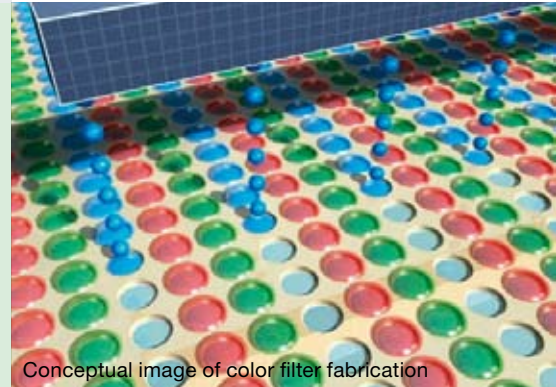
Conceptual image showing direct patterning of circuits



Epson began research into micro-liquid process technology about a decade ago.

This research, which began with a notion among scientists and engineers that liquid materials could be used to make almost anything, is now yielding practical applications that should drive innovations in manufacturing. The key to a micro-liquid process in industrial applications is the deposition means: inkjet technology, a core Epson technology.

Applied industrial inkjet technology will engender new business opportunities and could provide breakthroughs for reducing environmental impacts in manufacturing.



Conceptual image of color filter fabrication

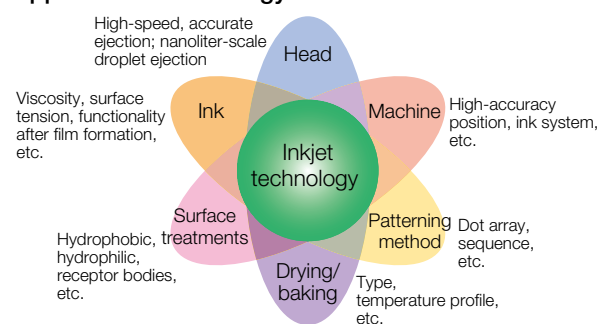
## Inkjet technology is changing manufacturing

Inkjet technology is the force that drives Epson printers. The culmination of long years spent accumulating creative solutions to challenging problems, inkjet technology is what enables Epson's consumer printers to form rich, colorful, high fidelity images by accurately ejecting and depositing droplets of ink in target locations on a substrate.

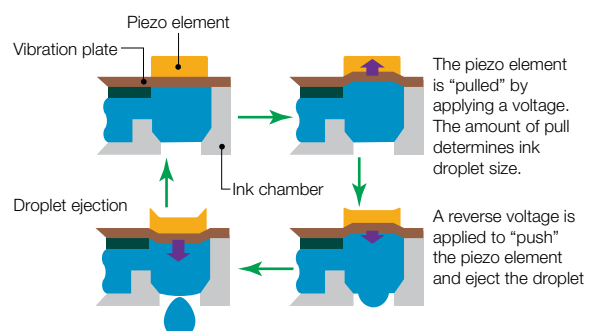
We believe this same technology can be used to accurately deposit functional liquids in industrial manufacturing. By capitalizing on an inkjet system's ability to deposit liquid material when, where and in the precise amount needed, we can simplify the manufacturing process, slash the amount of material consumed, save space, and conserve energy.

Epson's Micro-Piezo inkjet systems rely on piezo-electric elements (elements that bend under an applied voltage) to fire the ink. In addition to tremendous operational accuracy, Micro-Piezo systems do not suffer from heat-induced ink and print head degradation since heat is not used to fire the ink.

## Schematic representation of inkjet industrial applications technology



## Micro-Piezo systems



# Rolling out industrial inkjet technology in stages

Inkjet technology now finding its way into production equipment and manufacturing processes

## Stage 1: Uniform coating

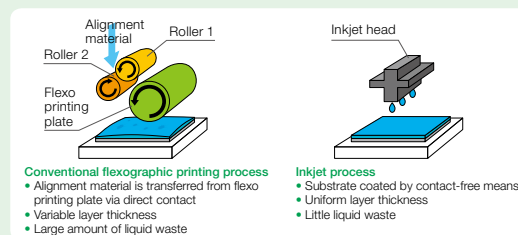
LCDs are provided with a sheet-like alignment layer that causes liquid crystal molecules to orient in a particular direction.

A system for creating alignment layers was the world's first industrial application of inkjet technology.

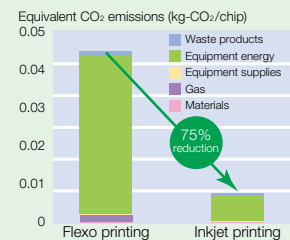
### Advantages of inkjet technology:

- A uniform alignment layer is formed using a contact-free method
- Materials are used efficiently and manufacturing time is reduced
- Process is clean and virtually free of liquid wastes

### Differences between conventional flexographic printing and inkjet printing of alignment layers



### CO<sub>2</sub> emissions in alignment layer process



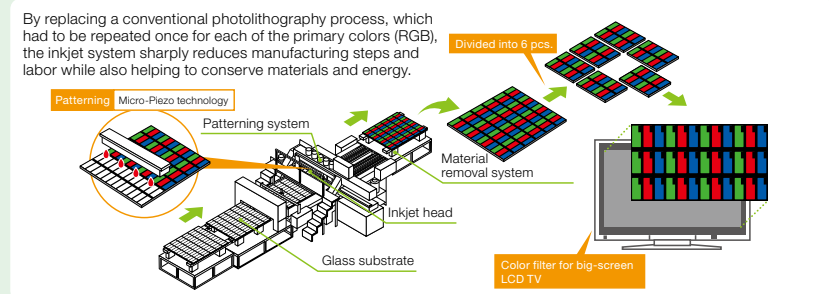
## Stage 2: Selective coating

An LCD needs a color filter to produce color images. Color filters can now be mass-produced with an industrial inkjet system developed by Epson. Epson's system selectively deposits red, green, and blue material on glass sheets measuring up to 2,160 x 2,460 mm (Gen. 8).

### Advantages of inkjet technology:

- Far shorter process and sharply reduced cost and material waste
- Superior color characteristics

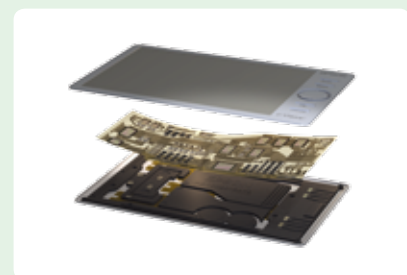
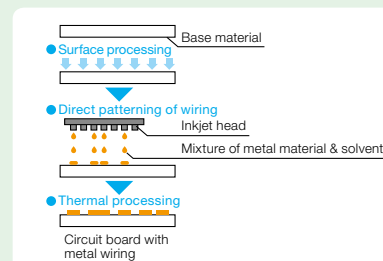
### Color filter production with inkjet system for large panels



## Stage 3: Direct patterning

Ultimately, we hope to develop a practical industrial inkjet system capable of directly drawing complicated circuits on circuit boards, then baking the boards in a thermal process. A space-saving, environmentally sound inkjet patterning system that deposits material only where needed would replace the complicated and extravagantly wasteful traditional process, in which only a very small percentage of the materials used end up on the final product.

### Inkjet circuit board fabrication process



Inkjet technology will make it possible to directly embed circuit patterns and electronic devices on thin films.

### Advantages of inkjet technology:

- Dramatically fewer process steps, lower costs, and reduced resource & energy use
- Reduce device size by using direct patterning and layer stacking techniques to shrink complicated circuit boards

## Epson's business activities and environmental efforts

### Progress against goals committed to Epson's "Action 2010" General Environmental Policy

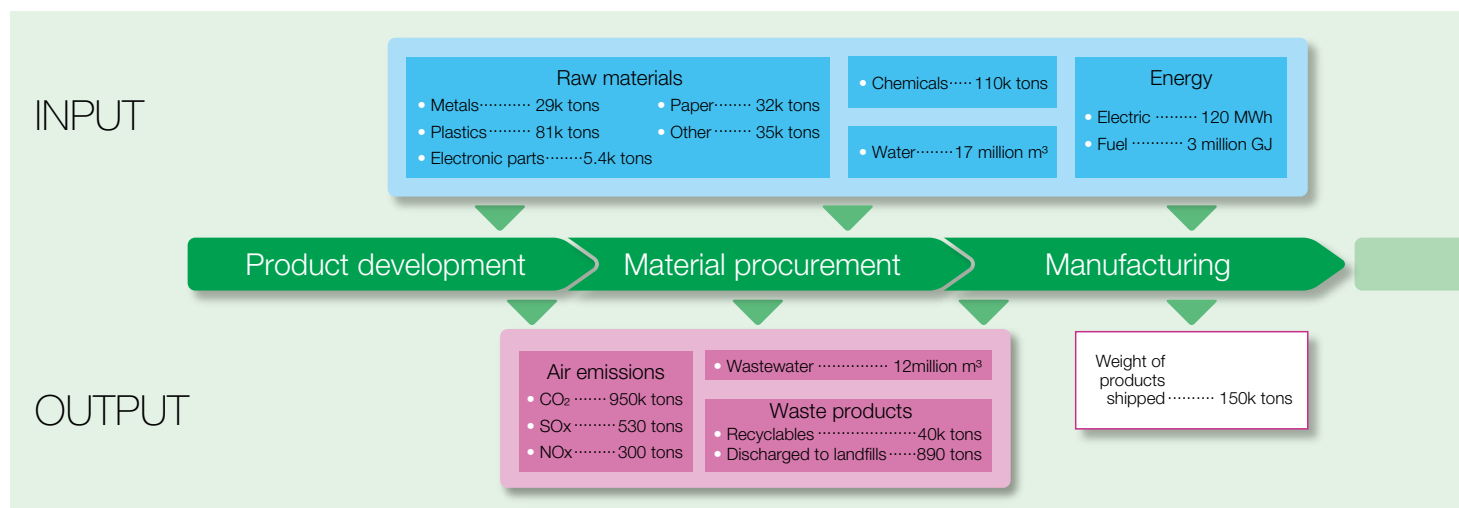
"Action 2010," which lays out the company's environmental action plans from fiscal 2006 to fiscal 2010, is one of Epson's mid-range business plans. The table below reflects our progress against the key goals during Epson's 2006 fiscal year.

Activity area	Key action items	Description
Global warming prevention	<b>Reduce global warming substance emissions from Epson products &amp; operations</b>	
	1. Promote environmental technology development and assure intellectual property	① Apply for and prosecute environmental patents
	2. Reduce CO <sub>2</sub> emissions from factories and offices (Further reduce CO <sub>2</sub> emissions in global business activities)	① Reduce energy use (including through innovations in production processes) ② Reduce greenhouse gases (PFCs, etc.)
	3. Effectively use environmental performance (quality) data as sales promotion tool	① Acquire environmental labels
Resource recycling & conservation	<b>Contribute to the building of a society with an environmentally sound material cycle by using resources as effectively as possible</b>	
	1. Develop & design products that conserve resources & are easy to recycle (Further promote resource-conserving and design for recyclability)	① Maintain recyclability & recoverability rates (in the design phase) (*A)
	2. Develop forest-certified paper (expand paper resource recycling assurance business)	① Develop forest-certified paper
	3. Promote resource-conservation programs (maximize resource efficiency)	① Reduce waste by effectively using inputs (materials, production materials, etc.) ② Reduce waste by measures to improve process design, increase yield, etc.
		③ Reduce water use
	4. Use recycled resources	① Use recycled resources (packaging material in device business)
Substance management	<b>Step up efforts to reduce, track and control substances that impact the environment</b>	
	1. Reduce the environmental impact of products (make products greener) Reduce the use of chemicals and other substances pursuant to environmental policies and action plans.	① Sustain ongoing efforts to develop compliant products
		② Use halogen- and PVC-free plastic parts (*B)
		③ Reduce product chemical emissions (VOCs, etc.), and establish analysis system
	2. Reduce the environmental impact of sites (make sites greener)	① Reduce site use ② Reduce site emissions
		③ Establish an implementation system
Education & citizenship	1. Conduct effective volunteer activities in every region of the globe	② Expand implementation of E-Chem management system
		① Help reduce environmental impacts through philanthropic/citizenship programs
		② Conduct environmental education programs for youth in every country & region

\*A: Recyclability does not include thermal recycling. Recoverability does include thermal recycling.

\*B: Eliminate from packaging materials in newly planned products in FY2006 and beyond

### FY2006 Epson environmental impacts (material flow)





## Action 2010 overview and actions going forward

**Global warming prevention:** Achieved FY2006 CO<sub>2</sub> emissions targets both in Japan and globally. Will plan and execute specific actions to achieve FY2010 targets.

**Resource recycling & resource conservation:** Achieved our resource productivity target but fell short of our resource efficiency target. For FY2007, we will beef up measures to reduce wastes primarily at new sites.

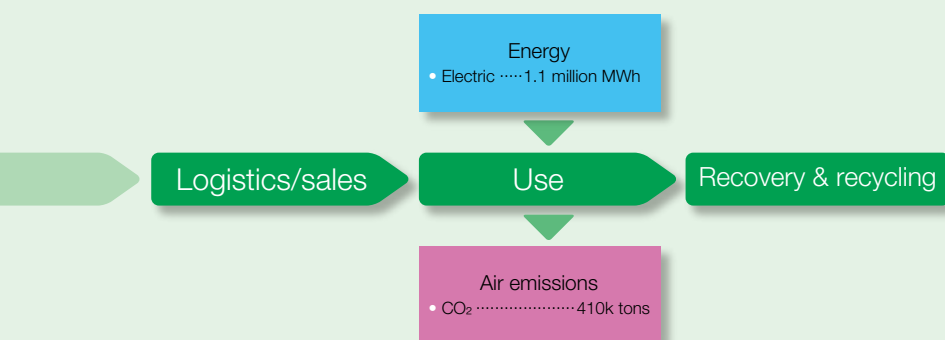
**Substance management:** Met requirements for RoHS Directive compliance by carrying out the green purchasing and compliance assurance programs begun in FY2002 but will enhance systems to further raise the compliance level.

Grades assigned according to rate of target achievement A=90–100% B=70–89% C=50%–69% D=49% or less

FY2006 objective	Progress against FY2006 objective	Grade (achievement rate)
Increase No. of applications by 10% year-over-year	Increased by 38%	A (380%)
Global consolidated: 48% reduction per unit of real sales vs. FY1990	Reduced by 50%	A (104%)
Energy sources (in Japan): 15% reduction per unit of real sales vs. FY1990	Reduced by 40%	A (266%)
Acquire eco labels as planned in each business	Type I: 94% Type II: 90% Type III: 96%	A (93%)
100% achievement for all targeted products (Recyclability of 75wt% and recoverability of 85 wt%)	Achieved 84% of target	B (84%)
Acquire COC certification	Acquired COC certification & provided internal standards	A
Resource productivity: 20% improvement over FY2002 (*C)	Improved by 41%	A (205%)
Resource efficiency: 10% improvement over FY2004 (*D)	Improved 2.6%; target not reached due to addition of new sites	D (26%)
Increase water use efficiency by 5% vs. FY2004	Decreased by 17%; target not reached due to addition of new sites	D (–340%)
5% or more plastic by product wt, all product categories in finished product businesses	Fell short of 5% due to difficulty in procuring materials; 1 recycled part used in all products in special category	B
Recycling rate of 65% (Japan)	69% (Japan)	A (106%)
Achieve compliance with RoHS Directive	All products compliant	A
Use 100% halogen-free & PVC-free packaging materials	Achieved 99% halogen-free and 99% PVC-free packaging materials	A (99%)
Meet industry standard level	Meet industry standard level	A
Reduce usage according to promotion unit targets	Achieved 77% overall	B (77%)
Reduce PRTR emissions 30% vs. FY2002	Reduced by 56%	A (187%)
Build a system of assurance against inclusion of banned substances in products	Introduced system for surveying suppliers & established incoming inspection system	A
Implement E-Chem at 7 new sites	Implemented at 5 new sites	B (71%)
Continue tree-planting & beautification (greening) efforts	11 sites continued reforestation projects	A
Continue conducting energy-conservation patrols	Continued energy-conservation patrols. Patrolled 36 sites (107 sites, cumulative)	
Implement Kids ISO program (in major countries & regions)	Kids ISO conducted in Japan with 400 participants; overseas program behind schedule	B

\*C: Resource productivity = consolidated sales revenue / estimated emissions

\*D: Resource efficiency = consolidated sales revenue / waste emissions



Epson creates a picture of the material flow that clearly shows the relationship between its business activities and the resulting environmental impacts. The company uses this material flow to develop actions that reduce environment impacts.

By using physical measurements and by estimating material and substance inputs from product LCA data, Epson determines and analyzes the amount of substances and energy input in the business activities of the Epson Group, as well as the greenhouse gases and wastes output. Epson uses this information in actions to reduce the company's environmental footprint through improvements in product performance and increased environmental efficiency of its operations.

## Environmental Conservation

# Commitment to global environmental conservation rooted in manufacturing



### Environmental Philosophy & Major Activities Environmental programs underpinning management

We at Epson, which was established in the rich natural surroundings of Central Japan, feel a particularly strong obligation to help conserve the global environment. Recognizing that our manufacturing activities impact the global environment, we run environmental programs in every country and region where we operate, and we employ identical criteria and targets worldwide. Our basic approach to environmental affairs is made explicit in our Environmental Philosophy and in our Environmental Action Policies.

