

Round Table Discussion on Corporate Governance



Enhancing Sustainable Corporate Value through Strengthening the Effectiveness of the Board of Directors

Fumio Tateishi Chairman (Chairman of the Board of Directors)
Member of the CEO Selection Advisory Committee

Eizo Kobayashi Outside Director
Chairman of the CEO Selection Advisory Committee
Chairman of the Corporate Governance Committee
Member of the Personnel Advisory Committee
Member of the Compensation Advisory Committee

OMRON's Ever-Evolving, Unique Initiatives toward Improving the Effectiveness of the Board of Directors

— How would you view OMRON's initiatives to improve the effectiveness of the Board of Directors?

Tateishi: OMRON has taken a unique approach to enhancing oversight functions of the Board over 25 years. To further strengthen the functions, in 2015, we launched the initiative of "evaluating the effectiveness of the Board of Directors" conducted by the Corporate Governance Committee comprising only Outside Directors and Outside Audit & Supervisory Board Members. The perspectives of Outside Executives who are also

members of the Board of Directors ensure that evaluations are not only objective but also effective. I believe this system works more effectively for OMRON than evaluations by third parties.

Kobayashi: It is very important to evaluate how much a board of directors is fulfilling its expected responsibilities. That's why many listed companies have evaluated their effectiveness as is also required by Japan's Corporate Governance Code. In many companies, a board of directors or a third party takes the lead in such evaluations. On the other hand, OMRON's initiative, which allows a committee comprising only Outside Directors and Outside Audit & Supervisory Members to perform evaluations, is very unique from the perspectives of both objectivity and effectiveness, as Mr. Tateishi pointed out.

Tateishi: The Board discusses and determines the operational policy and focus themes for the upcoming year based on the evaluation results by the Committee. We have continued to improve the effectiveness of the Board of Directors through these two mechanisms: evaluations by the Corporate Governance Committee, and the determination of the operational policy and focus themes by the Board of Directors.

How to Improve the Effectiveness of the Board of Directors

— What specific measures has OMRON taken to increase the effectiveness?

Kobayashi: It is noteworthy that evaluations by the Committee have improved year by year. Specifically, OMRON's Integrated Report increased the number of pages describing its initiatives to improve the effectiveness from one and a half in 2016 to five in 2020. In addition, the Board identified the current issues after analyzing discussions on the focus themes, and shared them with stakeholders in the Integrated Report 2021. The Committee has rated the Board as highly effective for its efforts to solve the issues recognized through such discussions. The Committee sometimes judges the Board from a strict perspective and requires it to take remedial measures, but the Board humbly listens to the Committee and seriously addresses the issues. As the Committee chairman, I have a real feeling that the Board is a place for in-depth discussions.

Tateishi: The Board determines the operational policy and focus themes based on the results of evaluations by the Committee. As a result of our efforts to enhance the Board's effectiveness every year, its functions as a monitoring board have improved, while the ratio of discussions on medium- and long-term issues increased to 70%. I expect that by sharing medium- and long-term issues raised by the Board as an oversight function with Executive Officers led by President and CEO, the quality of management and the speed of decision-making process will increase more than ever.

Kobayashi: The Committee assesses the Board based on questionnaire-style self-evaluations by Directors and Audit & Supervisory Board Members. The self-evaluations, formerly a once-a-year

requirement, have been performed immediately following each Board meeting since fiscal 2019. In addition, since fiscal 2021, Outside Executives have conducted reviews of Board meetings right after their closing. This immediate review allows us to share our afterthoughts and opinions unuttered during the meeting and encourages us to lead deeper and better discussions at future meetings. As a result, we can have more in-depth discussions in the evaluations at the end of the fiscal year, which I believe leads to improved evaluation content. OMRON's Outside Directors and Audit & Supervisory Board Members are very unique for their wide variety of experience, careers, and insights. We can say that the effectiveness of the Board of Directors has been improved by these members who can speak out without restraint or conjecture.

Tateishi: When it comes to the diversity required for a board of directors, OMRON has an extremely diverse group of directors with a wide variety of experience and expertise. All of them are socially-conscious and ready to discuss strategies for the future. The effectiveness of the Board has steadily improved through free and open-minded discussions, various initiatives for effectiveness evaluations, and the evaluations-based decision-making process for operational policies and focus themes for the following year.

Focus Themes for Improving Corporate Value

— Could you tell us about how the Board of Directors determined its focus themes for fiscal 2021?

Tateishi: In the first theme of "completion of the next long-term vision and determination of the next medium-term management plan," we attach more importance to completing the long-term vision. OMRON formulated its first long-term vision in 1991, and this will be the fourth one. While a long-term vision is becoming increasingly important in this era of uncertainty, there aren't many companies that have been working on a long-term vision over 30 years. OMRON is characterized by its ever-evolving approach to formulating a long-term vision. In



addition to the conventional forecasting method envisioning the future starting from the present, OMRON also adopted a backcasting approach that allows us to start with defining what a society should be, and then create a roadmap to the ideal future. By using these approaches, designed to identify necessary factors to fill the gaps between ideals and reality, we can discuss how to reach the goal. In preparation for formulating the next long-term vision, the Board presented executives with five points of view for their supervising operations, including responses to the new normal era post COVID. This is exactly what the “new OMRON” should be in the post-COVID era. I believe it is also important for the Board to show this course of direction to executives.

Kobayashi: The biggest challenge in realizing the long-term vision is probably human resources. We need to create a roadmap by actively adopting various external insights, including those from the outside directors and open innovation.

OMRON is developing human resources who can play a leading role in fulfilling the vision. However, unlike other management resources, we can't utilize human resources as they are. As competition for talents is intensifying in the face of a declining population, we need to formulate a long-term plan and make an investment in order to attract and develop talent from all over the world.

Tateishi: I completely agree. The kind of human resources required for realizing the ideal society in 2030 or even further in the future is surely different from those needed today. I think it is the responsibility of the Board to not only actively discuss this challenge but also monitor whether the human resources strategy is being executed appropriately.

Kobayashi: When I look at OMRON as an Outside Director, I actually feel that a culture of challenging something new has been steadily instilled throughout the organization. I think employees' enthusiasm for TOGA is a successful example. Their passionate and statements such as “Yes, we can” and “nothing impossible” always remind me the need for the Board to engage in discussions that respond to this.

Board of Directors Operational Policy and Focus Themes for Fiscal 2021

Board of Directors Operational Policy for Fiscal 2021

To enable the OMRON Group to achieve a drastic increase in corporate value over the next 10 years, the Board of Directors will exercise its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives.

Focus Themes

- Completion of the next long-term vision and determination of the next medium-term management plan
 - Points to be supervised
 - Response to the new normal era post COVID
 - Initiatives for key sustainability issues
 - Transformation of business model and acceleration of innovation
 - Reform of human resources management
 - Strengthening resilience
- Response to increasing geopolitical risks
- Checking the progress of establishing a companywide IT system

Tateishi: As the second focus theme, we designated “response to increasing geopolitical risks,” as was done in fiscal 2020. Currently, there are many conflicts all over the world, triggered by environmental problems, climate change, human rights, and other issues. We need to not only manage geopolitical risks to avoid possible impacts on our business performance but also to see the risks as opportunities to solve increasingly serious social issues. We require executives to contribute to creating a better society by emphasizing respect for all, one of our important values declared in the OMRON Principles.