We will continue to practice environmental management with the goals of achieving both our environmental and economic objectives and helping create a sustainable society.

### “Action 2010” General Environmental Policy Activities that directly link ecology and economy

Programs to reduce our environmental footprint are closely tied to our 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 procurement costs.

We are pursuing the specific targets set forth in Epson’s Action 2010 General Environmental Policy with the goal of strengthening the company through environmental programs that bring both ecologic and economic benefits.

### 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

### ■ Environmental & economic efficiency

The ideal program for linking ecology and economy should minimize environmental impacts and maximize the value created. Epson therefore seeks qualitative improvements in environmental management by introducing an environmental and economic efficiency indicator that shows the value of a business, product, or service versus a given environmental impact.

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

For global warming Epson is aiming for a 50% improvement 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.

## Product Lifecycle and The Environment

### Environmental consideration from cradle to grave

Epson is committed to delivering products that tread lightly on the environment. We believe we have an obligation to reduce environmental impacts in all processes across the life cycle of our products, not only in manufacturing but also in parts and materials procurement, product transport, during use, collection and recycling.

For this reason we are pursuing environmental actions in three main areas, as outlined in Action 2010, in an effort to reduce environmental impacts in all processes.

#### ■ Global warming

Epson contributes to the fight against global warming through actions that are intended to make Epson the industry leader in reductions of greenhouse gas emissions. Apart from our ongoing effort to minimize the energy consumed by our products during use, we are reducing emissions from our production processes and are reducing energy consumption by streamlining our logistics.

#### ■ Resource recycling & conservation

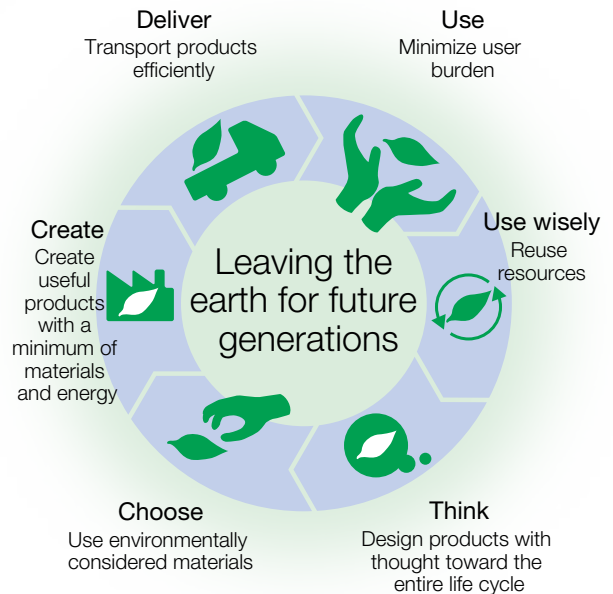
Epson builds environmental considerations into its products from the design stage, to conserve resources and ensure easy recyclability. We are contributing to Japan's national recycling effort by improving the effectiveness with which resources are consumed and by improving processes so as to reduce the amounts of industrial waste, packaging material and other emissions.

#### ■ Substance management

Epson is promoting two "greening" initiatives, one to reduce the chemical substances included in products and the other to curtail the use of chemicals and substances in manufacturing. We have also made a priority of building implementation systems, management and tracking systems, and other systems to support our initiatives.

Epson contributes 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 know-how with others. We intend to continue doing our part to maintain and improve the environment so that we may leave it in good shape for future generations.

## Product life cycle stages



## Publicly recognized Epson environment initiatives

### "Minister of the Environment Award" at Ozone Layer Protection/Global Warming Prevention Awards

Epson was presented with the "Minister of the Environment Award" at the 9th Ozone Layer Protection/Global Warming Prevention Awards, sponsored by Nikkan Kogyo Shimbun, Ltd.

This award, which is intended to help foster efforts to protect the ozone layer and prevent global warming, confers public recognition on companies and groups that have quietly researched and reduced ozone-depleting substances. Epson was honored for its (1) use of inkjet technology in industry; (2) reduction of greenhouse gas emissions; (3) implementation of an E-Chem chemical data management system; and (4) development and publication of the Epson Method, a simplified method for measuring PFCs to reduce their use.

➡ Refer to page 33, Epson Method.

### Epson rewarded with the Chairman's Award at the 3rd LCA Japan Forum Awards

The LCA Japan Forum Awards system was established to encourage companies, organizations, and researchers in their efforts to reduce environmental impacts from the product life cycle. Awards are presented in recognition of outstanding efforts in the area of life-cycle assessments (LCA). In December 2006, Epson was honored with the LCA Japan Forum Chairman's Award for its LCA-based environmental product development program. Epson earned high marks for initiatives to bring LCA methods into product development, for its proactive stance in publishing environmental data, and for implementing a system for sharing environment information about parts and materials, including those of suppliers.



## Environmental Conservation

# Development and design: the cornerstones of earth-friendly products



Reviewing engineering drawings to create better products

### Basic Product Development Policies

#### Energy saving, resource saving, and elimination of harmful substances

The environmental effects of a product during use (the environmental load throughout the product life cycle) are mostly determined at the planning and design stages. Environmental awareness and environmental initiatives in these stages are thus critical for the creation of eco products. At Epson, planning and design

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. We therefore set energy-conservation goals for each product and work to ensure steady progress.
Resource saving	Epson sets 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 collected and managed in a database. This database is used to ensure safety in all processes, from design and procurement to mass production.

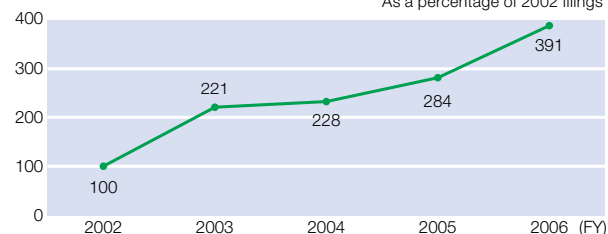
activities are governed by the basic policies outlined below.

In addition, Epson aims to contribute to society by leading industry in the development of technology that reduces environment impacts. To promote efforts in this area, we have, since 1998, provided incentives for filing patent applications for inventions that effectively and specifically address environmental problems and reduce environmental impacts.

The number of applications filed in fiscal 2006 jumped 37.7% year-over-year.

### Patent applications for environmental inventions

\*As a percentage of 2002 filings



## The Epson Innovation Center: an environmentally considered R&D facility

The Epson Innovation Center, located in Nagano, Japan, brings together under one roof approximately 1,000 people from Epson's R&D and associated organizations. The building, which started full operations in April 2006, is designed to facilitate cross-organizational interaction and collaboration, to spark the creation of next-generation products by synthesizing disparate technologies and information.

The Innovation Center was built on sustainable construction principles. Epson and the contractor/architect set up a joint "eco committee" to study the building's environmental effects and to design in low-impact features. The result is a building with 60% lower CO<sub>2</sub> emissions than a comparable building constructed in the 1990s, chiefly due to the use of natural energy sources and energy-saving systems.

The building earned a "Superb" rating in accordance with the Comprehensive Assessment System for Building Environment Efficiency (CASBEE). Even though construction has been completed, the eco committee meets once a month to discuss effective energy conservation improvements in line with actual facility operations.



#### Natural light delivered by tubular skylights

A solar tracking system was installed in the vaulted ceiling of the atrium. Light is directed to the cafeteria by reflectors that follow the sun.



#### Heat delivered by glass ducts

Warm air that collects near the atrium ceiling is carried toward the floor via glass ducts for use as floor heating in winter.

## Compliance with Environmental Labels Providing product eco performance data

Environmental labels serve to indicate that products are environmentally considered. The International Organization for Standardization (ISO) defines three types of environmental labels (Type I, II and III). Epson is seeking to meet labeling requirements in major countries around the world.

### ■ Epson Ecology Label program

The Epson Ecology Label, a Type II, or “self-declaration,” label that is applicable to all Epson products, is intended to encourage sustained improvement of product environmental performance and the disclosure of product environmental information.

Under this program, we publish an “Epson Ecology Profile” for all our products. We disclose the environmental specifications for the entire finished product, not only for the product itself but also for packaging materials, consumables and other parts. We also provide quantitative data on chemicals and substances contained in electronic devices.

In addition, we provide information on products that qualify as “Epson Ecology Products” by virtue of conspicuously better environmental performance than their predecessors in terms of energy conservation, resource conservation, and elimination of harmful substances.



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

## Basic Product Development Policies Assessing environmental impacts across life cycles in our devices business

Reducing environmental impacts in our electronic devices business is an important theme for Epson, as approximately 80% of our greenhouse gas emissions are generated during the manufacture of devices such as LCDs and semiconductors, and customers are increasingly asking for environmental impact data related to these products.

In response, we have established a Life Cycle Inventory (LCI) for the devices business, quantifying the energy inputs and environmental releases associated with each stage of production and shipping/transport.

For reference values we used internal data from physical measurements to calculate the environmental impacts of 23 substances. No reference values were available for calculating the environmental impact of special gases and chemicals used in device manufacturing such as developer fluid. For these 251 types of chemicals and substances, we were able to calculate environmental impacts on the basis of data in a publicly accessible database\*. Moving forward, we will conduct environmental activities on the basis of these figures.

\* Input-Output Table (list from the Architectural Institute of Japan Subcommittee on LCA Guideline of Buildings)

## Compliance with national eco labels

Type	Region	Eco label	Inkjet printers (incl. MFPs)	Laser printers	SIDM printers	POS printers	Scanners	Ink/toner cartridges	Paper	Pro-jectors	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	●	●	●								
	South Korea	Energy Saving Mark	●	●	●		●						
		Korea Eco-Label		●				●					
	Japan	Eco Mark	●	●	●			●	●				
	Worldwide	International Energy Star Program	●	●	●		●				●	●	
Type II	Scandinavia	IT Eco Declaration	●	●	●	●	●			●			
	Japan	PC Green Label										●	
	Worldwide	Epson Ecology Label program	●	●	●	●	●			●			●
Type III	Japan	EcoLeaf	●	● (B&W only)			●			●		●	

**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 made public as quantitative data. The accuracy and reliability of the claimed data must be verified before being made public.

# Procuring green materials for manufacturing



### Green Purchasing of Production Materials

#### Maintaining a green purchasing rate of 100% based on global standards

To produce products in harmony with the environment, we have to consider environmental issues from the time we begin procuring the parts and raw materials that make up our products. Epson purchases 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 has maintained a green purchasing rate of 100%, worldwide, since the second half of fiscal 2004.

Our green purchasing activities span our supply chain. Prior to purchasing materials, we ask vendors to sign an agreement stating that the vendor will build and maintain a reliable system to assure that banned substances are not included in its products. This system is described in Epson's own Green Purchasing Standard for Production Materials (currently Ver. 3.1). We also re-

quire vendors to provide information on the elimination of prohibited and controlled chemical substances.

#### ■ Database of substance information for production materials

Epson collects information from its suppliers around the world on substances included in production materials. We manage this information in a database to which all Epson companies have access. In fiscal 2006, with the cooperation of some 2,000 suppliers, the number of production materials in the database grew to about 180,000 items.

#### ■ Preventing the commingling of harmful substances

To maintain product quality, Epson checks its own internal systems and surveys its suppliers in addition to collecting chemical substance data from suppliers. A full-time staff of about 390 professionals across Asia survey manufacturing sites in their respective regions, perform sampling inspections of delivered production materials, and take similar steps to ensure that materials have not been contaminated through commingling.

### Flow of green purchasing of production materials

#### Part approval for individual suppliers

##### Approval conditions

Supplier agrees in writing to take actions (implement an assurance system) to ensure that banned substances are not included in products.

- Product does not contain banned substances
- Substances banned from manufacturing processes are not used
- Build and maintain a system of assurance against inclusion of banned substances in products



#### Part approval for individual production materials

##### Approval conditions

Provide information on substances included in products

- Information on controlled substances included in products
- Information on the elimination of substances to be eliminated from products



Procurement

### Promoting green procurement in the industry

In procuring green production materials, Epson recognizes the importance of raising the minimum standards for action throughout the supply chain. That is why we cooperated in a special environmental seminar sponsored by Mizuho Information and Research Institute, Inc.

In addition, Epson is among the 17 founding companies of the Japan Article Management Promotion-consortium (JAMP), launched in September 2006. JAMP is an industry-led initiative designed to provide a practical means of smoothly managing, disclosing and transferring information on the chemical substances included in components, molded parts, and other articles throughout the supply chain.

We will continue to work exhaustively to bring about dramatic changes across all industries via this and similar initiatives.



### ■ Satisfying requirements with a single global standard for designated harmful substances

Over the 2006 fiscal year (ended March 2007) we saw a burst of international regulatory activity involving chemical substances. In Europe the RoHS Directive came into force. In Japan, J-Moss (a Japanese Industrial Standard on the marking of electrical and electronic equipment that contain specific chemical substances) was publicly announced. China, meanwhile, promulgated Management Methods for Controlling Pollution Caused by Electronic Information Products Regulation (also known as China RoHS).

With the goal of shipping products that meet a single global Epson standard, we are steadily working toward compliance with all substance regulations. As a result, we have about 1,200 models of products that are RoHS compliant, 130 models that are J-Moss compliant and 150 models that are China RoHS compliant.

### ■ Actions for REACH compliance

Europe is preparing to implement new chemical legislation in the form of REACH (the Registration, Evaluation and Authorization of Chemicals). Under REACH, enterprises that manufacture or import more than one ton of a chemical substance per year will be required to register it in a central database. For 10 or more tons a chemical safety report must be prepared. Nearly all of the estimated 80,000 to 100,000 chemical substances currently in distribution are expected to be subject to this legislation.

REACH is expected to come into force as soon as 2007 or 2008, but Epson began immediately moving to adapt to the new requirements. Ink, toner and ink ribbons are expected to be among the Epson products most significantly affected, so we have organized to take concrete actions and manage the chemical substances used in them. In addition, Epson Imaging Devices Corp. (Japan) got off to an early start and is nearly 100% compliant.

The REACH legislation is indicative of a broader trend toward requiring the management, tracking and control of all materials, and not only chemical substances, throughout the life cycle. Epson recognizes the trend and is moving accordingly.

### Purchasing of Green Office Supplies

#### Green purchasing ratio hits 100% for the third straight year in Japan

When it comes to purchasing office equipment, stationery and other general office supplies, our policy is to buy only items that are essential. For items considered essential, purchasing preference is given to those that satisfy defined internal criteria for "green products."

In fiscal 2006, for the third year running, 100% of the general office supplies we purchased from 168 different vendors were "green."

### Procurement standard developed with the cooperation of the WWF to encourage responsible purchasing of paper products

Epson deals with printer paper and other paper products and recognizes that the procurement of lumber used to make that paper and that the management of forests are global concerns. We have, to date, been promoting the effective use of recycled pulp, but we felt we should give greater consideration to the social, economic and environmental sustainability of our forests. It was this that prompted us to develop the Seiko Epson Group Paper Procurement Standard in April 2007.

In establishing our procurement policies, we solicited the cooperation of WWF, a global conservation organization, for professional advice on issues such as the approach to forest protection and the global forest certification program.

#### Summary of paper product procurement policies

- When virgin pulp is used as the source material, the source lumber shall have been harvested legally.
- Lumber for virgin pulp shall be sourced from forests that are managed using sustainable practices.
- Chemicals that Epson specifically bans from products are

not intentionally included.

- The paper product production plant maintains an environmental management system.



# Manufacturing efforts to minimize environmental impacts



### Group Efforts to Prevent Global Warming

#### Minimizing the use of greenhouse gases in manufacturing

##### ■ CO<sub>2</sub> and other greenhouse gases

Carbon dioxide, produced when fossil fuels are burned, for example, gets most of the blame for global warming. However, substances that contribute to global warming come in a variety of types—including some with a global warming potential that is more than 20,000 times that of CO<sub>2</sub>. Two such greenhouse gases for which actions are needed are perfluorocarbons (PFCs) and sulfur hexafluoride (SF<sub>6</sub>). Epson uses PFC gas for cleaning and SF<sub>6</sub> as an etching gas in its semiconductor and liquid crystal display manufacturing operations.

Epson is thus carrying out programs around the world to achieve two main goals: (1) the reduction of CO<sub>2</sub> emissions by conserving energy and (2) the reduction of emissions of greenhouse gases other than CO<sub>2</sub>.

##### ■ More realistic emissions reduction targets

Epson has continued since 1998 to pursue the ambitious target of reducing the absolute volume of its global consolidated greenhouse gas emissions by 60% in 2010 (compared to FY1997 emissions). Even as our business has continued to expand, we have managed to conserve energy and improve our production processes so that energy consumption has not risen in proportion to the rate of business expansion.

However, although we are as committed as ever to reducing greenhouse gas emissions, the growth of our business operations prompted us to set a new, more realistic goal in FY2006: to reduce greenhouse gas emissions in 2010 to 50% of FY1990 emissions, calculated on the basis of emissions per unit of sales (energy efficiency).