Kobayashi: As you mentioned, we need two perspectives: how to enhance our resilience to any changes to persistently carry on our business even in a state of crisis, and how to negotiate new challenges of the post-COVID era to move on to the next stage of growth.

We also need to steadily make progress in the third focus theme, “checking the progress of establishing a companywide IT system.” I believe that it is essential to raise the overall level of our IT system by one level or two with the aim of speeding up the decision-making process and implementing resilient, lean, and effective management on a global scale.



A Virtuous Cycle Brought by Practice of OMRON Principles and Promotion of Sustainability

—The revised Corporate Governance Code requires companies to proactively address sustainability issues and appropriately disclose their initiatives. Could you tell us about OMRON’s sustainability initiatives?

Tateishi: Since its foundation, OMRON has operated under the principle of contributing to future social development through its business. Prior to the revision of Japan’s Corporate Governance Code, we already had set 11 sustainability goals based on the OMRON Sustainability Policy formulated in 2017, and promoted our own initiatives. As of 2017, we incorporated the sustainability goals into our medium-term management plan because we were in the middle of our long-term vision. This time, we set the sustainability goals in the new long-term vision from the beginning.

Kobayashi: While most companies advocate sustainability nowadays, there are differences in their initiatives. Under these circumstances, OMRON has been committed to integrating sustainability into its management in order to realize the sustainable enhancement of corporate value. I’m confident that these efforts will have a positive impact on society. Because OMRON cannot solve all social issues by itself, it is also important for OMRON to actively convey its messages to society as an opinion leader.

Tateishi: OMRON emphasizes the importance of innovation driven by social needs, so it is no exaggeration to say that the implementation of corporate principles and promotion of sustainability are synonymous. While heightening non-financial value by promoting sustainability, we will also increase our financial value by solving social issues through our business. I believe that we can create a virtuous cycle for the further enhancement of corporate value by pursuing these two goals. The Board of Directors will strive to continue to improve its effectiveness in order to fulfill the mission toward the sustainable enhancement of corporate value.



Advanced Compensation Governance for Improving Corporate Value

Takehiro Kamigama

Outside Director
 Chairman of the Compensation Advisory Committee
 Vice Chairman of the Corporate Governance Committee
 Member of the Personnel Advisory Committee
 Member of the CEO Selection Advisory Committee

Characteristics of OMRON's Management

— Mr. Kamigama, you were appointed as an Outside Director of OMRON in 2017. Could you tell us about the characteristics of OMRON's management?

I can say that the strength of OMRON's management is, in a nutshell, the balance of capital efficiency-oriented ability to constantly earn profits, as represented by ROIC management, and faithful management focusing on the OMRON Principles.

Firstly, OMRON's earning capacity is characterized by its business operations emphasizing gross profit margin. OMRON's gross profit margin rose from 36.8% in fiscal 2011 to 45.5% in fiscal 2020. It is noteworthy that all departments, including the ones of development, purchasing, production, logistics, and sales, have been working together as a company to improve gross profit margin, an indicator showing the essence

of corporate earning capacity. In order to continuously increase the gross profit margin, which usually reaches a limit at a certain level, companies must carefully control their selling prices and costs, and improve their product portfolios. I believe that OMRON will be able to further enhance its profitability by focusing on service-based or recurring businesses rather than goods-based ones to shift its business model to one capable of adapting to ever-changing social needs.

Secondly, to survive this rapidly-changing and complicated era, we need principles or a compass as support for management decisions. My position as an Outside Director of OMRON reminds me of the importance of such principles. In particular, I've been giving my attention to the structure for implementing the OMRON Principles, and the ability to disseminate its messages both inside and outside OMRON. Every year, OMRON holds TOGA to share stories of employees practicing the OMRON Principles in daily operations. TOGA encourages employees from all over the world to team up, set their own

goals, and share their thoughts, activities, and results throughout the entire Group, which results in expanding the circle of empathy and resonance. Since assuming office as an Outside Director, I have attended TOGA events in Japan and overseas to witness new social issue-based services and businesses. I am impressed that TOGA, the source of OMRON's ability to create new businesses and of employees' high motivation in their work, is a best practice for sustainable management that is required in the SDGs era. In addition, OMRON formulates its 10-year vision to solve social issues based on the SINIC Theory, a managerial compass, with the aim of contributing to a better society. OMRON enhances its value by reviewing results and issues to formulate a new 3- or 4-year medium term management plan that is released three times during a 10-year long-term vision period. This is indeed a great initiative to autonomously implement management and business operations required by Japan's Corporate Governance Code, including ESG management, in order to meet the expectations of all stakeholders.

— Could you tell us about OMRON's compensation governance?

OMRON emphasizes compensation governance for two reasons. The first reason is to motivate directors to achieve the 10-year long-term vision targets in order to realize the sustainable enhancement of corporate value. Specifically, the results of the short- and medium-term management plans formulated based on the long-term vision are linked to compensation for directors, which leads to further sustainable improvement of corporate value. The second reason is to not only to ensure the transparency and objectivity of the compensation structure for directors through disclosure of the structure but also to promote better understanding of OMRON's management among stakeholders. In this sense, we consider the disclosure in this Integrated Report as part of our compensation governance.

Overview of Compensation Structure for Directors

— Please tell us an overview of the compensation structure for directors.

The current structure was established in fiscal 2017. This structure aims to reflect the perspectives of all

stakeholders, including shareholders, in OMRON's management. By clarifying a linkage between the directors' remuneration and improved corporate values (business value, shareholder value, and social value), we motivate directors to achieve the targets of the medium-term management plan. We also maximize their motivation to contribute to the sustainable improvement of corporate value by encouraging them to hold the company's stock. Specifically, compensation for directors consists of a base salary, or fixed compensation; short-term performance-linked compensation (bonuses) that varies depending on the company's performance; and medium-to-long-term, performance-linked compensation (stock compensation). When determining base salaries, to ensure objectivity, we refer to those of over 100 major Japanese companies that have been surveyed by an outside organization. We also determine the ratio of performance-linked compensation to base salary according to each director's position and role. For example, the ratio for President and CEO is 1 : 1 : 1.5 (base salary : bonuses : stock compensation). We adopted this relatively high composition ratio of performance-linked compensation after referring to the levels in Europe and the U.S.

In fiscal 2021, we revised the evaluation items and criteria for medium-to-long-term, performance-linked compensation (stock compensation) that is linked to the degree of achievement of performance targets in the medium-term management plan. Stock compensation comprises performance-linked component (60%), linked to the degree of achievement of the medium-term management plan, and the nonperformance-linked component (40%), which aims for director retention and motivation to improve share prices over the medium-to-long-term, and is paid under the condition of a certain term of service.

Objectives and Key Points of Revision of Compensation Structure for Directors

— What are the aim and approach for revising the compensation structure for directors?

The aim is to further motivate directors to achieve the targets of the next long-term vision and medium-term management plan. In addition, we need to improve the compensation structure whenever the management policy is required to be revised in accordance with changes in the business environment and stakeholder expectations. I feel

proud that the former structure, revised in fiscal 2017, was also an advanced one for its initiatives such as the introduction of sustainability evaluation. Our 4-year experience after the previous revision helped us to further improve the structure.