In fiscal 2006 we met our goals of reducing our global consolidated CO<sub>2</sub> emissions by 50% compared to FY1990, on an actual per unit of sales basis. Going forward we will formulate a comprehensive action plan for achieving our 2010 targets. We believe that we can more closely tie our business and environmental activities together by implementing emission reduction

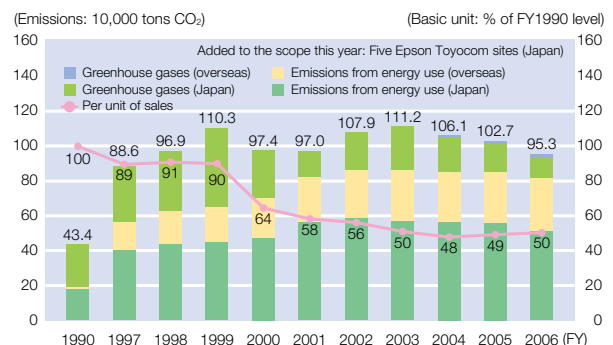
## Disclosing the Epson Method

PFC gas is one of the most difficult to measure of the non-CO<sub>2</sub> greenhouse gases. In 2000 Epson developed the "Epson Method," a simple and accurate way to calculate PFC emissions based on FT-IR (Fourier Transform Infrared Spectroscopy). Epson has used the Epson Method to determine and sharply reduce the level of PFC emissions through a variety of improvement efforts.

The Epson Method is patented. However, Epson grants a free license to use the technology under prescribed conditions. We hope that this will help other companies reduce their own PFC gas emissions. The Epson Method guidelines were updated in July 2007. Version 2.0 offers new technical information on measurement techniques and the treatment of intellectual property.

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

## Greenhouse gas emissions



The figures after FY1996 were recalculated to accommodate changes in the activity scope in FY2006.

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

\* Emissions of greenhouse gases other than CO<sub>2</sub> are calculated using the conversion coefficient published by the Intergovernmental Panel on Climate Change (IPCC) in 2001.

actions that are founded on a business indicator (sales) and on production efficiency, and that we will be able to design more effective approaches toward reaching our goals.

### Energy Conservation

#### **Saving energy through individual care and equipment & facility improvements**

Epson has over 1,000 different energy-saving measures for reducing CO<sub>2</sub> emissions. Working toward a common goal, all Epson companies around the world institute energy-saving activities. Measures are as simple as turning off lights that are not in use and as complex as performing complete overhauls of production equipment.

Epson is also reducing CO<sub>2</sub> emissions by applying its core inkjet technology in production equipment. For example, an inkjet system for forming an alignment layer on liquid crystal panels consumes less energy and uses far lower volumes of materials such as cleaning agents and alignment layer material than the flexographic technique conventionally used to print the layer. As a result the inkjet system reduces CO<sub>2</sub> emissions by 75% throughout the lifecycle. In addition, we have helped other liquid crystal panel manufacturers both improve quality and conserve energy by providing them with inkjet-based systems for fabricating color filters, which go a long way toward determining the color quality of a panel. By providing inkjet-based manufacturing systems to others, Epson is contributing to reduced CO<sub>2</sub> emissions in broader society.

### Zero Emissions

#### **Minimizing inputs is key to minimizing outputs**

Epson's zero emissions initiatives are carried out on

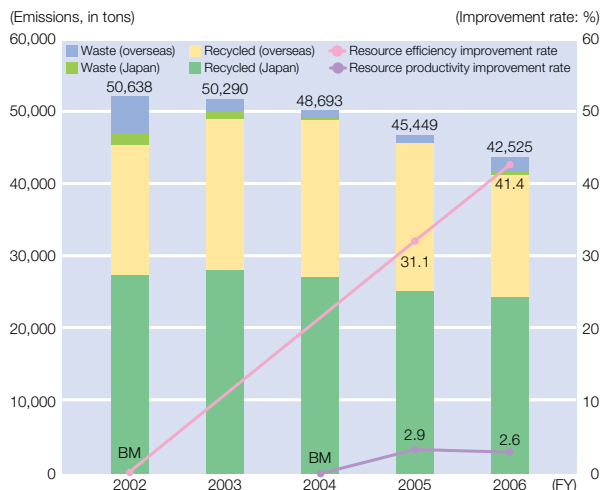
two defined activity levels.

Level 1 is defined as the 100% recycling of all waste generated from business activities. (Level 1 does not include non-business related personal wastes such as cafeteria leftovers). All Epson companies in Japan and all Epson manufacturing companies outside Japan achieved Level 1 by the end of FY2003. Sites that recently came under the Epson umbrella are also working to reach Level 1.

All Epson sites are currently working toward attaining Level 2. At Level 2, the goal is to reduce inputs. Specifically, the aim is to reduce natural resource inputs by, for example, constantly looking for opportunities to reuse a factory's waste on-site as an ingredient in the manufacturing process.

As of the end of March 2007, seven Epson sites (four in Japan and three overseas) have reached, and intend to stay at, Level 2. As a result of these efforts we reduced natural resource inputs in fiscal 2006 by 2,370 tons.

### Waste emissions trend



### Closed-loop recycling for hydrofluoric acid waste

In 2003, as part of its zero emissions initiatives, Epson developed a technique for generating high-purity calcium fluoride, CaF<sub>2</sub>, from hydrofluoric (HF) acid. The latter is used in semiconductor fabrication, during the silicon oxide layer etch (removal) step.

Post-etching, hydrofluoric acid contains a large amount of contaminants. Ordinarily, this waste is either used as-is as dilute HF acid or is reacted with calcium carbonate, CaCO<sub>3</sub>, to form low-purity calcium fluoride, which is then used to regenerate HF.

By rethinking the method used to process HF acid waste, in

2003 Epson succeeded in consistently generating 93% pure calcium fluoride. Then in 2006 we conducted joint tests with an HF acid provider to come up with a practical method of recycling the waste into 98% pure calcium fluoride.

This calcium fluoride is regenerated into hydrofluoric acid that is sufficiently pure to be reused in our semiconductor manufacturing process, thus completing a closed-loop recycling system. Because the waste HF acid is recycled, this technology also helps reduce the amount of new calcium fluoride that needs to be mined to create HF acid.



## Chemical Substance Management

### Global centralized management of chemical & substance information and emission reduction efforts

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 FY2003 Epson enacted a regulation governing the control of chemical substances. Two years later, in FY2005, the company built and implemented an original chemical substance data management system called “E-Chem.” E-Chem has been introduced at all 34 Epson manufacturing sites around the world.

Epson is working aggressively to reduce emissions of chemical substances. In addition to moving against chemicals subject to PRTR (Pollutant Release and Transfer Register) control, we have taken action to reduce emissions of volatile organic compounds (VOCs) and have promoted a variety of measures to, for example, identify and use substitutes, reduce use, and introduce combustion abatement systems.

The entire Epson Group has made steady progress in reducing emissions. In Japan, for example, we managed to reduce our emissions of substances subject to PRTR reporting by 56% compared to FY2002, significantly outstripping our target of 30%. Going forward, each of our business units will manage and track emissions and carry out reduction programs to enable us to keep emissions at a suitable level around the globe even as our operations expand.



FY2006 PRTR Total Results Chart  
<http://www.epson.co.jp/e/community/sr/>

## Suwa Minami Plant recognized with PRTR Award

Epson's Suwa Minami Plant was honored at the 2006 PRTR Awards (sponsored by the Center for Environmental Information Science) for its outstanding performance with regard to chemical substance management and risk communication.

Award candidates are evaluated based on their understanding of the PRTR system, their initiative in managing chemical substances, and their efforts to practice good communication in order to obtain community understanding.

The Suwa Minami Plant was recognized for its low-profile yet steady programs in a wide variety of areas, including the development of an original chemical substance management standard, the implementation of original hazard assessments, a program to reduce risks by sharply curtailing emissions of PRTR and other substances, and support for education on the elementary school level.

## Soil and Groundwater Contamination Prevention Conducting both required and voluntary surveys and cleanups

Since 1998, Epson has independently conducted soil and groundwater surveys and has instituted preventive measures and cleanups where needed. These projects have been guided by a few basic rules: never allow contaminated groundwater to escape a plant site; perform cleanups using the safest and most effective methods; and complete cleanups in the shortest possible time.

### ■ Legally required soil analysis

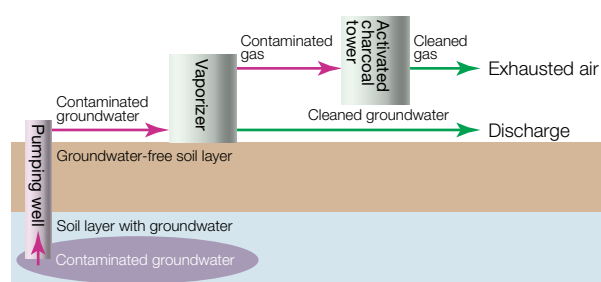
Seiko Epson Contact Lens Corp. (Japan) conducted a soil analysis pursuant to the Soil Contamination Countermeasures Law when it shut down a facility. The results of the analysis, which showed all chemicals to be within normal ranges, were reported to the government as legally required.

### ■ Ongoing groundwater cleanup

Groundwater contaminated by trichloroethylene due to past business activities is being pumped and treated at five sites in Japan. By March 2007, nearly 1.2 million tons of groundwater had been pumped and treated. Approximately 914 kg of trichloroethylene has been recovered.

Along with the ongoing pump-and-treat effort, we are also examining ways to hasten the completion of the cleanup, including by evaluating new cleaning technologies.

### Pump-and-vaporize method (aerating system)



Contaminated groundwater is pumped up and contaminants are removed

### ■ Violations, complaints, and accidents

Epson did have several violations, complaints and accidents—for example, kitchen wastewater exceeded regulatory limits for animal and vegetable oils and there was a complaint about the smell of factory wastewater—but all were reported to the competent government authorities and were remediated.

Legal/regulatory violations	2
Complaints	2
Accidents	1

## Environmental Conservation

# Working to reduce the environmental impact of product delivery



### CO<sub>2</sub> Emissions from Transport

#### Settled on a calculation method for transport volume with an eye on automation

An April 2006 revision to the Law Concerning the Rational Use of Energy (Energy Conservation Law) in Japan clearly states that a cargo owner (a company) has a responsibility to make an effort to conserve energy when transporting cargo. Here at Seiko Epson, we updated our method of calculating transport volume in FY2005, before the law was revised. The new method became fully established in FY2006.

The new method combines cargo weight and distance to come up with a transport volume in tons per kilometer. This is then multiplied by the basic unit of CO<sub>2</sub> to calculate the environmental impact (converted to a CO<sub>2</sub> equivalent) for each mode of transport. Epson Sales Japan Corporation (Japan), the designated cargo owner according to the Energy Conservation Law, had a transport volume of approximately 32 million tons/kilometer in FY2006.

Seiko Epson has many large volume, low weight products. We plan on using direct measurements and

sampling to improve the accuracy of our calculations so they can be linked with our environmental management system and automatically tabulated.

### ■ Epson Logistics initiatives

Epson Logistics Corporation (Japan), the main provider of logistics services for Epson, adopted Seiko Epson's transport methods to reduce CO<sub>2</sub> emissions.

#### Adopted transport methods

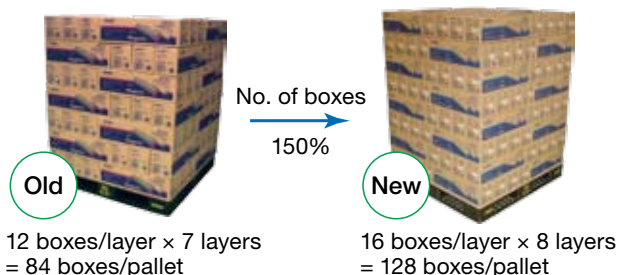
- Moved from dedicated charter trucks that only carry a specific product to more efficient mixed cargo trucks with various kinds of products
- Reviewed transport routes
- Switched from truck to train transport wherever possible

Epson Logistics also provides various support services such as sending employees to teach at workshops by the Japan Institute of Logistics Systems.

## Designing better packing materials

### Smaller packaging for toner cartridges

We successfully reduced the size of our laser printer toner cartridge boxes and moved to all-cardboard packaging. Increased efficiency during transport has led to a lower environmental burden.

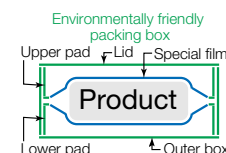


### Zero emissions at the customer

When collecting products for repair through a home-delivery service, Epson Service Corporation (Japan) uses an Environmental Delivery Pack that is easy to use and doesn't leave any garbage for the customer to deal with.

#### Features of the 'e-Starpac'

- A special film eliminates the need for cushioning. The product is suspended in mid-air during transport, making it resistant against shock and vibration
- Packing is fast and easy (5 times faster)
- Made from 100% recycled paper
- Highly durable and water resistant, can be used many times



## Environmental Conservation

# Making products that help reduce the environmental impact of our customers

The energy consumption of

100 million = one

wristwatches

The energy consumption of

100W lightbulb

### Reducing Environmental Burden During Use

#### Providing products that reduce environmental burden without sacrificing performance

Epson cannot ignore the impact its products have on the environment during use.

By designing our products to conserve energy, we save our customers money on their electricity bills and we minimize the amount they contribute to global warming when using our products. We feel it is our duty to provide products that customers can use without worrying about quality, safety, or the environment.

Energy-saving products are also more convenient thanks, in part, to longer battery life and cooler operation.

Epson will continue to improve its production capabilities to speed the adoption of environmentally friendly products that provide greater convenience and peace of mind.

### Keeping Customers Informed

#### Helping customers understand our products when making a selection

Epson provides environmental information on its products through various media so customers can make an informed decision based not only on features and design but also on environmental considerations.

Our product catalog contains a section on our environmental efforts that includes information on the environmental performance of our products in terms of energy consumption and other areas, as well as details on ink and toner cartridge collection.

We also have an environmental responsibility section on our website that introduces Epson's approach to and measures for environmental conservation, in addition to information on the environmental performance of our products. Our website also contains a section on our procurement policy for suppliers and a page for announcing the collection of used computers and cartridges.



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

## Environmentally friendly ink cartridges

### Large-format inkjet printer cartridges and cartridge boxes

Boxes for our large-format printer ink cartridges used to vary depending on model, color, and country, but we switched to a global standard in December 2006. The new boxes have seven languages printed in monochrome on a plain cardboard box made from 100% recycled paper.

In addition, ink cartridges were changed from grey to a natural plastic color to eliminate the need for coloring. We anticipate a 50% reduction in CO<sub>2</sub> emissions due to reduced energy usage in the molding process, as well as improved recyclability of the material due to greater versatility.

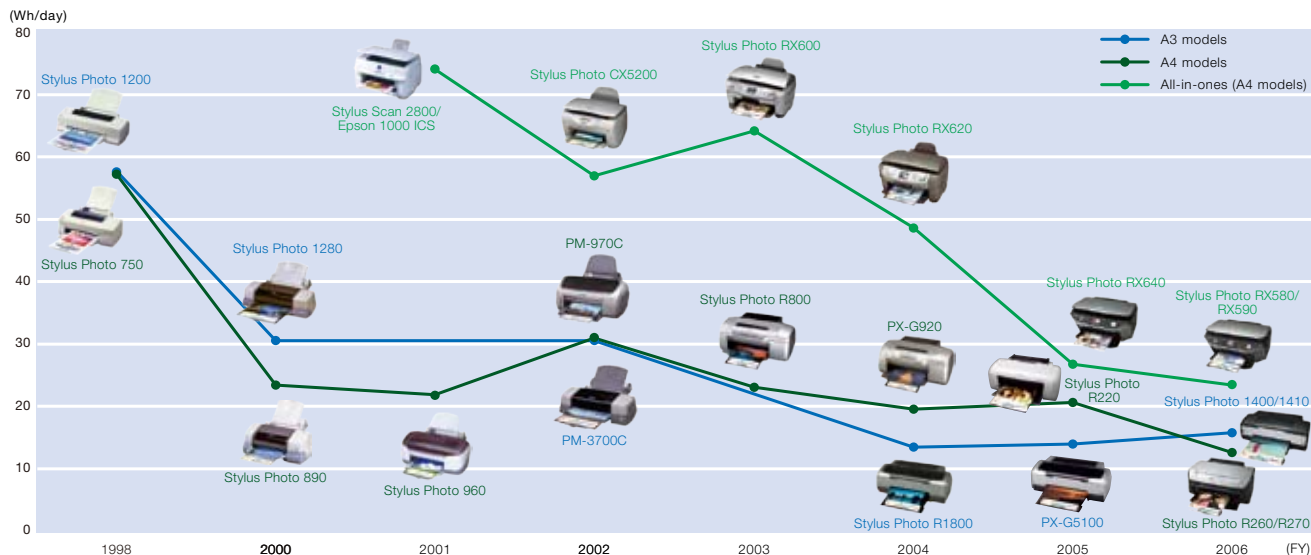
### Biomass plastic in ink cartridges

Seiko Epson became the first inkjet printer maker to use biomass plastic in the mass production of ink cartridge parts for large-format inkjet printers. The main raw material in biomass plastic is polylactate, a substance made by processing starch from corn and potatoes. Biomass plastic is attracting attention due to its potential to reduce the consumption of fossil fuels.