— **What are the key points of the revised compensation structure?**

This time, we revised mainly medium-to-long-term, performance-linked compensation (stock compensation). It will now be evaluated using three items, which are financial targets evaluation, corporate value evaluation, and sustainability evaluation. We calculate the amount of stock compensation by using these items that have their own set evaluation weights. Firstly, we set the highest evaluation weight of 60% for financial targets evaluation. Secondly, we newly adopted corporate value evaluation with its weight of 20%, for the purpose of maximizing our corporate value in the next long-term vision. Thirdly, we allocated 20% to the weight of sustainability evaluation, with the aim of not only promoting the implementation of the OMRON Principles, our most important values, but also further reflecting the expectations for the SDGs and the importance of sustainability. The weight of sustainability evaluation is relatively high compared to other companies, making it one of OMRON's features.

— **Could you give us more details of those three evaluation items? Firstly, please tell us about the financial targets evaluation.**

We removed net sales from the KPIs of the financial targets evaluation, which until now had been net sales, EPS, and ROE. Before reaching this decision, we had many heated discussions in the Compensation Advisory Committee. While some members pointed out that net sales are important for the manufacturing industry and that removing net sales could reduce employee awareness of business growth, there were various other views such as the need to focus on profits rather than net sales, and the inappropriateness of pursuing continuous sales growth in a rapidly changing business environment. In the process of discussions, we invited the President and CEO to the Committee meetings and asked him to explain the policy of the executives that aim to transform our business model from a product-based one by increasing the ratio of service and recurring businesses in the next long-term vision. Unlike the previous long-term vision and the VG2.0

medium-term management plan that were sales growth-oriented, the next long-term vision will give priority to maximizing corporate value as our management target. For this reason, the Committee members finally reached a unanimous decision to remove net sales from the KPIs.

— **Next, please tell us about corporate value evaluation.**

Medium-to-long-term, performance-linked compensation (stock compensation) aims to heighten director motivation to contribute to the sustained improvement in corporate value from the same perspective as stakeholders, including shareholders. Actually, OMRON's stock price rose from 4,885 yen (closing price on March 31, 2017) to 8,640 yen (closing price on March 31, 2021) during the 4-year period of the previous VG2.0 plan. This increase of 77% was far above the 29% rise in the Tokyo Stock Price Index, well known as TOPIX, during the same period. On the other hand, we didn't have any KPIs to evaluate the improvement of corporate value. For this reason, we introduced a new KPI named relative TSR, an indicator that compares OMRON's total shareholder return (TSR) in the covered period to the percentage change of the TOPIX Total Return Index. The use of relative TSR, which can evaluate increases or decreases in TSR by using the TOPIX Total Return Index as a benchmark, allows us to appropriately reflect the improvement of corporate value in compensation.

— **What about sustainability evaluation?**

OMRON's management is based on practicing the OMRON Principles that aim to create a better society by solving social issues through our business. For this reason, we adopted sustainability evaluation when introducing medium-to-long-term, performance-linked compensation in fiscal 2017. At that time, as there were only a few companies using sustainability evaluation for director compensation, we adopted only a third-party evaluation to ensure objectivity in our first attempt. On the other hand, for this revision, we introduced the new KPIs of "reduction of greenhouse gas emissions" and "score of Sustainable Engagement Index (SEI)^{*1} in engagement survey^{*2}," as our internal targets, in addition to the existing third-party evaluation. In ESG management, Environment and Social particularly contribute to OMRON's growth as well as attract the greatest interest from our stakeholders. That's why we adopted E- and S-related indicators. In addition, the revision of

sustainability evaluation is based on insights obtained through dialogues and engagement with institutional investors. We will strive to enhance the effectiveness of our compensation structure for directors through dialogues and engagement with our stakeholders.

*1 Survey measuring employees' voluntary motivation to contribute to targets of the organization
 *2 Indicator that measures the presence of a high level of motivation to contribute to the achievement of targets, maintained through good mental and physical health, or a strong sense of belonging to the organization, or a productive work environment

— Please tell us about the Compensation Advisory Committee that discussed and deliberated the revision of the compensation structure for directors.

The Committee is made up of three Outside Directors, including myself as the Chairman, and two Internal Directors, all of whom have diverse business experience and conduct discussions from various perspectives. For example, the Committee had held a meeting to discuss and deliberate the revision every month since October 2020 until we completed its design in

February 2021. In each of these five meetings, we took about an hour to deliberate it thoroughly.

— Lastly, could you tell us about your thoughts for the future?

I believe that the revised compensation structure covers all themes stakeholders currently expect of corporate management. In particular, I'm convinced that medium-to-long-term, performance-linked compensation (stock compensation) will be highly regarded as a good practice. On the other hand, I think OMRON has other management issues to address, such as how to accelerate innovation to design the next growth engine, and how to promote diversity by increasing the ratio of female executives and managers in Japan as well as of non-Japanese managers overseas. As an Outside Director, I will strive to actively contribute to sustainably increasing OMRON's value through monitoring and supervising in the Board of Directors in addition to activities in the Compensation Advisory and other committees.

■ Medium-to-long-term, performance-linked compensation (stock compensation) after revision

$$\text{Performance-linked portion} = \text{Base amount for each position} \times \left(\text{Financial targets evaluation 60\%} + \text{Corporate value evaluation 20\%} + \text{Sustainability evaluation 20\%} \right)$$

	Evaluation weight	Indicators
Financial targets evaluation	60%	• EPS • ROE
Corporate value evaluation	20%	• Relative TSR*1
Sustainability evaluation	20%	• Reduction of greenhouse gas emissions (internal target) • Score of Sustainable Engagement Index (SEI)*3 in engagement survey*2 (internal target) • Dow Jones Sustainability Indices (third-party evaluation)

*1 Indicator that compares total shareholder return (TSR) of OMRON in the covered period to the percentage change of TOPIX Total Return Index (Relative TSR = TSR - Percentage change of TOPIX Total Return Index)
 *2 Survey measuring employees' voluntary motivation to contribute to targets of the organization
 *3 Indicator that measures the presence of a high level of motivation to contribute to the achievement of targets, maintained through good mental and physical health, or a strong sense of belonging to the organization, or a productive work environment

■ Medium-to-long-term, performance-linked compensation (stock compensation) before revision

$$\text{Performance-linked portion} = \text{Base amount for each position} \times \text{Performance score (Net sales 30\%, EPS 70\%)} \times \text{ROE score} \times \text{Sustainability evaluation}$$

Corporate Governance

Basic Stance for Corporate Governance

At the OMRON Group, corporate governance is defined as the system of processes and practices based on the OMRON Principles and the OMRON Management Philosophy. The system is intended to ensure transparency and fairness in business and speed up management decisions and practices. This is done by connecting the entire process from oversight and supervision all the way to business execution in order to boost the OMRON Group’s competitive edge. OMRON’s corporate governance also involves building such a system and maintaining its proper function. The ultimate objective is to achieve sustainable enhancement of corporate value by earning the support of all stakeholders.

OMRON Corporate Governance Policies

OMRON Corporation established the OMRON Corporate Governance Policies* based on the Basic Stance for Corporate Governance. Since establishing the Management Personnel Advisory Committee in 1996, we have spent more than 20 years formalizing and strengthening our framework of corporate governance.