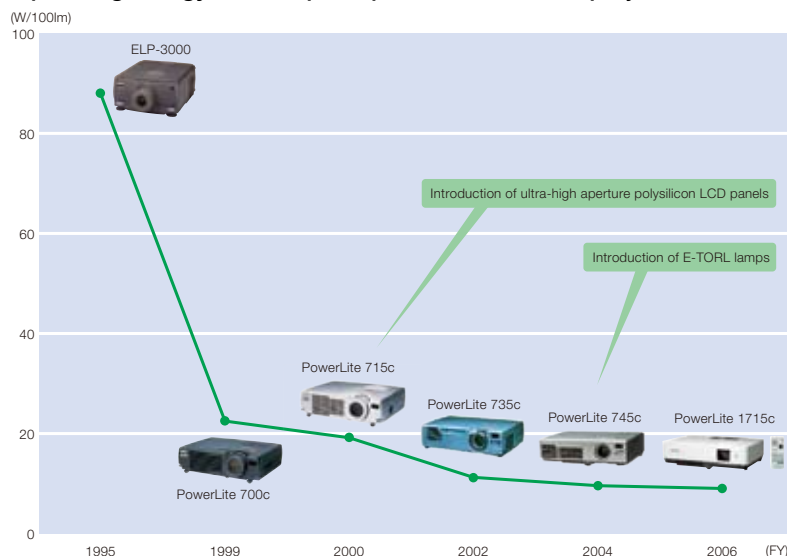
Although the use of biomass is currently limited to one component in the cartridge, our engineering department is currently looking at ways to expand its use in the interest of environmental friendliness.



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



## Operating energy consumption per 100 lumens for projectors



## A compact A2 inkjet printer with the footprint of an A3 model

We emphasized a compact and light design in our Stylus Pro 3800 inkjet printer. The smaller package size allows us to fit 220 units in a 10-ton truck compared to only 48 units of the previous model, increasing transport efficiency by a multiple of 4.6.

### Made the body simple and light

Made a light and sturdy frame, reduced the amount of metal, and shrank the waste ink tank



Stylus Pro 3800

### Reconsidered the materials

Changed metal parts to plastic and used recycled plastic

### Eliminated excess

Standardized print stabilizer parts, Removed paper vacuum holder

## FSC-certified photo matte paper

Seiko Epson and Epson Sales Japan obtained Chain of Custody (COC) certification from the Forest Stewardship Council (FSC) in March 2007.

From a global environmental conservation perspective, Epson has an obligation as a printer company to promote environmentally, socially, and economically sustainable forestry. In 2007, we began selling FSC-certified inkjet photo matte paper in Japan and will continue to expand sales into other regions and release certified versions of our other paper products.

See our Paper Procurement Standard on page 32



Photo matte paper package and FSC certification mark



Cert no. SA-COC-001664  
©1996 Forest Stewardship Council

## Environmental Conservation

# Taking responsibility for the collection and recycling of used products



Ink and toner cartridges collected in FY2006 through the Bellmark program



Bellmark points

Equivalent of

5,000 soccer balls



### Collecting and Recycling Products

#### Promoted collection and recycling through multiple independent programs

To build a recycling-oriented society, companies, governments, and consumers need to work together on dealing with end-of-life products. Epson is building a collection and recycling system for end-of-life products while monitoring customer needs and legislative trends throughout the world.

#### Programs in Japan

Seiko Epson collects end-of-life Epson-brand computers from individual consumers and corporations, and recycles materials from them, in line with the Law on the Promotion of Rational Use. In 1999, we became the first company to voluntarily collect and recycle used information equipment (printers, scanners, projectors, POS systems, etc.) from corporations. In FY2006, we collected 95.3 tons of end-of-life equipment and our usage rate of recycled resources was 68.9%.

Some of the metal recovered from the collected products was melted at Epson Atmix Corporation (Japan) and made into watch cases and bands, while the plastic was used to make parts for new printers as part of our closed recycling program designed to use old products to make new ones.

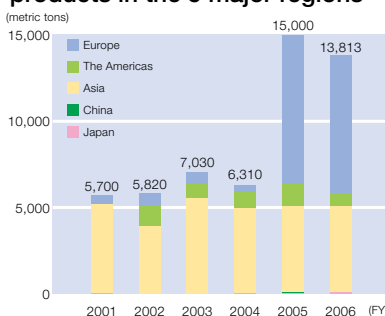
#### Programs throughout the world

National laws are changing worldwide. Epson is building a global system that will enable us to respond to these changes. In

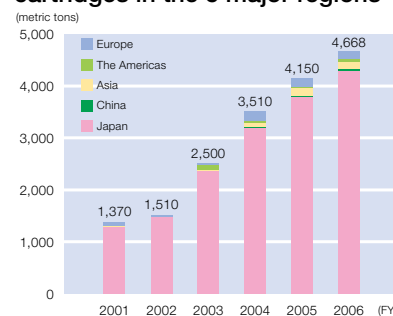
Europe, manufacturers are required to build and pay for a collection and recycling system according to the WEEE (Waste Electrical and Electronic Equipment) Directive. The 27 countries of the E.U. are in the process of enacting relevant laws. We are providing information to our partner recycling companies as we adapt to the rules of each country.

Currently, we collect and recycle cartridges in 19 different countries. We have expanded our web-based Toner Cartridge Collection Program (TCCP) to 12 countries in Europe and will launch a program in fiscal 2007 that allows customers to return one or more used cartridges by mail.

Collection trends for finished products in the 5 major regions



Collection trends for ink & toner cartridges in the 5 major regions



## Mission Coeur de Toner—A program in France that combines toner cartridges and philanthropy

Epson France S.A. began a program in May 2006 where they donate 1 euro to the France Red Cross for every toner cartridge they collect. Donations for FY2006 totaled 120,000

euros. We are looking into similar programs for other European countries in FY2007.



Program sticker

## Developing genuine recycled ink cartridges

Harmony with the environment is one of Seiko Epson's most critical management missions. We practice environmentally sound management principles to achieve coexistence between our economic activities and the environment. The ultimate goal is to create a sustainable society. To reduce the impact of ink cartridges on the growing waste problem, we developed a way to refill the ink cartridges we collect to make a recycled cartridge that maintains the high quality prints our customers expect. The cartridges were launched in Japan in May 2007 on the Epson Sales Japan shopping website.

### Maintaining the quality of recycled products

The development of new ways to recycle and mass-produce ink cartridges in combination with our strict quality control for maintaining Epson quality standards has made it possible to create recycled ink cartridges (32-series) that offer the same quality and features as new ink cartridges.



## Used ink cartridges and the Bellmark program

### Supporting children and raising environmental awareness

In June 2004, Epson Sales Japan started a domestic campaign that links the collection of ink cartridges with the Bellmark program. The campaign was expanded in March 2005 to include toner cartridges.

The spread of printers has generated huge amounts of used cartridges, the collection of which is Epson's social responsibility. Epson has long placed collection boxes in electronics retailers throughout Japan. In an effort to further raise our collection rate while also boosting children's interest in recycling, we developed a system for collecting cartridges at schools. Currently, 36% of all collected cartridges are through the Bellmark program.

The Recovery Center collects the cartridges gathered at each school, awards points according to the type of cartridge, and issues a Bellmark point certificate.

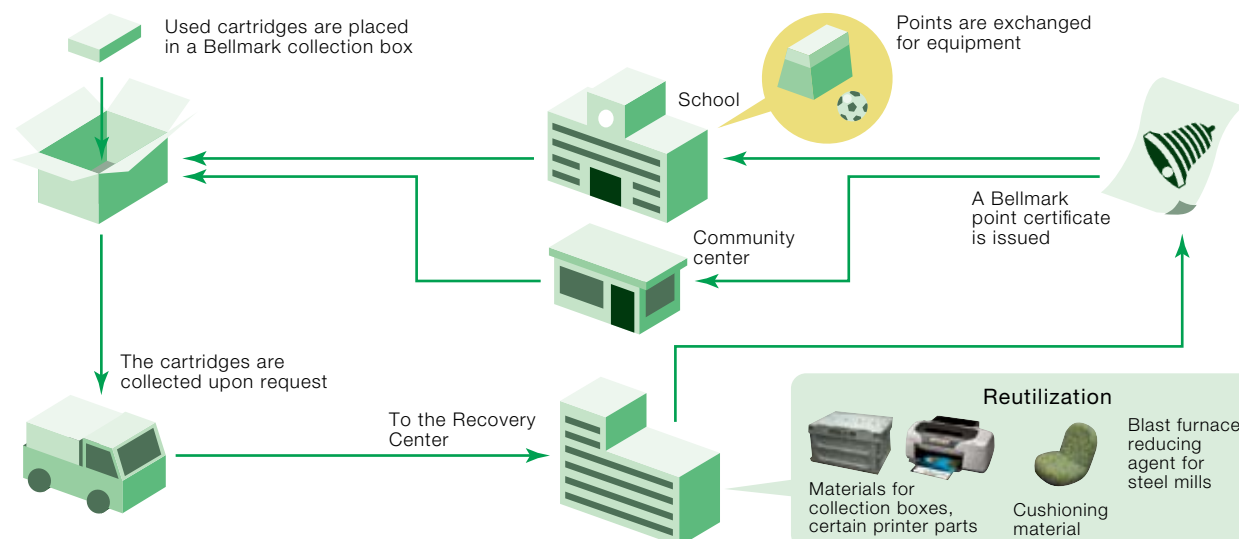
The program started with collection boxes in 4,000 schools and has expanded to include 10,000 schools as of March 2007. We will continue our efforts to achieve our next target of 20,000 schools.

In April 2006, we also began installing Bellmark-linked collection boxes in community centers in an effort to promote recycling in local communities.

### Reutilizing resources from collected cartridges

In addition to returning them to the market as genuine recycled ink cartridges, collected cartridges are disassembled, sorted, and used as recycled materials so that no part goes to waste.

### Process of turning a used cartridge into Bellmark points





## Environmental Conservation

# A system for keeping environmental friendliness at the core of our management



Epson employees turn off unnecessary lights

### Environmental Management System

#### Continuous improvement with the PDCA cycle

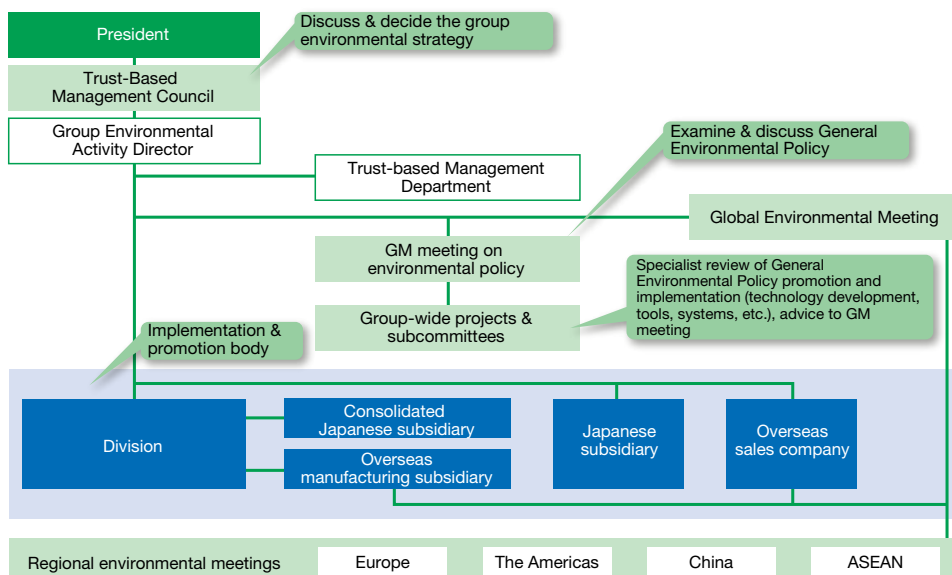
Environmental activities as a vital part of Seiko Epson's management strategy. Every three years, we draw up our mid-range General Environmental Policy, which our environmental management bodies (operations division, head office, Japanese and overseas affiliates) use to establish and implement their own environmental plans. To monitor their plans and activities, we conduct internal audits once or twice a year and see that corrective actions are taken as required.

We make practical use of ISO14001 in the operation of our environmental management system and achieve continuous improvements by implementing the PDCA (Plan-Do-Check-Action) management cycle.

All major manufacturing, sales, and service sites in Epson have acquired ISO14001 certification.

Our system for promoting environmental activities is outlined below.

#### Promotion system for environmental activities at Epson



### Environmental Risk Management

#### Ongoing efforts to mitigate risk

Epson is keenly aware that any environmental pollution resulting from our business activities could result in significant loss and damage not only to our company but also to the people living in our community, the region, and even the entire planet. For this reason, Epson has established group-wide regulations and standards on the prevention of environmental pollution and strictly enforces all applicable laws.

Each promotional body uses ISO14001 to identify risks, such as the risk of failing to meet standards or the potential for environment-related complaints and accidents to occur. We then make a continuous effort to reduce risks by taking action based on the results of these assessments.

### Environmental Training

#### Ingraining awareness of the environment in every employee

To ensure that employees are conscious of the environment while doing their jobs, Seiko Epson believes its employees need to have a good understanding of environmental issues and need to be able to take independent action on conservation measures, both at work and at home. Epson's environmental training program encourages proper understanding of environmental issues and involves concrete hands-on activities.

The program consist of three main components. The first is mandatory “job-role based” training program for all employees, from entry-level to management, that seeks to teach them the environmental expectations that come with their particular positions. The other two components are training for specialists in select job positions, and awareness promotion through the intranet and company newsletters.

#### FY2006 environmental training participation

ISO14001 environmental auditor training	190
LCA basic training	(Cumulative: 1,884) 31

#### E-Learning

e-Training: Environmental Basics (Co-Existence)	2,730
e-Training: Environmental Basics II (FY2006 version)	19,311
e-Training: Environmental Technology (Environment-related regulations)	2,664

#### Environmental Accounting

##### Quantitative assessment of environmental cost and effect

To enhance environmental management, Epson studies and assesses the cost and effect of environmental conservation. We then report the results for each corresponding classification in our General Environmental Policy.

The scope of accounting covers Seiko Epson and 37 of our affiliates (18 in Japan and 19 overseas).

\*ISO14001 certified affiliated companies that are majority-owned by Epson and collect environmental accounting data are included in the total scope. Among non-manufacturing overseas affiliates, only the three regional headquarters are included.

#### Definitions in environmental accounting results

The following definitions have been changed in the FY2006 results to improve tabulation efficiency and in response to changes in our environmental conservation activities.

- Changed tabulation category of environmental conservation costs and effects  
(Mostly changed to environmental footprint reduction and philanthropy categories)
- Studied costs and effects directly resulting from environmental footprint reduction and other activities

\*FY2006 environmental conservation costs and effects will differ from FY2005 and earlier due to these definition changes.

#### FY2006 results

Epson’s investment in environmental conservation totaled 1 billion yen, 82% of which went to the prevention of pollution and global warming. Investment in preventing global warming focused on energy efficiency when installing and updating factory equipment, which accounted for the majority of overall investment.

Environmental conservation expenses were 20.1 billion yen. Research and development into environmental conservation took the lion’s share at 82%. Furthermore, 90% of R&D expenses went to the development of environmentally friendly products, showing Epson’s commitment to the creation of green products.

We achieved an economic effect of 1.9 billion yen in each of the categories of energy saving, reduction of chemical substances that are an environmental burden, and water recycling.

 Total Results for FY2006 (details)  
<http://www.epson.co.jp/e/community/sr/>

#### Seiko Epson’s environmental training system

Type	Job role-based programs (mandatory)	Training for specialists (optional)	Awareness & promotion
Class			
Executives	Basic training	Overseas transferee seminar	Lectures on various themes
General managers			
Managers			
Supervisors			
Staff			
New employees	New employee orientation	Internal environmental auditor training Global environmental technology (environment-related laws and regulations) LCA basic training Eco-Leaf training	Study tours Internal commendation system In-house publications

#### Environmental conservation costs and effects

(100 million yen)

	FY2006
Environmental conservation investments	10.5
Environmental conservation expenses	201.9
Economic results	19.4



## Dialogue

### Individuality and Teamwork—Epson and Its Employees

## A childcare system that lets parents lead an active life at work and at home

An employee who takes on business responsibilities at work also has responsibilities as a family member at home.

We at Epson believe that enriching both areas results in greater motivation.

Four employees who have taken maternity leave sat down to talk about how the working environment at Epson affected their jobs and their families.

#### Parental leave accepted as matter-of-fact

**Kurashima** I have three children. I took maternity leave for all three and shortened my working hours until March of the year after they all turned three.

**Miyazawa** I also have three children, the first of which was born right after the childcare system was established. I took a yearlong leave of absence for all three. I was able to return to work on a full-time basis afterwards, mostly because we began living with my husband's parents and they looked after the children.

**Terasawa** I have two children, ages seven and four. I took maternity leave for both and worked shorter hours after returning to work. I began working full time again last year for a short while, but I switched back in January due to changes that allow shorter working hours until the children turn six.

**Takei** My children are ages four and one. I returned to work at the end of February this year and am working a shortened six-hour workday. I pick up my four-

year-old child from kindergarten at 4 p.m. and then pick up my one-year-old from daycare before heading home.

**Kurashima** Raising a child obviously requires help from the family, but what about the workplace?

**Miyazawa** There are always one or two people on parental leave in our workplace, so everyone is willing to help pick up the slack. Day-to-day tasks are always divided up so that everything gets done. I feel that I am very lucky because my coworkers are always willing to cover for me when my child gets sick or anything else happens.

**Terasawa** There are two other people on shortened working hours in my workplace, and everyone is very understanding. I am not expected to work alone on projects with pressing deadlines, and I definitely appreciate that I can set my schedule as needed.

**Takei** I work in the same place as Ms. Miyazawa. When I returned to work, everyone helped make the



process as smooth as possible, and for that I was grateful.

### Finding a balance between work and parenting through communication and a can-do attitude

**Kurashima** The percentage of Epson employees who return to work after giving birth is very high. In FY2005, the rate was 100%. I get the impression that this attitude is rooted in the company. How was the communication with your workplace when you were on leave?

**Miyazawa** I took my leave when the system had just started, so some people were a little uneasy. Nowadays there are advance interviews, regular correspondence from the workplace during leave, and e-mail notices on personnel changes.

**Takei** When I was on leave, the administrative assistant would send me a detailed letter on personnel and organizational changes once per month.

**Terasawa** During my leave they would forward documents that were addressed to me and send letters about the latest developments, so I was never worried. There is also a weekly operational report for those who are concerned about departmental and sectional issues.

**Kurashima** As more people use the system, it will become natural for some people to be on leave. Do you have any ideas on how to get more people to use the system?

**Miyazawa** It's a lot easier to use the system when others are also doing so, but this probably depends on your position. It would be hard to take leave if you were the only woman in the office. Recently, I have seen more male employees taking leave, so I think that will help.

The first time I took maternity leave, I wasn't sure if I wanted to return to work. During the interview with my boss, I sheepishly mentioned that I might quit. With my boss's persuasion and my husband telling me to at least try since having a job is better in the long run, I decided to return to work. It feels good to be needed at work. I'm glad that I decided to come back.

**Terasawa** I, too, thought about becoming a homemaker, but I knew that even if I quit, I would have to go back to work when my children were older, so I decided to weather the first few difficult years.

**Takei** During my leave, I kept thinking that I didn't

want to come back, but when I finally returned in February, everyone said how glad they were to have me back. I think that having a fulfilling job makes me value the time I spend with my children at home even more.

**Kurashima** Can you think of any kinds of support that would make things even better?

**Miyazawa** Having a daycare at the office would make things easier. Dropping off and picking up my children takes time, and if the daycare was near the office, I could stop by during lunch.

**Takei** Everyone always mentions how nice it would be to have a daycare in the company.

**Terasawa** The system now lets us work shorter hours until primary school, but raising kids is still a challenge even after that. It would be nice if we could work shorter hours until our kids are in the third grade.

**Takei** Working full time while raising children is hard for women, so it would be nice if the retirement age could be extended one or two years. Then people might feel like they could safely take three or four years off and have two or three children.

**Kurashima** An option to delay retirement for the years of leave you took would be nice. I didn't really notice the first time I took maternity leave, but after taking it three times, I felt like I had fallen behind in the company. It was frustrating to see the company continue to change without me. When I only think of raising my children, I would like to have longer maternity leave and a longer period of shortened working hours, but now I can see how hard it is to find a balance between



those areas. We need to be aware of these issues as we work on this from a modern parenting perspective. I would like to establish a climate that makes it easier for both men and women to be involved in raising their children.

## Individuality and Teamwork

# Providing an environment where our employees can maximize their potential



### Human Capital Vision

#### Establishing an environment where employees can exhibit their originality

At Epson, we believe that each employee is an asset on loan from society. We nurture individuality by promoting personal growth and greater self-reliance so that our employees will drive the growth of the company.

Employee obligations are summarized in our Employee Code of Conduct and the Principles of Corporate Behavior on which they are based. We distribute these items to all employees and enlighten them through on-site training and study sessions that cater to their business specialties.

The Human Capital Vision we established in FY2004 clearly sets out the goal of helping our employees grow as business professionals. This vision defines necessary actions and attitudes for both individuals and organizations to motivate them in their work and to provide deeper satisfaction to customers.

In FY2006 a notice from the president was issued calling for the development of human resources and a change in corporate climate. It contained key compa-

ny-wide issues such as heightened awareness among middle managers of the importance of developing personnel on the job and providing systems and opportunities for employees to continue developing their professional knowledge and skills.

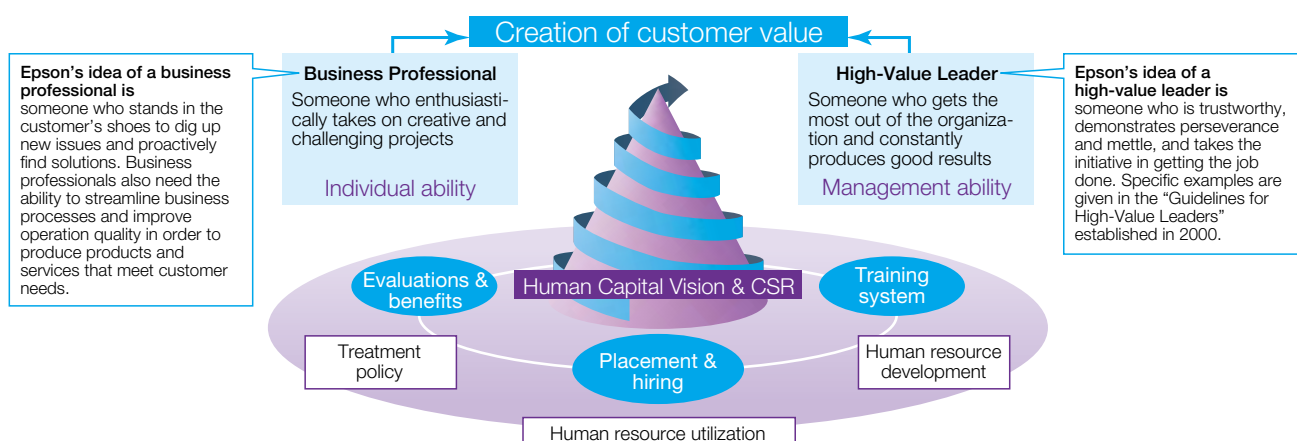
Specific examples include the continued enhancement of training for middle managers and emphasis on the development of future managers. We also established human resource development (HRD) organizations in each of our operations divisions to leverage the unique aspects of the operations divisions in developing personnel.

### HRD & Training

#### Providing opportunities to revitalize individuals and organizations

Epson strives to give employees opportunities to grow. Starting in FY2004 as part of our Business Professional Development Project, Epson and its operations divisions have tracked down the competencies expected of business professionals who can understand the entire value chain and create customer value, and have clarified the abilities needed to carry out the mission.

## HR policies and the ideal employees for inspiring trust and happiness in customers



In FY2007, we will apply these findings to the development of a training model for customer value creation.

A hot news topic right now is the mass retirement of the baby boomers, starting in 2007. We expect the wave of retirements to hit Epson between 2009 and 2010 and have therefore started taking steps to ensure a smooth transition by rehiring retirees and recruiting onsite support facilitators who are capable of instructing young employees.

#### ■ **Autonomy and vitality survey**

Epson has replaced its employee satisfaction survey with a new one designed to measure whether employees feel they are making progress as business professionals and whether organizations are being revitalized. The annual autonomy and vitality survey helps us find factors obstructing the autonomy and revitalization of employees and organizations so we can take steps to eliminate the problems.

#### **A Place for Employees of All Backgrounds**

##### **Eliminating all discrimination and unfair labor practices**

Epson is working to eliminate unfair labor practices and all types of discrimination in its human resource operations throughout the world. In 2004, we signed the United Nations Global Compact to clearly show our attitudes to the international community. In addition, our Policy on Human Rights and Labor, established in 2005, clearly defines respect for human rights, elimination of harassment and all types of discrimination, a ban on child and forced labor, and many other items. In FY2006, our hotline for legal issues, sexual harassment, and power harassment received 46 calls, which were handled with the utmost respect for privacy.

In addition, we have been checking for unfair labor practices since FY2005 using our original checklist on ethics, human rights, and working conditions in overseas manufacturing affiliates.

#### ■ **Approach to work-life balance**

Seiko Epson has reached a labor-management agreement that defines our ideal work culture and focuses on achieving a work-life balance.

To prevent long working hours, in FY2006 we implemented a system for managing work hours that records the entry and exit times of employees. Every month, those times are e-mailed to employees who then input them into their time sheets. We plan on expanding this system to all plants and major group companies by the end of FY2007.

We are also working to further enhance our parental and family leave system to include support for development of the next generation. Specific changes include extending the period of shortened work hours from the end of March after the child turns three to the end of April after the child turns six, making parts of parental leave paid, and expanding the use of medical leave to include school events instead of only personal injuries and illness and family care. All of these policies apply equally to both men and women.

#### ■ **Promoting a gender-neutral workplace**

Since its inception, Seiko Epson has been gender-neutral in its hiring and evaluation policies and has quickly complied with legislative movements such as the Equal Employment Opportunity Law in Japan. We completely eliminated the gender pay gap in 1983. Employees aren't locked into one career track and many female employees participate in overseas training sessions and a job challenge system that lets employees transfer to different departments and regions after a number of years. In FY2006, 94% of employees returned to work after maternity leave. These efforts have raised the average length of employment to 20.6 years for women compared to 17.3 years for men.

#### **Trends in parental leave**

FY	People taking parental leave				People taking family leave
	Total	Women	% of eligible women*	Male	
2006	69	68	97%	1	2
2005	77	74	100%	3	6
2004	71	71	99%	0	5
2003	86	85	98%	1	3

\* Number of women took maternity leave / eligible women

Eligible woman: someone who has given birth and is eligible for maternity leave



## ■ Employment of people with disabilities

Seiko Epson provides employment opportunities for people with disabilities. Based on our policy of providing employment suitable to the abilities of the worker, we hire persons with disabilities for a wide range of positions in our offices and in Epson Mizube Corporation (pg. 48). This approach has raised the employment rate of people with disabilities at Seiko Epson Group to 2.01% as of June 2006, 0.21 percentage points higher than the legally mandated 1.8%.

In May 2007, Suzhou Epson Co., Ltd. in China established a cleanroom garment cleaning department to provide employment for people with disabilities, becoming the first foreign-owned business in China to do so. A preparation office was established in August 2006 to set up the work environment and provide training for prospective hires. The department currently employs 18 people with disabilities.

We also provide employment aid for people with disabilities in Germany as part of our corporate citizenship activities (pg. 60).

## Labor-Management Cooperation

### Creating a better company through communication with the labor union

Seiko Epson's labor union works with company management to discuss issues and take action as needed in what we call "labor-management cooperation." Labor-management committees are formed to discuss and resolve issues on various topics such as assistance in developing of the next generation of employees, reemployment, wages, self-directed vitalization, and the prevention of long working hours.

In FY2006, we focused on the professional development of the next generation and have issued numerous reports on it. In addition, we held joint labor-management meetings company-wide instead of only at select divisions. These meetings provide a regular opportunity for honest discussion between management and workplace representatives concerning workplace issues, motivation problems, and issues with specific tasks.

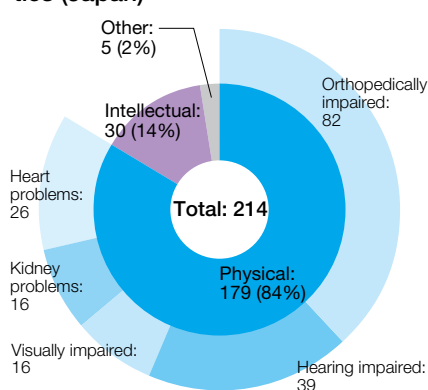


Cleanroom garment cleaning department at Suzhou Epson Co., Ltd.

### Employment rate of persons with disabilities (Japan)



### Makeup of employees with disabilities (Japan)



## Employee benefits

Type	Description
Child-rearing	Parental leave, shortened working hours, home daycare service discount
Family	Family leave, shortened working hours
Retirement	Retirement pay (fixed contribution & fixed benefit pensions), asset-building pension incentives, etc.
Health	Personal illness leave, in-house massage, medical leave, disability benefits, long-term disability benefits, birth and child-rearing benefits, maternity allowance, health screening aid, brain checkup aid, rehabilitation leave, etc.
Education	Subsidy for passing national exams, self-development training, work-related correspondence course, independent research subsidy, outside workshops & lectures
Housing	Company housing/dormitory, housing savings plan, housing loan, etc.
Transfers	Company housing/dormitory, transfer allowance, home-leave expenses, separation allowance, empty home maintenance expenses, cold climate allowance, education expense aid, etc.
Business trips	Per diem, overseas business trip outfit allowance & vaccinations, corporate jet (Nagano-Tohoku Epson, Epson Imaging Devices Tottori)

## Achieving “normalization” with people with disabilities

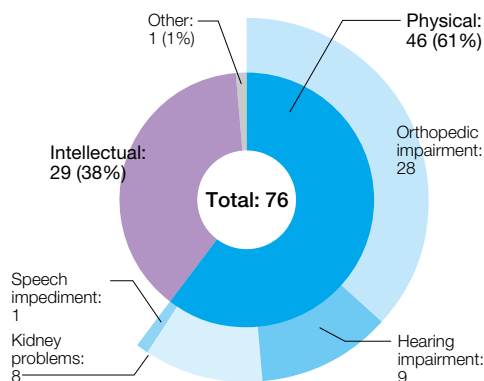
### Epson Mizube, a special subsidiary\* of Seiko Epson

Epson Mizube Corporation was established in 1983 with 15 employees. It currently has six business sites and 130 employees, 76 of whom have disabilities.

#### Creating ideal working conditions in three businesses

Epson Mizube operates three main businesses. We find jobs suitable for each person’s abilities and utilize employee ideas on work methods and on workplace operations and conditions.

#### Makeup of disabilities at Epson Mizube



#### Product Department

Workers process, assemble and inspect electronic, information and precision products such as circuit boards, lenses, and lamps. They also clean cases and IC chip trays.



#### Office Services Department

Workers are in charge of DTP editing and printing, copying, and other office services. They also print business cards for Epson employees. In April 2005, workers began offering printing services for general customers in a showroom in Nagano, Japan.



#### Clean Cleaning Department

Workers clean the cleanroom garments used at Epson. Caps and garments are marked with an alphanumeric code to identify the owner and workplace.



#### Meeting the needs of various disabilities

- Workers can leave early three times per week for dialysis treatment
- Breaks are given in consideration of the type of work and disability
- Consideration is given to systems and methods of guidance and communication
- The number of qualified in-house career counselors for people with disabilities was increased
- Sign language is used in meetings
- Increased communication with families of intellectually disabled employees by sending home notes and establishing a parents' association

#### Improvements to working environment and facilities

- Wheelchair accessible table height and layout
- Installed adjustable mirrors at washstands and in handicap toilets
- Barrier-free path from parking lot to inside the office
- Intuitive operation indicator lamps for machinery status (running, stopped, failed)
- Danger markings and announcements are given over the P.A. and on electronic reader boards
- Wheelchair accessible tray tables and card readers in the cafeteria

### Epson Swan, a special subsidiary of Tohoku Epson

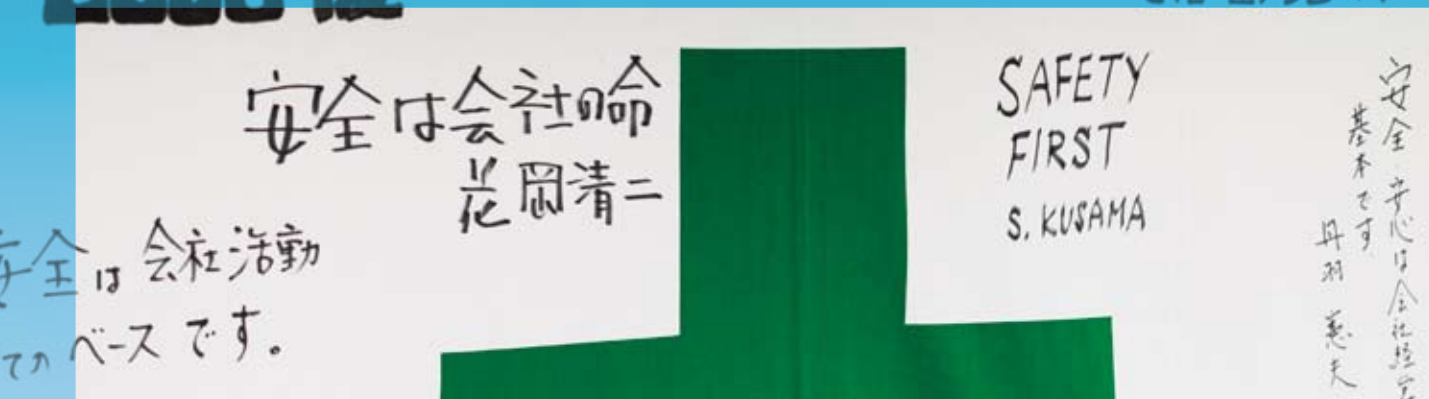
To promote the employment of people with intellectual disabilities, Tohoku Epson Corporation (Japan) established Epson Swan, Ltd. in March 2002 as a cleaning business for cleanroom garments used at Tohoku Epson. Epson Swan was certified by the Minister of Health, Labor, and Welfare as the first special subsidiary in the prefecture.