We intend to continue our pursuit of ongoing corporate governance improvement as we develop our own unique vision of governance.

* OMRON Corporate Governance Policies <https://www.omron.com/global/en/about/corporate/governance/policy/>

Corporate Governance Initiatives

	1999	2003	2011
President	1987: Yoshio Tateishi	2003: Hisao Sakuta	2011: Yoshihito Yamada
Chairman of the Board of Directors / CEO	President served as both		2003: Chairman serves as chair of the Board of Directors; president serves as CEO
Separation of management oversight and business execution	30 directors	1999: Revised articles of incorporation, setting number of board members to 10 or fewer	
		2017: Eliminated board titles*	
		1999: Adopted executive officer system	
		2017: Positioned president as an executive officer	
Advisory Board	1999: Advisory Board		
Outside Director		2001: One outside director	2003: Two outside directors (seven directors) 2015: Three outside directors (eight directors)
Audit & Supervisory Board Members (Independent)	1998: One member	1999: Two members	2003: Three members (four auditors) 2011: Two members (four auditors)
Advisory and Other Committees	1996: Management Personnel Advisory Committee		2000: Personnel Advisory Committee
			2003: Compensation Advisory Committee
			2006: CEO Selection Advisory Committee
			2008: Corporate Governance Committee
Corporate Philosophy	1959: Corporate Motto	1990: OMRON Principles 1998: Revised	2006: Revised 2015: Revised
OMRON Corporate Governance Policies			2015: Established

* Not including chairman of the Board

Corporate Governance Framework

OMRON has elected to be a company with an Audit & Supervisory Board.

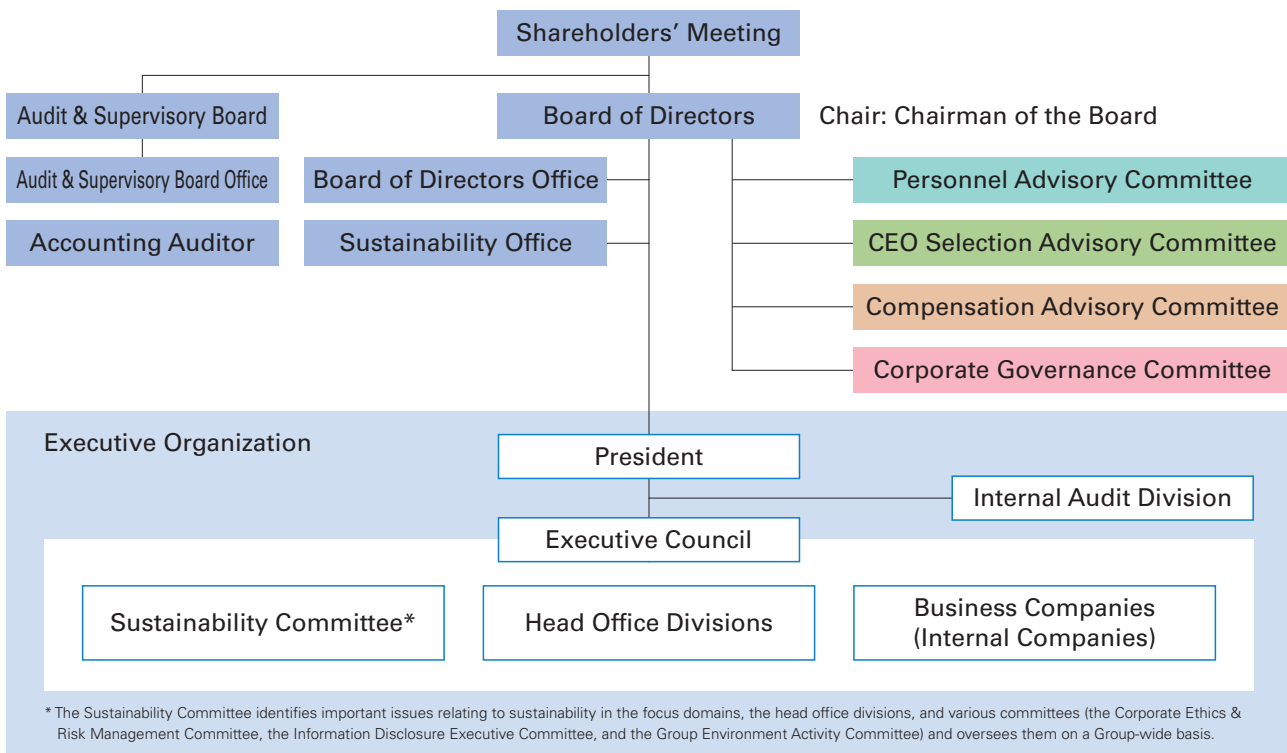
The OMRON Board of Directors is made up of eight members to ensure substantive discussion and deliberations. OMRON has separated the management oversight and business execution functions within the company, creating a system whereby the majority of Board Directors are not engaged directly in business operations. We have also adopted a policy setting the ratio of outside directors to at least one-third of the total number of directors on the board. To increase objectivity on behalf of the Board of Directors, the titles and roles of chair of the Board and President (CEO) have been separated. The Chairman serves as chair of the Board of Directors with no direct corporate representational authority.

OMRON has established several advisory committees to enhance the oversight functions of the Board of Directors. These committees include the Personnel Advisory Committee, the CEO Selection Advisory Committee, the Compensation Advisory Committee, and the Corporate Governance Committee. The Personnel Advisory Committee, the CEO Selection Advisory Committee, and the Compensation Advisory Committee are all chaired by outside directors with at least half of the committee members being outside directors. The CEO is not a member of any of these committees. The chair and members of the Corporate Governance Committee are outside directors and outside members of the Audit & Supervisory Board. This structure offers another layer of transparency and objectivity to the decision-making process.

In these policies, OMRON has created a hybrid governance framework that combining the best features of a company with an Audit & Supervisory Board and a company with a Nomination Committee.

Outside directors and outside members of the Audit & Supervisory Board attended the 13 meetings of the Board of Directors held during fiscal 2020 at a rate of 100% and 96.2%, respectively. Outside members had an attendance rate of 96.2% at the 13 meetings of the Audit & Supervisory Board.

Fiscal 2021 OMRON's Corporate Governance Structure



Board of Directors
Selects board directors, auditors, and executive officers, determines compensation for directors and executive officers, makes decisions on important business issues, and performs other supervisory functions.

Compensation Advisory Committee
Sets policies for director and executive officer compensation; deliberates compensation levels and specific compensation packages.

Audit & Supervisory Board
Oversees corporate governance framework and execution business operations; conducts audits of day-to-day business activities, including those performed by directors.

Corporate Governance Committee
Oversees ongoing corporate governance improvement; deliberates policies to advance management transparency and fairness.

Personnel Advisory Committee
Sets standards and policies related to selecting and hiring directors, Audit & Supervisory Board members, and executive officers; deliberates on proposed candidates.

Executive Council
Deliberates and discusses important operational matters within the scope of the authority of the president and CEO; determines future direction.

CEO Selection Advisory Committee
Deliberates candidates for selection as new CEO; deliberates succession plans and candidates in the event of an emergency.

Fiscal 2021 Advisory Committee

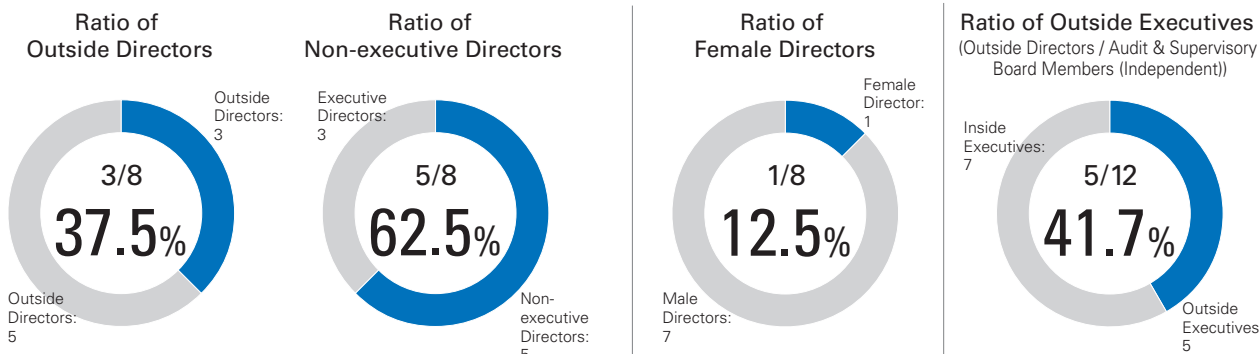
Title	Name	Personnel Advisory Committee	CEO Selection Advisory Committee	Compensation Advisory Committee	Corporate Governance Committee
Chairman of the Board	Fumio Tateishi		□		
Representative Director	Yoshihito Yamada				
Representative Director	Kiichiro Miyata	□			
Director	Koji Nitto			□	
Director	Satoshi Ando	○	○	○	
Outside Director	Eizo Kobayashi ◆	□	◎	□	◎
Outside Director	Takehiro Kamigama ◆	□	□	◎	○
Outside Director	Izumi Kobayashi ◆	◎	□	□	□
Audit & Supervisory Board Member (Full-time)	Shuji Tamaki				
Audit & Supervisory Board Member (Full-time)	Kiyoshi Yoshikawa				
Audit & Supervisory Board Member (Independent)	Hideyo Uchiyama ◆				□
Audit & Supervisory Board Member (Independent)	Tadashi Kunihiro ◆				□

◎ Chairperson ○ Vice-Chairperson □ Committee Member ◆ Independent under Tokyo Stock Exchange rules

Approach to Composition of Board of Directors

In order to strengthen the supervisory function of the Board of Directors, OMRON supervision from execution, and the majority of the Board consists of Directors who are not involved with business execution. In addition, at least one-third of the Board of Directors consists of Outside Directors. To ensure independence, Outside Directors and Outside Audit & Supervisory Board Members (Independent) are appointed based on OMRON's Independence Requirements for Outside Executives. The diversity of the Board of Directors will also be ensured by providing a well-balanced mix of human resources with experience, expertise, and knowledge among the Directors and Audit & Supervisory Board Members.

Composition of Board of Directors



Main Areas of Experience and Expertise of Outside Directors and Audit & Supervisory Board Members (Independent)

Name & Title	Corporate management	Financial accounting	Legal Compliance Internal controls	Global business & expatriation	Manufacturing technology R&D	Background and Qualifications
Eizo Kobayashi Outside Director	●			●		General trading company
Takehiro Kamigama Outside Director	●			●	●	Manufacturing
Izumi Kobayashi Outside Director	●			●		Financial and international organization
Hideyo Uchiyama Audit & Supervisory Board Members (Independent)	●	●	●	●		Certified public accountant
Tadashi Kunihiro Audit & Supervisory Board Members (Independent)	●		●	●		Lawyer

Director Compensation

Compensation Policy for Directors

- ① **Basic Policy**
 - The Company shall provide compensation sufficient to recruit as directors exceptional people who are capable of putting the OMRON Principles into practice.
 - The compensation structure shall be sufficient to motivate directors to contribute to sustainable enhancement of corporate value.
 - The compensation structure shall maintain a high level of transparency, fairness, and rationality to ensure accountability to shareholders and other stakeholders.
- ② **Structure of Compensation**
 - Compensation for directors shall consist of a base salary, which is fixed compensation, and performance-linked compensation, which varies depending on the Company's performance.
 - The compensation composition ratio of performance-linked compensation to base salary shall be determined according to each Director's role and responsibility.
 - Compensation for outside directors shall consist of a base salary only, reflecting their roles and the need for maintaining independence.
- ③ **Base Salary**
 - The amount of a base salary, paid monthly, shall be determined by taking into account the salary levels of other companies, as surveyed by a specialized outside organization.
- ④ **Performance-Linked Compensation**
 - As short-term performance-linked compensation, the Company shall provide bonuses linked to yearly performance indicators, and to the degree of achievement of performance targets. Bonuses shall be paid as a lump sum after the conclusion of the fiscal year.
 - As medium- to long-term performance-linked compensation, the Company shall grant stock compensation linked to the degree of achievement of the goals of the medium-term management plan, and to the improvement in corporate value (value of stock).
 - The performance-linked component of stock compensation shall be paid after the medium-term management plan concludes, while the non-performance-linked component shall be paid after the Director retires.
 - The Company shall determine the target amounts for short-term performance-linked compensation and medium- to long-term performance-linked compensation based on the target pay mix specified according to each director's role and responsibility.
- ⑤ **Compensation Governance**
 - The compensation composition, compensation composition ratio, level of the base salary, as well as performance indicators and evaluation methods of performance-linked compensation shall be determined based on the deliberations and recommendations of the Compensation Advisory Committee.
 - The amount of compensation for each Director shall be determined by a resolution of the Board of Directors reflecting the deliberations and recommendations of the Compensation Advisory Committee.

Overview of Compensation Structure for Directors (From fiscal 2021)

(1) Compensation Composition Ratio

Compensation to Directors and Executive Officers consists of a base salary (fixed compensation) and compensation according to Company performance, namely short-term performance-linked compensation (bonuses) and medium-to-long-term, performance-linked compensation (stock compensation). The ratio of compensation consisting of performance-linked compensation compared to base salary has been determined for each role:

Base Salary	:	Short-term Performance-linked Compensation (Bonuses)	:	Medium-to-long-term, performance-linked compensation (stock compensation)	=	1 : 1 : 1.5*
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* Referring to Representative Director, President and CEO

* The ratio is based on the assumption that the performance targets are set as 100% for each performance-linked compensation.

(2) Base Salary

A base salary is paid monthly to Directors and Executive Officers as fixed compensation. Base salaries are determined for each role by taking into account the salary levels of officers at other companies (benchmarked companies of the same industry and scope selected by the Compensation Advisory Committee), as surveyed by a specialized outside organization.

(3) Short-term Performance-linked Compensation (Bonuses)

Bonuses are paid as a lump sum after the fiscal year concludes to Executive Officers and Directors excluding Outside Directors as short-term performance-linked compensation, which is linked to yearly performance indicators and the degree of achievement of performance targets. Director bonuses vary between 0% and 200% according to the achievement of operating income, net income, and ROIC targets defined in the annual operating plan.