\*What is a special subsidiary?... Japanese equal opportunity employment law requires that a certain percentage of employees in a company are people with disabilities. If a company establishes a subsidiary that is attuned to the needs of people with disabilities, those employees can be applied to the percentage of the parent company.

## Individuality and Teamwork

# Occupational health and safety to maintain a safe working environment for the creation of safe and reliable products



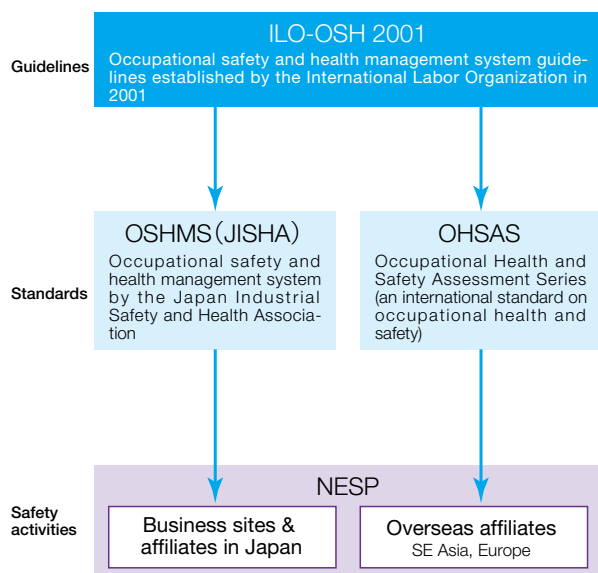
### Occupational Health and Safety

#### A global standard of occupational health and safety

Epson has been operating its own occupational safety and health management system since FY2000. Called NESP (New EPSON Safety and Health Program), this worldwide system is based on OSHMS, an occupational safety and health management system that complies with International Labor Organization (ILO) guidelines, and is comprised of three core elements: safety, health, and the prevention of disasters and fires. Having a common set of rules and systems will help us in our goal to create an even safer working environment at all business sites throughout Epson.

NESP received OSHMS certification from the Japan Industrial Safety and Health Association (JISHA) in FY2003. This certification was renewed at 16 Japanese business sites in FY2006. We also made further progress with the certification of five affiliates in 2006.

### Positioning of NESP



### A Workplace without Accidents or Disasters

#### Overseas safety inspections and trainers

NESP activities include regular internal inspections of all business sites. A team of specialists in buildings, equipment, electricity, and other areas is formed to ensure a comprehensive inspection.

We also introduced a trainer program in which specialists from Japan train local staff at overseas affiliates to help them establish independent NESP activities so they can conduct the same level of inspection as in Japan.

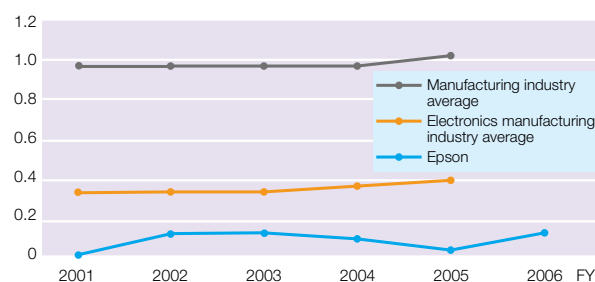
### Raising Safety Awareness

#### Raising safety awareness from top to bottom

#### ■ Declarations of safety by senior management

Company directors and general safety and health controllers from Japan and overseas hand-wrote safety declarations on a safety flag. Replicas of the flag were distributed across the organization to heighten safety awareness at all levels of the company.

### Trends in occupational accident frequency



The frequency rate of occupational accidents is the number of casualties from occupational accidents that caused more than one day of work loss per million total working hours.

$$\text{Frequency rate of occupational accidents} = \frac{\text{Number of casualties that caused more than one day of work loss}}{\text{Total working hours}} \times 1,000,000$$



### ■ Worldwide top-level discussion

The general safety and health directors visit business sites in Japan and overseas affiliates to further increase the safety awareness of senior management. In fiscal 2006 they visited 26 sites, 13 in Japan and 13 overseas. The directors also conduct onsite inspections, recommend improvement, and give lectures in an effort to improve onsite safety standards and raise management safety awareness.



Lecture by a general safety and health director

### ■ The Second NESP Fair

In FY2005, Epson held the first NESP Fair along the theme of "Safety is the lifeblood of our company."

Our second fair in FY2006 was turned into a hands-on event with over 1,000 participants and a catchphrase of "Come, See, Touch, and Feel." There was a wide array of popular hands-on activities. Safety-themed activities included experiences with pinching, static electricity, and gas density, while health-themed activities included measurements of blood flow and arteriosclerosis. There were also activities such as emergency-ration taste testing, an earthquake experience room, and a smoke evacuation held jointly with the fire department. Fairs held at other sites throughout Japan played an important role in raising awareness of safety and health.

#### Basic Policy on Health Management

##### Emphasis on preventative mental health care

Based on our Basic Policy on Health Management formulated in April 2005, we incorporated targets and measures into Healthy Epson 21, a program designed to ingrain the concept of self-health management in employees and meet our company's obligation to consider safety.

Starting in FY2006, we began placing greater emphasis on mental health by establishing our Mental Health Policy and Mental Health Response Program in November 2006. Our goal was to dispel myths and misunderstandings about mental instability and focus on prevention. Looking at the mental health training given to managers for the past five years, we decided to begin working on a system of self-care that encour-

ages awareness and helps people get back to work.

In March 2007 we distributed 30,000 copies of a booklet on mental health to employees and temporary staff in group companies. We also created an e-Learning course to further deepen understanding of the issue. We are currently expanding our training throughout the Epson Group to heighten understanding and basic knowledge of mental health. Seiko Epson provides access to company physicians, nurses, and mental health counselors and has established outside consultation services at its health insurance association.



Mental health booklet

#### Fire and Disaster Prevention

##### Protecting the safety of the workplace and community

Since its inception, Epson has had an acute awareness of the dangers of fire. Unlike natural disasters, fires are entirely preventable. Epson established an independent fire brigade to fulfill its social responsibility not to pose any danger to the community. Even today, there is an active fire brigade at every business site.

August 31 has been designated Epson Disaster Prevention Day. On this day, all group companies in Japan conduct a large-scale fire drill. In addition, staff members from the NESP office participate in safety patrols as fire prevention specialists.



Fire and disaster drill



## Dialogue

### Trusted Throughout the World—Epson and Its Suppliers

## A stronger business through a fair and cooperative relationship with vendors

Epson's business depends on the cooperation of a great many suppliers and vendors, whether for product materials purchasing and energy procurement or for product sales, collection and recycling.

We sat down with two members from long-time partner Miyama Incorporated to look back at our partnership and discuss the goals of mutual cooperation.

#### A partnership grounded in our efforts to properly dispose of industrial waste

**Moriya** I've heard that our relationship with Miyama dates back to 1974 when Seiko Epson was known as Suwa Seikosha and watches were still our main business. We couldn't figure out how to properly process the plating sludge from watch parts, so we were storing it in concrete tanks at our head office next to Lake Suwa until Mr. Minami, the then president and current chairman of Miyama, helped us find a way to properly dispose of the waste. That was the start of our business relationship.

**Mr. Abe** As far as I can recall, an analysis that we conducted to determine the best way to dispose of the waste showed that the sludge contained gold and other useful metals, so we started out by recycling the those materials. I believe we began our relationship with the mutual understanding that we would take care of your waste and Epson would provide accurate information.

**Moriya** Miyama provided us with more than just the legally required analysis. You also conducted studies on the recycling and proper processing of metals, assessed the results, and suggested new ways to process the waste. We learned a lot from your philosophy of finding ways to effectively use many different kinds

of waste as products.

**Mr. Abe** That was a time when Japan's industrial complex was undergoing great changes and Epson was making a big shift to the electronics industry. I can recall how hard it was to analyze all of the new types of waste and find proper processing methods, but it was that process of trial and error that was the driving force behind our company. We were able to greatly improve our own environmental technologies as we explored new areas to meet Epson's demands for waste assessment, proper disposal, and expansion into new kinds of recycling.

**Ono** Miyama has a lab at every one of its plants where you can perform a detailed analysis on the waste to verify the original analysis and suggest ways to process and recycle it. Epson has come to depend on the speedy response this arrangement enables.

**Mr. Abe** Thank you for your kind words. We did not always have these analysis techniques. They were developed to look at the various wastes that our customers ask us to process in terms of safety, suitability, and effectiveness. Some of the things we look for include whether there are any differences in the submitted analysis data and the actual waste, whether our processing facilities can handle the waste, whether any hazardous or harmful materials are mixed in with the waste, and

whether any of the materials can be recycled.

**Moriya** Your company was using waste manifest forms long before the Waste Management Law established the Manifest System in 1995, correct?

**Mr. Imuki** Yes, the content was nearly the same as the current manifest form. We have been issuing forms for the waste we collect since before I joined Miyama nearly 20 years ago, so I thought this was the only way it was done. We then give it back to the customer as proof that the waste has properly been processed. The use of manifest forms is one of our company's defining features.

**Mr. Abe** The message, 'if you break the law, you will lose your job,' has been pounded into us since the day we joined the company. Perhaps our form is a manifestation of this Miyama philosophy.



**Moriya** I've heard that all drivers at Miyama involved in collecting and transporting industrial waste are certified chief safety specialists for specified chemical substances.

**Mr. Imuki** Yes, all of our drivers are certified and we have a system in place that enables mid-career employees to quickly become certified. Given the wide variety of wastes and properties, we believe that chemical knowledge is vital for a driver to safely collect and transport waste. We also encourage our drivers to obtain other certifications such as hazardous materials officer.

**Moriya** We handle waste that includes hazardous materials here at Epson, as well. I hope you can give a lecture to our workers on this subject sometime.

### Our longstanding relationship of trust gives birth to suggestions that lead to mutual progress

**Ono** Seiko Epson is also strengthening waste management from a compliance perspective by evaluating waste contractors, training in-house employees, and improving our contracts. We would appreciate it if you could help us raise our waste management and usage to a level that goes beyond minimum compliance.

**Moriya** Compliance is fundamental, but we need to put more effort into producing less waste, reducing costs, and recycling instead of disposing of waste. Do you have any suggestions in that area?

**Mr. Abe** Many low-key improvements are possible. One thing you could do is efficiently separate and combine the materials discharged during processing by going over the manufacturing process with a fine-tooth comb. You could also install wastewater treatment equipment at a certain point to eliminate the need for liquid waste disposal and store different wastes in the same drum can if deemed acceptable in terms of safety and processing.

**Moriya** This is definitely something we need to be conscious of as we work with the upstream processes, but it is hard to communicate. If we conduct design reviews and utilize other opportunities to incorporate drainage and waste initiatives from the process-building stage, I believe we can curb the amount of waste we produce.

**Mr. Abe** In addition, I think you can reduce waste even more by creating a circle of cooperation that includes everyone from partner companies and suppliers to waste processors and recyclers.

**Ono** Some of your suggestions can be implemented right now, while others are issues for the future. It looks like we need comprehensive waste governance guidelines that cover not only the companies making and taking the waste, but also suppliers and outside contractors.

### Miyama, Inc.

Established 1974. Head office in Nagano City. Miyama, Inc. is a comprehensive environmental business built around waste processing. Its independently developed environmental technologies include the **Eco Drive Navigation System** that enables automakers to improve economic efficiency while reducing environmental burden. Miyama is open 24 hours a day, 365 days a year to respond to environmental risks, whenever they occur.

### Waste management at Epson

Epson aims to properly manage waste and reduce the amount we produce. We conduct waste-related training and support activities, patrols of waste management operations in business sites, and periodic assessments of waste contractors in an effort to comply with our obligations as a waste producer and to select exceptional waste processing contractors.



## Trusted Throughout the World

Fulfilling our social responsibility with our business partners based on the principles of fairness, coexistence, and co-prosperity



### Procurement Policy and Guidelines

#### Building a trusted relationship with our suppliers for mutual growth

In recent years society's gaze over CSR activities has broadened, extending beyond the individual enterprise to encompass entire business groups and, today, their supply chains.

Accordingly, the Epson Group has been striving to build a trusted relationship with its suppliers and grow together with them based on the principles of fairness, coexistence, and co-prosperity. Our Basic Procurement Policy incorporates compliance and environmental conservation requirements and spells out our stance on achieving our CSR goals in cooperation with our suppliers.

In April 2005 we drew up Procurement Guidelines based on the Basic Procurement Policy. The Procurement Guidelines, which specify 11 requirements that suppliers must fulfill, were then communicated to our

suppliers at 18 briefings held around the world. As part of a joint effort toward continuous improvements, we added CSR-related evaluation items to a checklist that suppliers use for self-evaluations and that Epson uses for supplier audits.



Procurement Guidelines

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

### Specialist Staff Training and Supplier Evaluations

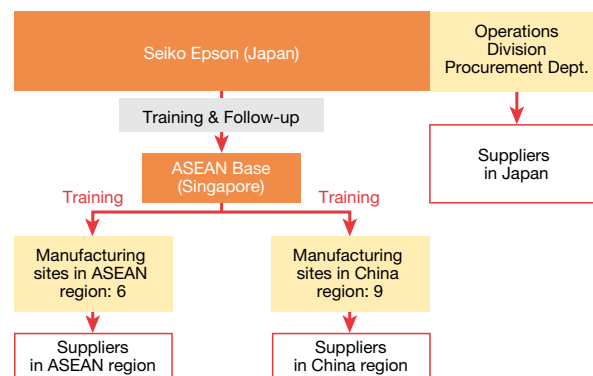
#### Explaining the role of CSR in evaluations and driving global improvements

Many of Epson's manufacturing sites are in Asia and are actively involved in procurement. In November 2005, we set up a CSR procurement base for the ASEAN region at Singapore Epson Industrial Pte. Ltd. With the closure of the base in China, the ASEAN base now acts as a hub for explaining CSR to suppliers and for specialist staff training and supplier on-site evaluations at manufacturing affiliates in Asia. The 359 employees who already undertook the specialist staff training have become the driving force behind evaluations of local suppliers, completing evaluations at 468 companies or 80% of suppliers in the ASEAN region and China. In addition, 884 people from 558 compa-

### Procurement guidelines



### Asia region supply chain CSR promotion system



nies attended CSR seminars for suppliers.

Electronics industry groups worldwide are becoming more active in making procurement check sheets and in other efforts. The Epson Group is following this trend as we continue our existing activities with an eye on revising our guidelines and checklist. With the valuable opinions and cooperation of our suppliers, we will bring our initiatives to the next level.



Seminar for suppliers at Fujian Epson Start Electronics (China)

## Improper transactions by a former employee and follow-up countermeasures

In June 2006, Improper transactions involving a former employee of Seiko Epson were discovered. We sincerely apologize to everyone who was affected by this incident. We take this matter very seriously and would like to talk about the steps we have taken to prevent it from happening again.

### About the improper transactions

During a tax audit of Seiko Epson in 2005, improper transactions by a former employee totaling nearly 100,000,000 yen were discovered and deemed to be fictitious, resulting in a heavy penalty tax.

An employee with ordering authority had been misappropriating funds meant for shortening prototype part lead-time.

Seiko Epson conducted an internal audit to uncover the whole truth. We were able to recover some of the losses after discovering that the employee had embezzled a portion of the improper transactions. Everyone involved in this matter was disciplined in accordance with our work regulations.

### In-house countermeasures

After the discovery of this matter, Seiko Epson issued a notice from the president reporting the details to employees. In addition, we reviewed and reiterated our procurement-related internal check functions, reaffirmed the necessity of strengthening employee training, and implemented countermeasures.

**Strengthened audit office audits on procurement**—We upgraded inspections of prototypes and other non-mass produced parts in our periodic audits. We also began conducting audits on procurement-related risk in six departments.

**Supplier interviews**—We conducted interviews with the suppliers of departments subject to the risk audit above. This allows us to verify the status of transactions and acts as an internal check.

**Employee education and checks**—We had all employees reread our corporate philosophy, employee code of conduct, procurement management regulation, and procurement guidelines to raise awareness of fair procurement. In addition, all department managers took a 100-question self-check on compliance to reaffirm awareness.

We also conducted a survey to determine who is involved in procurement and for how long. The results showed that we had an unexpectedly high number of employees who perform procurement tasks in a large number of departments.

**Implement procurement staff certification system**—From April 2007 onward, employees must obtain company certification before becoming involved in procurement. This applies to all procurement at Seiko Epson, not just production materials.

Nearly 11,000 eligible employees were certified before the requirement came into effect. Certification requires training and a test in which employees reaffirm their knowledge of procurement. This served as a reminder of the importance of procurement and helped increase awareness.

### Procurement going forward

As we implemented these countermeasures, we discovered that there are many more employees involved in procurement than previously thought. We are now facing the issue of how we can consolidate procurement duties to reduce the number of people involved.

We are also conducting a review on the rotation of procurement managers during our biannual personnel changes.