Base amount for each position	×	Performance score (Operating income 50%, net income 50%)	×	ROIC score	=	Short-term Performance-linked Compensation (bonuses)
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*Individual targets and other benchmarks are set for Executive Officer performance according to their duties.

(4) Medium-to-long-term, performance-linked compensation (stock compensation)

Stock compensation is paid as medium-to-long-term, performance-linked compensation to Executive Officers and Directors excluding Outside Directors. Stock compensation comprises the performance-linked component (60%), which is linked to the degree of achievement of the medium-term management plan, and the nonperformance-linked component (40%), which aims for retention and motivation to improve share prices over the medium-to long-term, and is paid under the condition of a certain term of service. The performance-linked component of stock compensation is paid after the medium-term management plan concludes, while the non-performance-linked component is paid after the Director retires. The performance-linked component will fluctuate in the range of 0% to 200% depending on the degree of achievement of performance targets in the medium-term management plan. In the event of serious misconduct during their term of office, and such misconduct harms the Company, the Compensation Advisory Committee will deliberate and make a recommendation. Based on this discussion and recommendation, the Board of Directors and President shall resolve to limit the payment of stock-based compensation for Directors and Executive Officers, respectively.

[P82 Medium-to-long-term, performance-linked compensation →](#)

(5) Performance indicators of performance-linked compensation

- Short-term performance-linked compensation (bonuses) sets indicators to evaluate profitability and efficiency for the achievement of the short-term management plan based on the medium-term management plan.
- Medium-to-long term, performance-linked compensation (stock compensation) sets indicators to evaluate profitability and efficiency from a financial perspective, improved corporate value compared to the stock market from a corporate value perspective, and sustainable management from a non-financial perspective for the achievement of the medium-term management plan.

Initiatives Towards Improving the Board of Directors' Effectiveness

Status of Initiatives Towards Improving the Board of Directors' Effectiveness

The Company ensures transparency and fairness in business management, speeds up management decisions and practices, and strives to boost the OMRON Group's competitive edge. The ultimate objective is to achieve sustained enhancement of corporate value. To this end, the Company reinforces the oversight functions of Board of Directors through initiatives for improving its effectiveness.

Such initiatives are undertaken in a cycle of (1) evaluation of Board of Directors' effectiveness, and (2) determination of the operational policy and focus themes of Board of Directors and formulation and implementation of annual plans.

(1) Evaluation of Board of Directors' effectiveness

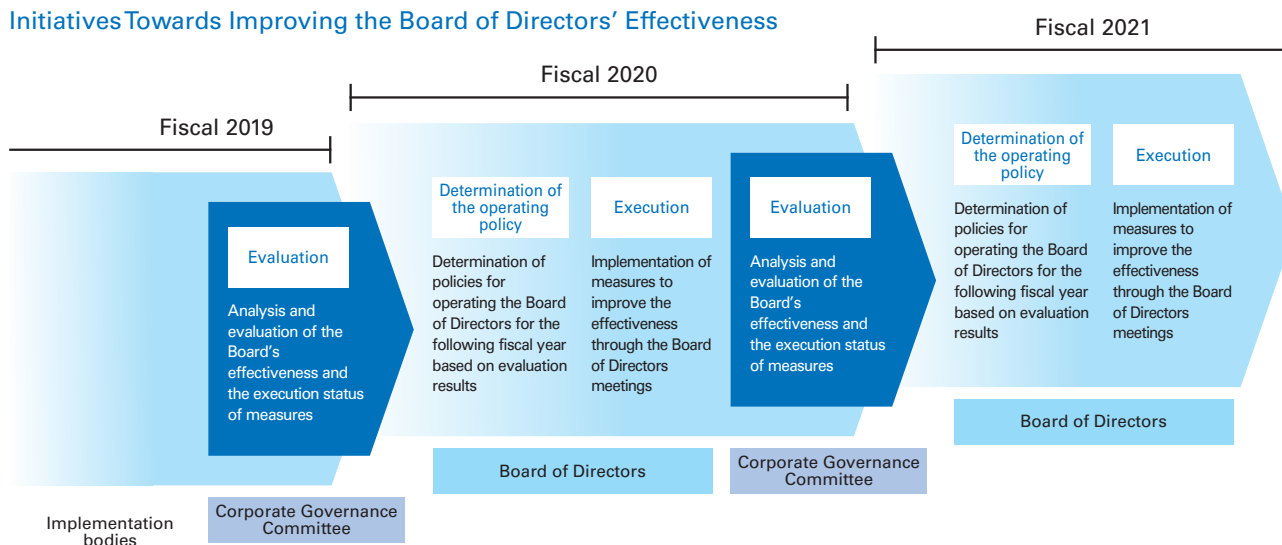
The Company's evaluation of Board of Directors' effectiveness is conducted by Corporate Governance Committee chaired by a Director (Independent) and comprising only Directors (Independent) and Audit & Supervisory Board Members (Independent) (hereinafter "Outside Executives"). Outside Executives act as members of Board of Directors while having the perspectives of all stakeholders including the shareholders. Corporate Governance Committee, which is composed only of Outside Executives, performs evaluations in order to ensure that evaluations are both objective and effective.

(2) Determination of the operational policy and focus themes of Board of Directors and formulation and implementation of annual plans

Based on the evaluation results by Corporate Governance Committee in (1) and the business environment, etc., Board of Directors determines its operational policy and focus themes for the next fiscal year. Board of Directors formulates and implements annual plans based on this operational policy.

The Company continues to improve Board of Directors' effectiveness by implementing (1) and (2) above on a yearly basis. Corporate Governance Committee has evaluated these initiatives to be the Company's unique, optimal activities that are both objective and effective. Board of Directors recognizes the Company's initiatives as being more effective than evaluations by third parties.

Initiatives Towards Improving the Board of Directors' Effectiveness



Evaluation of the Board of Directors' Effectiveness for Fiscal 2020

The methods of the evaluation of Board of Directors' effectiveness and the evaluation items in the self-evaluation for fiscal 2020 are as described below.

2-1. Evaluation Methods

① Self-evaluations by Directors and Audit & Supervisory Board Members

- Each Director and Audit & Supervisory Board Member performed self-evaluations of the contents of discussions at the meetings of the Board of Directors and the extent of oversight functions exercised, immediately following each meeting of the Board of Directors.

- Each Director and Audit & Supervisory Board Member performed self-evaluations of the operation, etc. of the Board of Directors over the course of the year following the meeting of the Board of Directors held in February and March 2021.

② Interviews by the Chair of Board of Directors

- The Chair of the Board of Directors conducted individual interviews with Directors and Audit & Supervisory Board Members between January and March 2021.

③ Evaluation by Corporate Governance Committee

- The Corporate Governance Committee evaluated the Board of Directors' effectiveness in March and April 2021.

2-2. Self-evaluation Items

Self-evaluation items are as follows. Evaluations were performed from the perspectives of whether or not Board of Directors sufficiently exercised its oversight functions, and whether it contributed to the exercise of its oversight functions. Evaluations are performed by completing anonymous questionnaires. For each evaluation item, answers are provided using five-point scales and free comment fields.

① Self-evaluations performed immediately following meetings of Board of Directors

- Content of discussions at the meeting of Board of Directors
- Extent of oversight functions exercised by Board of Directors are demonstrated

② Self-evaluations for the entire year, performed at the end of the fiscal year

- | | |
|---|--|
| 1. Operation of Board of Directors | 2. Increasing information sharing opportunities |
| 1) Board of Directors Operational Policy for Fiscal 2020 | 1) Separate meetings |
| 2) Focus themes for fiscal 2020 | 2) Initiatives on information sharing opportunities |
| 3) Deliberations and reports regarding issues other than focus themes | 3. Advisory Committees |
| 4) Board of Directors operational policy for fiscal 2021 and its focus themes | 4. Other Overall Issues regarding Board of Directors |

③ Other self-evaluations

(evaluations performed when new officers are appointed, when medium-term management plans are formulated, when changes are made to the corporate governance system, etc.)

- Scale and composition of Board of Directors
- State of operations of Board of Directors
- Operation of the advisory committees

Results of Evaluation of Board of Directors' Effectiveness for Fiscal 2020

Corporate Governance Committee conducted an evaluation of Board of Directors' effectiveness for fiscal 2020 and reported the results of the evaluation at Board of Directors meeting held on May 14.

Board of Directors Operational Policy for Fiscal 2020

"To enable the OMRON Group to deliver new value in this period of social structure transformation, Board of Directors will exercise its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives."

Focus Themes

- Business operations with COVID-19 in mind
- Response to increasing geopolitical risks
- Creation of new businesses in the period of transformation and taking on the challenge of new business model development
- Building a new core information system
- Determination of the direction of next long-term vision with new values in mind

3-1. General comments on evaluation

① Operation of the Board of Directors

In order to realize further improvements in corporate value, based on the results of the evaluation of the Board of Directors' effectiveness for fiscal 2019, the Board of Directors discussed the Board of Directors' operation policy for fiscal 2020. The Board determined that in fiscal 2020, on top of the need to respond to the COVID-19 pandemic, it is important to accurately and speedily grasp global changes, and to provide new value during this period of transformation of the social structure. Based on these discussions, the Board of Directors set the "exercise of its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives" as its operation policy, and listed five focus themes. Based on this operation policy of the Board of Directors, the President and CEO reported on issues including initiatives for focus themes and the status of responses to environmental changes to the Board of Directors, and discussed the issues. (*Please refer to 3-2. ① "Initiatives regarding focus themes" below for more details on focus themes.)

While the next long-term vision had been scheduled to start in fiscal 2021, affected by the COVID-19 global pandemic, the Company placed the highest priorities on crisis response so as to ensure business continuity and profits. At the same time, since it is necessary to conduct preparations and transformation for the world after the containment of the COVID-19 pandemic ("post-COVID"), the President and CEO proposed to the Board of Directors to postpone the start of the next long-term vision by a year. In addition, besides resolving social issues based on SDGs, it was suggested that the next long-term vision should be formulated such that it reflects initiatives made from a medium- to long-term perspective in preparation for the post-COVID world. With regard to this, the Board of Directors deemed the postponement of the start of the next long-term vision to be appropriate. The Board also debated the importance of recognizing the speed of transformation of the social structure and the messages that must be given to both parties within and outside the Company when announcing the reason for the postponement. In particular, in order to adapt to the rapid speed of change of the social structure, the Board reaffirmed the necessity of accelerating responses at a pace beyond current expectations.

In addition to the above, the President and CEO reported the status of business execution to the Board of Directors, on issues including: the status of response to COVID-19, the performance of each fiscal year in light of the impact thereof, the short-term management plan of each BC, and initiatives related to sustainability. Regarding these issues, the Board of Directors positively evaluated the President and CEO's business operations amidst the COVID-19 crisis. Furthermore, from the perspective of social structural changes due to COVID-19, geopolitical risks and such, the Board discussed the importance of further strengthening existing businesses, creating new business opportunities, and disseminating information from the viewpoint of stakeholders, including investors. In particular, in order for the Company to grow further in the post-COVID era, the Board recognized the further importance of acquiring and utilizing human resources who are not entrapped by existing mindsets and are able to think freely and creatively, and the cultivation of a corporate culture where the spirit of constantly challenging oneself can be demonstrated. In discussions regarding sustainability, the Board recognized that it is vital for OMRON to further link sustainability initiatives to opportunities for the creation of new businesses, in order to achieve its goal of resolving social issues through its businesses.

The Corporate Governance Committee, recognizing that the Board of Directors has positioned fiscal 2020 as a year required to operate under the COVID-19 crisis and as a preparation period for the next long-term vision in view of the new society post-COVID, evaluated favorably on the following: timely reports on business conditions and focus themes were made from those involved in business execution; and Outside Directors and Audit & Supervisory Board Members (Independent) raised issues about the responses needed to realize further improvements in corporate value in the post-COVID era, and engaged in discussions thereof. Furthermore, while discussions at meetings of the Board of Directors revolved around the medium-to-long-term strategies and its function as a monitoring board heightened, it also appropriately functioned as a management board, with each important case, including the responses to quality issues, components procurement and geopolitical risks, being deliberated individually. The fine balance of these aspects was also commended by the Committee.

From the above-mentioned facts, the Corporate Governance Committee recognized that the Board of Directors exercised its oversight functions from multifaceted viewpoints including both the short-term and medium-to-long-term perspectives. Those involved in business execution took advice from the Board of Directors earnestly and evolved their strategies or initiatives accordingly. As a result of the Board and those involved in business execution working together to make the two-wheel system of management oversight and business execution function properly, gross profit margin improved despite the COVID-19 crisis, and profits grew as well. Therefore, the Committee has deemed that the effectiveness of the Board of Directors has increased.

② Increasing information sharing opportunities

The Board of Directors strove to increase information sharing opportunities by conducting individual meetings, etc. aimed at improving the effectiveness of the Board of Directors. In fiscal 2020, amidst the impact of the COVID-19 pandemic, the following meetings were held: "Interviews by the Chair of the Board of Directors" where the Chair of the Board of Directors meets with individual Directors or Audit & Supervisory Board Members; "Outside Executives Discussions" attended only by Outside Directors and Audit & Supervisory Board Members (Independent) to exchange opinions; and "Direct Meetings with the Accounting Auditor" where the Board of Directors and the Accounting Auditor have discussions directly.

The Corporate Governance Committee considered these initiatives to be effective opportunities for improving the Board's effectiveness. Specifically, Interviews by the Chair of the Board of Directors were commended, as they provided a place for executives to voice concerns that they may not be able to fully convey during Board of Directors meetings. In Outside

Executives Discussions, younger management executives introduced new businesses, which allowed for a deeper understanding of each of the Company's businesses as well as of the next-generation management personnel. In a Direct Meeting with the Accounting Auditor, a discussion was conducted about the medium to long term based on the Accounting Auditor's auditing knowledge. In this meeting, due to the different perspectives and stances of the Accounting Auditor and Directors and Audit & Supervisory Board Members, the subjects could not be sufficiently deliberated. The Committee requested that they should carefully determine the themes and consider how to proceed the discussion more smoothly from the next time onwards. Regarding on-site visits that could not be conducted due to the impact of COVID-19, since these visits are an important activity that allows Outside Executives to have a sense of the Company's businesses, the Committee requested for their resumption depending on the situation of the pandemic.