## Dialogue

### Development in Harmony with Society—Epson and Society

## Kids ISO—Working with schools to teach children about the importance of social involvement and the environment

Epson and its labor union are supporters and participants in the Kids ISO Program. Schools provide support for the children's environmental activities at home, while Epson employees act as instructors to grade and evaluate the children's workbooks. We asked two primary school teachers involved in the program about the sort of changes it brought about in the children.

#### Communicating with children through their workbook to encourage recognition and motivation

**Ms. Todoroki** When we started the introductory Kids ISO course, filling out the worksheet every day wasn't that difficult, but when it became only once per week in the beginning course, some of the kids would forget to fill it out. Summer break made it especially difficult since I couldn't check every week. The evaluation of

the introductory course came back just before summer break. I think the instructors helped to motivate the children by carefully looking over the numbers and providing encouragement.

**Mr. Shimizu** I knew that checking during summer break would be an issue from my experience teaching 6<sup>th</sup> graders two years ago, so I made sure I told the children about the benefits of the program in advance. One benefit is that it familiarizes the students with the concept of the PDCA cycle, but this was hard to convey to the students. I also explained the program and gave a handout at a PTA meeting in early April to enlist the parents' understanding, and then gave another handout right before the program started. I figured that keeping it fresh in their minds would help them keep at it.

**Chino** I had a hard time figuring out what to write in the introductory course evaluation so that it ties into the next step. I was concerned about how the students would take what I had written, but I am glad to hear it provided encouragement.

**Kodaira** I can understand what the teachers are going through. The teacher's enthusiasm plays a big role in getting the children and parents to cooperate. When evaluating workbooks, I try to find areas where the children made good effort and write words of encour-

#### What is Kids ISO?

Kids ISO is an environment-themed educational program for children developed by ArTech (International Art and Technology Cooperation Organization). It is officially called the Kids' ISO14000 Program. Aimed at children 10 and up, the program is divided into four levels: Introductory, Beginning, Intermediate, and Advanced.

Kids' ISO is designed to develop a child's environmental awareness and give him or her hands-on experience with scientific ways to improve the environment in their daily lives. In the introductory and beginning courses, the children create an environmental action plan, measure items such as energy and water usage and trash, and write them in their workbooks.

Here at Epson, employees with Eco Kids Instructor certification grade and evaluate the workbooks. We are also assisting with the creation of a French version.



**Mr. Eiji Shimizu** (Teacher, Minowa Chubu Primary School, Japan)  
Teaching Kids ISO to 6<sup>th</sup> graders since 2005.

**Ms. Satsuki Todoroki** (Teacher, Matsumoto Azusagawa Primary School, Japan)  
Began teaching Kids ISO to 6<sup>th</sup> graders in 2006.

**Kimiko Kodaira**, Trust-based Management Department (Environmental Supervisor)

**Machiko Chino**, Seiko Epson Labor Union

\*Kodaira and Chino are both certified Kids ISO instructors with experience grading and evaluating children's workbooks.

agement.

**Ms. Todoroki** One of the benefits is that the children take the lead role. I think the program really helped the children develop a new realization that even small steps, when added up, can make a big difference to the global environment. In addition, many parents commented on how it helped increase communication in their families. They started watching TV together and having more conversations. In other words, the children started an activity that spread to the parents. There is an independent movement to expand the program throughout the school and into the middle school level.

**Chino** We have also heard stories of children getting their younger siblings involved in some of the simpler aspects of the program. I am delighted to hear that entire families are getting involved.

**Mr. Shimizu** Many parents mentioned that comments their children made about things they noticed had a major affect on the parents' own awareness. I think it gives the children a great sense of accomplishment when they come up with their own plan, get their family involved, and see the results. This is a skill that is useful for more than just the environment.

**Kodaira** That is the aim of this program. I am very pleased to hear that the people implementing the program recognize that point. The introductory course involves checking the current conditions, developing and following a strategy for the areas that fall short, and verifying the results. Next, the beginning course involves searching for problems, coming up with ideas, communicating the ideas to the family and implementing them, and verifying the results. This cycle is repeated three times. The garbage check involves the "four R's" (refuse, reduce, reuse, recycle) in addition to weighing the amount. Just understanding the four R's is a challenge for the children, so being able to carry them out gives the children a lot of confidence.

#### Continuing the program to foster children with a broad view of society

**Mr. Shimizu** The program was easy for my school to implement since we already had classes on energy conservation, but I think more schools would participate if there was some way to encourage student involvement. This is something that Epson could do.

**Ms. Todoroki** My school had no prior environmental program, so we ran the introductory course as part of the social studies class. Once we started the begin-



ning course, some people felt that it was more trouble than it was worth. I think that the potential to receive an award at the United Nations University proved to be a big motivator. A desire to go to the UN University drove the children to seriously think about the environment, and now they want to move onto the intermediate course. It would be a shame at this point to let the seeds we have grown wither. We would appreciate it if you could support the program in middle schools, as well.

**Chino** I would also like to provide opportunities for parents who don't know how to become socially involved. I think more people will participate as the Kids ISO program expands.

**Ms. Todoroki** At the end of the program, the children were grateful for the opportunity they were given. They also had a broader perspective on society. When the 6<sup>th</sup> graders graduated, I told their middle schools that these were highly motivated students who directly address environmental issues, and asked them to find a way to build upon the students' abilities.

**Mr. Shimizu** I'm looking forward to seeing how these kids turn out. I left some materials with this year's 5<sup>th</sup> grade teachers and asked them to look into it. It would be hard to buy the workbook on our own, so we are grateful to Epson in that area, as well. I don't think we could continue the program without that kind of support.

**Kodaira** It's encouraging to hear such things from teachers. By participating in the program at this age, I believe that the children will become adults with an awareness of the environment in their everyday lives. It gives me a sense of achievement when I think that I was able to help in making this possible. I would like to continue our non-intrusive support in the future. Thank you for all of your suggestions, and I will look into the possibility of supporting middle school students who have completed the primary school parts of this program.

## Development in Harmony with Society

# A progressive company that actively engages in corporate citizenship



Before planting trees (2000)



A recovered tropical rainforest (Kalimantan, Indonesia, 2006)

### Basic Policy on Corporate Citizenship Focusing on five areas of priority

Epson established its Corporate Citizenship Philosophy and Corporate Citizenship Policy in 2004. The philosophy drives Epson and its employees to conduct activities that the community can identify with, while the policy defines five areas of priority for the activities.

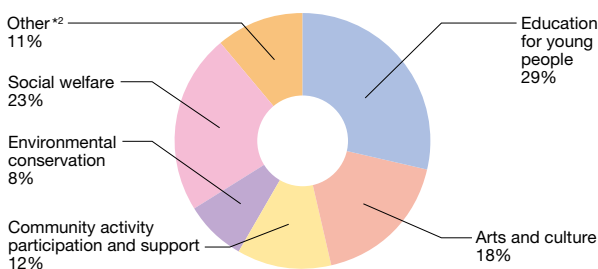
Epson's corporate citizenship focuses on giving back the technological expertise underpinning our business to the counties and regions in which we operate.

Starting in FY2006, we began focusing our efforts on two of the five priority areas in particular: education for young people and social welfare. Our contributions for the fiscal year totaled nearly 500 million yen.\*<sup>1</sup>

As a good corporate citizen, we will continue to contribute to the creation of a better society by promoting various activities that people can identify with and by aiming for a beneficial co-existence with society.

\*<sup>1</sup> Includes personnel contributions

### Breakdown of corporate citizenship expenditures



\*<sup>2</sup> Includes disaster relief

### Five areas of priority for corporate citizenship

- Education for young people
- Arts and culture
- Community activity participation and support
- Environmental conservation
- Social welfare

### Education for young people

#### Red Chalk Epson Model School

The Epson Foundation (Hong Kong) and Epson (China) Co., Ltd. (ECC) launched the Red Chalk Epson Model School in cooperation with a well-known Chinese finance and economic media company—the 21st Century Business Herald.

The Kaixian County Epson Aixin Elementary School opened in 2005 with funding from ECC. The thing that made this project unique was its goal of improving education in rural China through “software,” such as textbooks and teaching style, rather than “hardware,” such as school facilities. By sending experienced teachers to rural schools, providing on-site teacher training, enhancing the students' overall capabilities, and improving school management, Epson hopes to bring new educational opportunities for children in the community.



Class at the Epson Model School

### Education for young people

#### Guest lecturers at schools

Every year, Seiko Epson sends lecturers to a guest speaker program held by the Nagano Employers' Association. Lectures were held at three schools in FY2006. A lecture on Epson's Environmental Activities was given at Satsuki High School in Nagano City. This lecture introduced current environmental issues along with Epson's global undertakings and corporate citizenship in various countries and regions. By giving students an understanding of corporate environmental activities, we hope to get them to think about what they can do now and when they become adults. The message conveyed to the students was that we want them to use the enthusiasm and knowledge they acquire in class to help improve the global environment through environmental conservation and contributions.



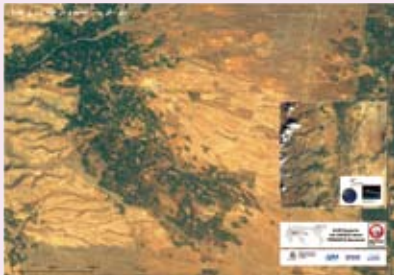
Guest lecturer during class at Satsuki High School

#### Education for young people

##### Imaging support for World Terakoya Movement

Seiko Epson provides support for the World Terakoya Movement being promoted by the National Federation of UNESCO Associations in Japan. The World Terakoya Movement is centered in Asia and provides the opportunity for out-of-school children to learn reading, writing, and math skills.

Seiko Epson, in cooperation with the Japan Aerospace Exploration Agency and the Remote Sensing Technology Center of Japan, printed out images of the area surrounding the Terakoya taken by the "Daichi" advanced land observing satellite and provided them as maps. For the first round, maps were donated to a Terakoya in a village in Afghanistan with plans to donate maps to Terakoya in other regions, as well.



Map of the area surrounding the Terakoya

#### Education for young people

##### Book readings for children

Epson Telford Ltd. (ETL) runs a program called "The Right to Read" in which ETL employees go to local primary schools once per week and read books to the children to improve their reading skills. The program involves four groups of four people.

Program participants expressed great pleasure at seeing the progress made by the students over the course of the year.



An ETL employee reads to a child

#### Education for young people

##### epBUS photo technology classroom on wheels

In 2005, Epson Singapore Pte. Ltd. launched a unique double-decker called epBUS. epBUS has been retrofitted with the latest imaging devices including printers and scanners. It visits schools throughout Singapore and Malaysia to teach students about digital imaging and printer technologies. Student volunteers from the Singapore Institute of Technical Education (ITE) conduct classes on the bus. epBUS has received rave reviews from schools as well, since students can take the lessons without the need for a field trip.



Commemorative photo of epBUS staff and student volunteers

#### Education for young people

##### Fostering career awareness with work-study

Epson holds work-study sessions at its manufacturing sites in Japan. In FY2006, sessions were held at ten work sites in six companies as part of our school education program designed to give students experience in a company so they can learn the significance of work and develop an increased awareness of what they want to do in the future.

Epson Toyocom accepted three 3<sup>rd</sup>-year middle school students at its Miyazaki Plant. The students felt a little lost in an environment completely different from school, but they knuckled down and were able to learn about manufacturing, the nobility of labor, and the importance of greetings.



Middle school students carefully listen to an employee's explanation



## Education for young people

### Labor Union provides educational aid in Cambodia

In cooperation with the Shanti Volunteer Association, the Seiko Epson Labor Union has continued to provide educational aid for children in Cambodia.

Since FY2005, the union has donated Japanese picture books with sheets of translated text in Khmer. In 2006, union members personally delivered 270 picture books to Cambodia and met with the children.

The union also provides support for primary school librarians and teacher training.



A union member helps Cambodian children affix stickers to a picture book

## Environmental conservation

### Tree-planting activities on Kalimantan Island

Since 2000, Epson has supported tree-planting efforts to restore tropical rainforests in Kalimantan, Indonesia. The initial target of 300 hectares of planted trees has already been met, and trees planted in 2001 are now eight meters tall with 13-centimeter trunks.

Most of FY2006 was spent replanting trees that had burned in a fire and maintaining existing trees. We will continue to watch over the trees, clear brush and prevent fires.



Workers inspect the growth of planted trees

## Community activity participation and support

### Employee participation in local community cleanups

Employees at Epson offices in Japan and overseas contribute to the community by participating in local cleanup activities.

Many employees in the Fujimi and Suwa Minami Plants (Japan) participated in a joint cleanup of the nearby roads, sightseeing spots, and train station. Employees worked especially hard on cleaning the windows, stairs, and platforms in the train station, drawing praise from railway workers and passengers alike. Epson will continue to emphasize co-existence with the community by participating in cleanups of public places.



Fujimi employees participate in a cleanup of the train station

## Environmental conservation

### Recycling of unwanted home electronics

Every year on Earth Day, Epson America, Inc. and Epson Portland Inc. team up to collect and recycle unwanted home electronics in an effort to protect the global environment. Employees bring in unused home electronics and find new uses for them either by repairing and donating them to primary and middle schools, or by sending them off to be recycled. Dozens of computers, printers, scanners, televisions, mobile phones, and other electronics were collected during the event.



Some of the unwanted home electronics

## Environmental conservation

### Shinshu Energy-Saving Patrol Team

Seiko Epson has continued its participation in the Shinshu Energy-Saving Patrol Team that provides energy-saving consulting and advice to companies and stores in Nagano Prefecture. The initial activities in FY2000 were focused on the Suwa area, where our head office is located, but in response to a request from the Nagano Prefectural Government in 2005, the patrol was expanded to include the entire prefecture.

The team conducted consultations at 36 sites in FY2006, bringing the total to 107. The team also held lectures on energy saving, aiming to heighten awareness of global warming prevention and reducing CO<sub>2</sub> emissions.



The team checks equipment during an energy-saving consultation

## Social welfare

### Job placement assistance for persons with disabilities in Germany

Epson Deutschland GmbH (EDG) teamed up with an NGO called Wekstatt für angepasste Arbeit (WfaA) to help persons with disabilities find employment. WfaA, based in Düsseldorf, Germany, runs various programs, one of which helps persons with disabilities gain independence by finding them jobs in product assembly, gardening, and office work. EDG uses the workers to help prepare product leaflets and pamphlets for delivery to customers. Epson considers them to be valuable partners and will continue to provide support in the future.



Pamphlet preparation

## Social welfare

### Charity event

Epson Venezuela, SRL provides support for Bambi Shelter, a social welfare facility for children who have lost their homes. The facility houses children up to 18 years of age.

Epson Venezuela held a charity event at a shopping mall to raise money for operational expenses at the facility. Visitors were able to have their pictures taken with a famous Venezuelan TV star and purchase the photos printed out on an Epson printer. The proceeds were then donated to the facility.



The charity event site bustles with activity

## Social welfare

### Earthquake aid for Java Island

In May 2006, a 6.2-magnitude earthquake rocked central Java, in Indonesia, causing major damage in and around Yogyakarta. Epson collected donations for reconstruction work and delivered them through the Japan Red Cross.

In addition, employees at P.T. Indonesia Epson Industry (IEI) delivered tents, blankets, food, and other emergency supplies directly to the victims. IEI also took a leading role in establishing a reconstruction fund to rebuild a primary school destroyed in the earthquake. The new building was handed over in November 2006.



Reconstructed primary school

## Development in Harmony with Society

# Building a trusted relationship with our stakeholders through communication



Informal discussion with shareholders

### Our Basic Approach to Communication

#### Accurately and truthfully deliver the facts, and sincerely listen to stakeholder opinions

As Epson expands its businesses on a global basis, the goal of our public relations, advertising, and other communication efforts is to earn the trust of our stakeholders around the world. In addition to the accurate and truthful delivery of necessary information, we hope to foster bidirectional communications by offering new suggestions that improve people's lives.

In 1998, we established a Global Communications Standard that forms the basic philosophy of all communication at Epson. Then in FY2004, 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 tours targeted at the mass media in order to ensure our messages reach a wide audience.

Furthermore, we are committed to the protection of personal data based on the Personal Information Protection Policy we established in 2004.

### Building a Relationship with Society

#### Creating opportunities to directly interact with stakeholders

##### ■ Communication with shareholders

Seiko Epson reports and discloses business operations and financial results in its annual security report, consolidated results statement and operating statement, as required by law and stock exchange rules. 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 announcements and

a video file of the proceedings on our investor relations web site.

At our general shareholder meeting in FY2006, we paid close attention to the opinions of our shareholders. After a lively question and answer session, our directors and executive officers attended an informal discussion to directly communicate with our shareholders.

We also received many valuable opinions on the general shareholders meeting and other areas from a questionnaire given to meeting participants. Based on the results of the questionnaire, in June 2007 we increased the number of directors at the informal discussion to provide even more opportunities for communication with shareholders.

We will continue to take the opinions of our shareholders into account as we work to enable active communication.



Investor Relations  
<http://www.epson.co.jp/e/community/sr/>

##### ■ Communication with the community

Epson holds site tours and briefings as a way to communicate our business and environmental efforts to residents of the areas surrounding our offices and factories.

In FY2006, we held communication sessions at 10 of our business sites in Japan, including one at our Chitose Plant for the first time. These sessions enabled us to instill a better understanding in the local community regarding our environmental efforts and risk management systems.



### ■ Communication with students

Seiko Epson also accepts student visitors for lectures and research sessions. In FY2006, over 190 students and faculty from multiple universities attended the sessions. They came to learn about environmental conservation by local businesses, historical changes in views on the environment, and the training of environmentally aware engineers. We explained our environmental and CSR initiatives through product exhibits and factory tours.

In another example, students from Kansei University visited us to discuss the findings from their independent research into the environmental impact of Epson's model changes.

This included a visit to our recycling center and provided an opportunity to exchange ideas and deepen each other's understanding.

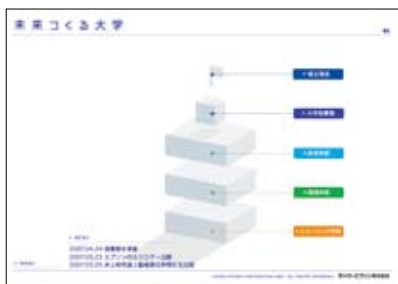


University students on a tour

### ■ Communication through the Internet

In September 2006, Epson opened a special web site that shows how Epson's technologies and environmental activities will lead to a bright future. Visitors can learn about Epson's many initiatives in a fun and entertaining manner.

The site, divided into sections on the future, the environment and imaging devices, uses creative and captivating video clips to introduce visitors to Epson's activities in these areas.



### ■ Speeches and exhibitions

Seiko Epson erected a booth at the December 2006 Eco Style Fair to introduce technologies and initiatives at Epson along the theme, "The things we want to leave for our children and the future." A large ring of light that shows the product lifecycle was installed in front of the booth. The booth also featured exhibits of disassembled inkjet printers and Bellmark objet d'art made from ink cartridges. Other displays showed off our advanced and environmentally considerate tech-

nologies such as e-paper and Spring Drive watches.

In November 2006, Epson Sales Japan erected a permanent booth at the Osaka ATC Green Eco



Primary school students visit the Epson booth at Eco Style Fair 2006

Plaza, an eco-business exhibition hall, to disseminate information on ink cartridge and printer recycling.

Meanwhile, Epson Europe B.V. assisted at a Rembrandt Exhibit held in Amsterdam using a large-format inkjet printer and color reproduction technology.

Rembrandt paintings are scattered throughout the world, but this exhibit contains full-size reproductions of all 276 of his paintings. The paintings were reproduced using Epson's Stylus Pro 9800 large-format inkjet printer to make reproductions so detailed and accurate that even professional art critics and the event sponsors were impressed.



Printout of a Rembrandt painting on the Epson Stylus Pro 9800

### ■ Color Imaging Contest

The Epson-sponsored Color Imaging Contest marked its 13<sup>th</sup> year in 2006. Entrants work with composite materials in addition to photos and graphics to create works that utilize their overall production skills, including design, composition, and fabrication. This contest has become widely known as a hotbed of artistic expression in the digital age.

People from Japan and nine other countries and regions in Asia submitted a total of 16,134 works, 65 of which were selected for prizes, including the grand prize.

At the award ceremony in December 2006, award-winning works were put on display along with new works made by the top two award winners in 2005. Epson

contributes to the development of a culture that expresses things digitally by nurturing and supporting the contest award winners so they can become the photographers and artists of the new age.



Exhibits of award-winning works from the 2006 Color Imaging Contest

### Dialog with Our Employees

#### Listening and responding to employee opinions

In successful companies, the employees understand both the company and the business. This is why Epson works with employees to ensure close communication.

Our legal affairs department took the initiative in releasing a monthly newsletter that explains, in readily understandable terms, the importance of legal and ethical issues that affect the company in the context of social trends.

We also held a total of 21 reading sessions where 367 employees participated in reading our Sustainability Report. By evaluating the content of the report and reflecting upon ordinary activities, we were able to obtain valuable opinions that can be applied to daily duties.



Discussion during a reading session

### Trust-based management forum

Seiko Epson began holding trust-based management forums with executives and general managers from October 2006. Forums were held 11 times in FY2006, and 110 general managers participated.

This forum was designed for executives to share their thoughts and the importance of trust-based management directly with the general managers, who can then convey the message to each and every employee. It also serves as an opportunity for the general manag-

ers to share the issues they face and ways to deal with them, as well as highlight company-wide challenges needed to increase people's trust in Epson. Participants are given an issue sheet to fill out in advance. Many participants have indicated that the very process of filling out the form helps them organize their thoughts and increase their awareness of trust-based management.



Trust-based management forum

## Epson Europe B.V. holds the first stakeholder meeting in Europe

Epson Europe B.V. (EEB) held its first stakeholder meeting on September 20, 2006. This luncheon-style meeting was attended by many people involved in CSR in Europe and provided an opportunity to hear honest opinions on the Epson's CSR initiatives.

### Epson's CSR involvement in Europe

Over the past three years, Epson has established itself as an important stakeholder in the EU policy arena. Epson has managed to position itself successfully in policy areas beyond environmental policy, where it has been a key stakeholder for years.

The participation of Ramon Ollé, CEO of Epson Europe, in the exclusive CSR brainstorm hosted by Enterprise Commissioner Verheugen and Social Affairs Commissioner Spidla as well as the keynote speech on CSR delivered at the World Electronic Forum in September 2005 successfully positioned Epson as a thought leader on Corporate Social Responsibility (CSR).

### Objectives of the stakeholder meeting

The main objective of Epson's first CSR Stakeholder meeting was to obtain the honest and frank feedback of the company's key stakeholders and EU policy makers on Epson's approach to CSR and some of its concrete initiatives in this area. The timing of the event just before the European Parliament was well chosen to start discussions on the Commission Communication on CSR and ensured a strong interest among participants and also gave them the opportunity to shape the upcoming debate.

Initial presentations by Eiji Ide, President of Epson Europe, and Ramon Ollé on Epson's CSR philosophy and approach, were followed by an open and stimulating debate, which touched upon a broad range of key issues and questions surrounding the issue of CSR.

The stakeholders will continue to be informed about Epson's activities on CSR. The event's format was designed to allow the possibility of sustaining the dialog in the future. The next event with a similar set-up will be organized next year in 2008.

### Conclusions that were drawn (excerpt)

#### □ CSR as part of the business strategy

For CSR to be effective and credible it is of key importance that CSR is embedded into the very business strategy of a company. There are things that should be done in order to fulfill a company's CSR, and doing so is to its benefit.

However, the need to integrate CSR in the strategic core of a company should not dilute the fact that CSR is above all about practical manifestations, projects, and outcomes.

#### □ CSR as a global concept

Japanese companies have always had the notion of social existence as they were very much integrated into their communities and took care of their employees beyond the work place. Therefore, Japanese companies are increasingly embracing the broader concept of CSR that goes beyond their responsibility towards their employees and their local communities.

#### □ Corporate-community partnerships

To make CSR work it is essential that the corporate world and civil society cooperate more closely to overcome their sometimes-antagonistic positions and mutual distrust. Companies like Epson are looking for NGOs to help them understand their social and environmental impact in general, but even more to educate them on the specific needs of certain stakeholder groups, e.g. people with disabilities.

#### □ European Alliance

The European Alliance is an excellent initiative. It can flourish even more if its members proactively seek dialog with civil society and other stakeholders.

### Attendees

Ambassador Takekazu Kawamura, MEP Philip Bushill-Matthews, MEP Jan Masiel, Jiri Plecity (EC), Stéphane Ouaki (EC), David Hughes (EC), Thomas Dodd (EC), Otto Linher (EC), Geneviève Besse (EC), Miguel Angel Cabra de Luna (EC), Lars Brückner (Chairman JBCE), Francisco Mingorance (Business Software Alliance), Simon Pickard (EABIS), Jan Noterdaeme (CSR Europe), Janina Arsenjeva (European Disability Forum), Oliver Rapf (WWF)

Various other key people in the field of Japanese businesses, European Union, and CSR also attended the event.



The First Stakeholder Meeting





# Worldwide declarations of sustainability

Epson employees throughout the world are exercising creativity and taking on challenges to grow the company and meet our commitments to our customers and the environment.



**Singapore Epson Industrial Pte. Ltd.**  
CSR Procurement Dept.

**Ms. Irene Sng Siang Mui**

Society is changing and people expect companies to take a larger role in promoting CSR. For this concept to become standard practice in the ASEAN region, we believe that all employees must develop a deep understanding of the importance of CSR. An important aspect of trust-based management at Epson is building a relationship of trust with our stakeholders.



**Epson Telford Ltd. (U.K.)**  
Human Resources Manager

**Ms. Carol Shore**

As Human Resources Manager my mission is to support the Company, Managers, and Employees whilst ensuring that legislation is adhered to and Company rules and regulations are followed. It is an ongoing challenge keeping the balance between business requirements and legislation and at the same time ensuring that each employee is treated with dignity and respect.



**Epson (U.K.) Ltd.**  
European Head of Customer Service & Support

**Mr. David Ratcliffe**

The Epson Express Centre provides on-the-spot solutions to customers' problems and contributes greatly to the improvement of CS. The Epson Express Centre has given us the important opportunity to deliver key Epson messages directly to our end users. We plan to implement the Epson Express Center concept throughout all our major European territories by the end of this fiscal year.



**P.T. Indonesia Epson Industry**  
IJP Production General Manager

**Mr. Emile Pattiwael (right)**

I first realized the importance of Epson values when I took part in the Global Leaders' Seminar. As soon as I got back to IEI, I set to work preparing the Epson value training program to communicate those core values and create a new corporate climate. I felt that as part of our localization efforts local staff needed to have a sense of being part of Epson and to perceive themselves as IEI leaders, taking a positive approach in

doing something to improve the situation.



**Epson Toyocom Malaysia Sdn. Bhd.**  
IT/Procurement Asst. Senior Manager

**Mr. Yong Tong Nye**

Since I am in an administrative division, I believe that it is my responsibility to consider how members of the Manufacturing Division can work efficiently and then build a system that makes this possible at minimum cost. Although there is a tendency to forget it, "contributing to the manufacturing site" is the starting point of work in back office divisions. Because of this, I am leading members of the IT team in such a way that they, too, remain conscious of this principle.

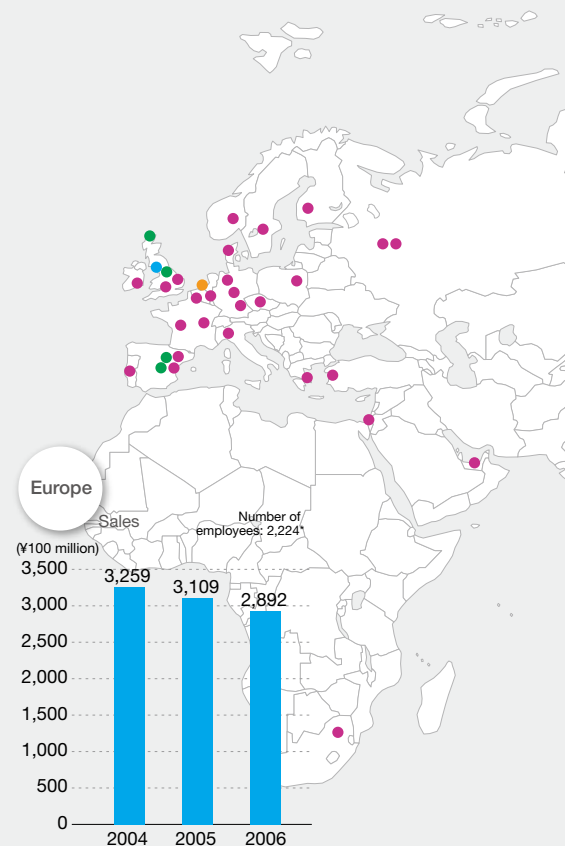


**Epson Sales Japan Corporation**  
Operational Innovation Project

**Mr. Mitsugu Abe**

I thought of a way for managers to use E-KAIZEN as a tool and an opportunity to watch over and foster their workers' aspirations. Having workers write about their approach to E-KAIZEN on their biannual management by objective sheet revitalizes communication. I would like each worker to better themselves through their duties.

## Epson global network



\*The numbers of employees by region were accurate as of March 31, 2007



**Epson (China) Co., Ltd.**  
**Regional Support Planning Dept. Manager**  
**Ms. Wei Li**

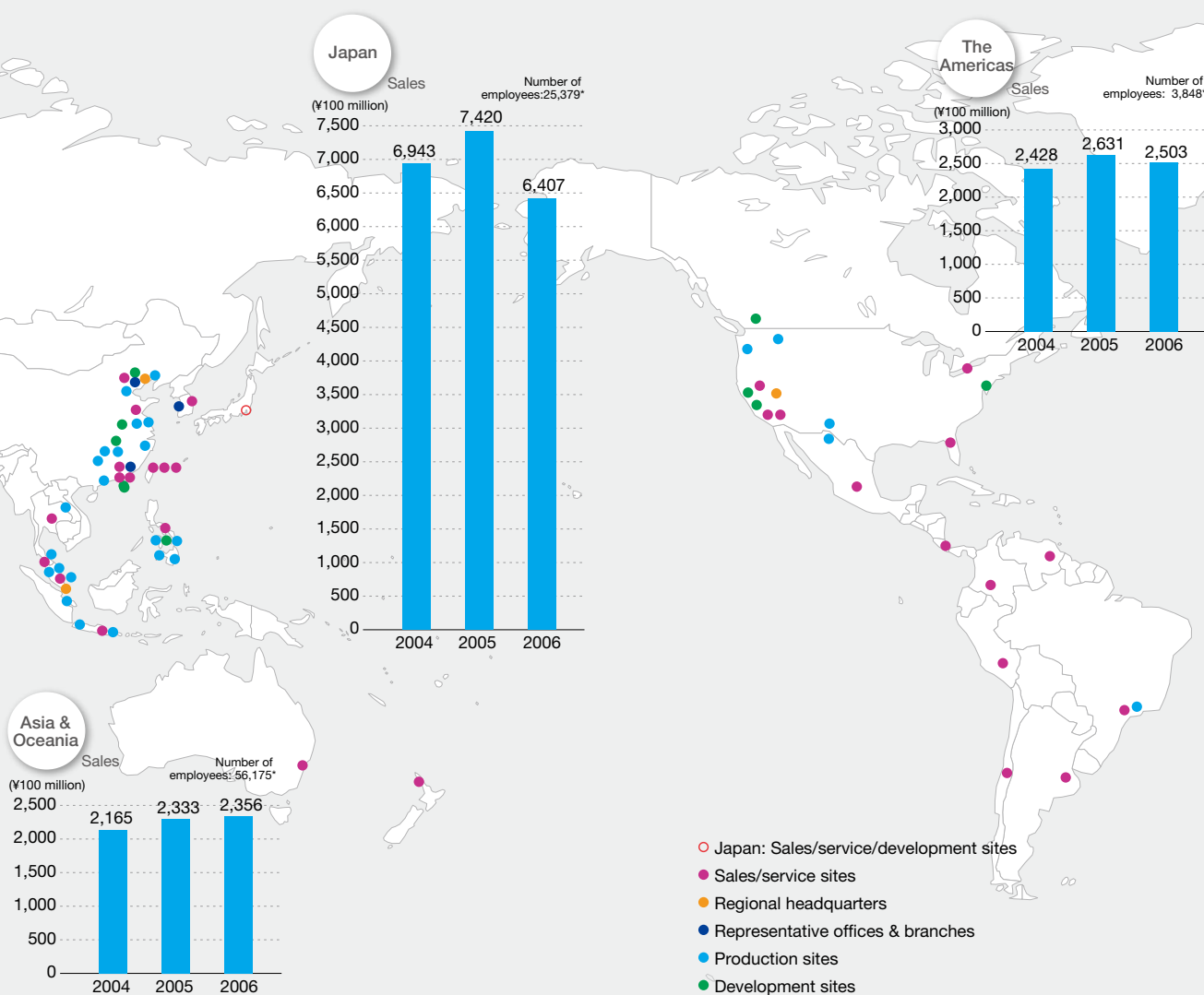
Since 2005, I have participated in the Standardized CSR Survey being conducted in Epson, enabling me to learn about the human rights and working conditions in our Chinese affiliates from a completely different perspective. Taking part in specific actions to achieve CSR was a new challenge in a new field and proved to be a great opportunity to assist group companies in the region.



**Epson Portland Inc. (U.S.A.)**  
**Environmental Specialist**  
**Ms. Kimberley Sackman**

As the only US based manufacturing facility at Epson, we feel it is important to contribute to CSR by starting with our own employers in all aspects of our daily jobs. We also find that reaching out to teach the children in the community important to Epson's trust-based management and CSR activities. I find it very rewarding to work for a company that is so very forward thinking when it comes to the environment.

Epson Group companies: 117 (33 in Japan, 84 overseas) as of March 31, 2007





### 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.



## SEIKO EPSON CORPORATION

3-3-5 Owa, Suwa-shi, Nagano-ken 392-8502, Japan  
Tel: +81-266-52-3131 (main)  
URL: <http://www.epson.co.jp/e/>

- 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 soy-based ink for waterless printing free of harmful wastewater.