3-2. Overview of Board of Directors' Operations

① Initiatives regarding focus themes

Focus theme: Business operations with COVID-19 in mind

As COVID-19 has a material impact on business, the Board of Directors has set "Business operations with COVID-19 in mind" as one of its focus themes. Based on this, the President and CEO has set ① placing the highest priority on the safety and health of employees, ② fulfilling our supply responsibilities in the supply chain, and ③ securing business performance as an emergency mode as the three pillars of business operations, and the Board of Directors reported on the status of infections and measures, the global production system, careful management of fixed costs, and measures to improve earning ability. With regard to this, the Board of Directors confirmed that the safety and health of employees is our highest priority, and discussed the stable supply of products through the tri-polar framework between Japan, China, and Southeast Asia, the supply-demand trends and procurement status of key components such as semiconductors, and the need for growth investment despite the careful management of fixed costs. In particular, concerns over a further worsening of supply shortage of semiconductors were discussed and shared. Through continuous monitoring by the Board of Directors, the Company fulfilled its social responsibility towards employees and the supply chain based on its corporate principles. Even amidst the COVID-19 crisis, the Company increased its profits through improving its gross profit margin and other means. The Corporate Governance Committee commends such achievement and deems that the Board of Directors has appropriately exercised its oversight functions.

Focus theme: Response to increasing geopolitical risks

As the relationships between countries evolve and become more complex by the day, and such changes have a material impact on business and performance, the Board of Directors has set "Response to increasing geopolitical risks" as a focus theme. Based on this, the President and CEO regularly reported to the Board of Directors about changes in the business environment in each region and how performance is being impacted, in relation to topics about business performance. The President and CEO also reported on the optimal production, R&D, and the ideal management of intellectual property, as well as systems that can speedily detect and provide insight about changes in legal regulations that will affect each business. In response, the Board discussed the need to constantly bear in mind the fact that relationships between countries may evolve beyond the previous scope of expectations. In particular, due to rapid changes in geopolitical risks, the Board recognized that risk management based on an assessment of each country's circumstances is a necessary task, and confirmed that the Board will continue this discussion. The impact of geopolitical risks is reported at Board of Directors meetings, and appropriate responses are discussed. Responses against geopolitical risks are incorporated into the internal control system, and the Board of Directors sufficiently monitors such risks and recognizes the issues that must be tackled going forward. Therefore, the Corporate Governance Committee deems that the Board of Directors has appropriately exercised its oversight functions.

**Focus themes: Determination of the direction of next long-term vision with new values in mind
Creation of new businesses in the period of transformation and taking on the challenge of new business model development**

Continuing from the previous fiscal year, the Board of Directors has set the “Determination of the direction of next long-term vision with new values in mind” as a focus theme relating to the next long-term vision, which is being formulated. In addition, the Board has set the “Creation of new businesses in the period of transformation and taking on the challenge of new business model development” as a focus theme. Based on this, at Board of Directors meetings, the President and CEO reflected the current state of the assumptions and targets set for the next long-term vision, raised at Board of Directors meetings in the previous fiscal year. Furthermore, the President and CEO reported to the Board about the next long-term vision based on the post-COVID worldview and changes in values, as well as the direction of new businesses that use existing businesses as their starting point. Regarding this, the Board discussed how one’s viewpoint can widen through exchanges with people from different industries, the employment of human resources with specialized expertise, and the utilization of talented personnel obtained through M&As, since the nurturing of next-generation leaders who can guide the Company towards the next long-term vision is an important issue that is necessary for further growth. At the same time, the Board recognized the importance of creating a corporate culture that encourages employees to take on challenges, and the necessity of building mechanisms that enable trial and error. Regarding the creation of new businesses, the Board recognized that the active utilization of corporate venture capitals will be important going forward. Furthermore, in order to realize its goals, the Board concluded that it is important to link the Company’s goals to the dreams and ambitions of employees. The President and CEO also gave an interim report on the next long-term vision regarding the Industrial Automation Business and the Healthcare Business, which are mainstay businesses. In the interim report, the President and CEO reflected on each of the two above businesses over the past ten years, and reported on the social issues of each business domain in the next decade, the technologies and new business models required to resolve those issues, as well as on the status of reviews of M&A and alliances. With regard to this, the Board of Directors discussed the possibility of realizing the creation of new businesses and measures. In particular, based upon that discussion, the Board recognized that it is necessary to employ a more flexible human resources strategy throughout the Company, since the implementation of measures for new businesses will require human resources with vastly different capabilities.

Regarding the next long-term vision, the Board displayed their awareness of issues based on changes in the external environment, including the COVID-19 crisis and geopolitical risks. The Committee commends the Board for making steady progress towards completion within fiscal 2021. Furthermore, since discussions are being made at Board of Directors meetings about issues and tasks necessary for further growth, the Corporate Governance Committee deems that it has appropriately exercised its oversight functions. The Committee has also verified that the Board will continue to fulfill its oversight functions in preparation for the start of the next long-term vision in fiscal 2022.

Focus theme: Building a new core information system

As IT systems vary between business divisions and regions, recognizing the importance of having a unified system globally, the Board of Directors has set “Building a new core information system” as a focus theme, for the third year following fiscal 2018 and fiscal 2019. Based on this, the President and CEO reported to the Board of Directors that the planning phase is progressing according to schedule and the advanced introduction of a portion of the systems, including the purchase of indirect materials and reimbursements, is progressing smoothly, but that it is necessary to review the scope of implementation due to the issue of a lack of IT personnel. Regarding this, the Board discussed the importance of spreading awareness throughout the Company that they are building an operational process that must be compatible with system flows based on global standards, the importance of bridging the people in charge of bringing this large-scale decade-long project to its fruition, the people on site, and the human resources who are constructing the system, as well as the need to continue discussions on this theme, from the standpoint of scale and difficulty. In particular, the Board recognized that the most important issue which should be the top priority is to secure and allocate talented personnel from each business division.

The Board discussed the key mindset and human resources needed for this large-scale project at meetings by leveraging the experience and insights of the Outside Executives, and as a result of the discussions, the future direction of monitoring became clarified. Thus, the Corporate Governance Committee judges that the effectiveness of the Board of Directors has appropriately exercised its oversight functions.

② Other deliberation/reporting items

The Board of Directors has deliberated on 29 proposals to be resolved and 30 reported cases, including quarterly business results as a legally required matter for deliberation, election proposals of executives, etc., and regularly reported proposals such as those relating to product quality risks and disciplinary cases.

The Corporate Governance Committee commends the Board of Directors for making explanations in election proposals of executives, a legally required matter for deliberation, based on the status of the promotion of diversity, as well as for making highly transparent explanation for each individual case for Outside Executives.

3-3. Overview of increasing information sharing opportunities

The Board of Directors and the Audit & Supervisory Board are working to facilitate information sharing outside of meetings of Board of Directors in order to improve the effectiveness of the Board. In fiscal 2020, individual meetings were held to help Outside Executives better understand execution and to deepen communication between them.

The specific approaches are as follows.

① Individual meetings

● Outside Directors' and Accounting Auditor's opinion exchange meeting (continuously held from fiscal 2015)

Supervisory and auditing functions are being strengthened by sharing the viewpoints of the Accounting Auditor with Outside Directors. In addition, we are building a relationship through this approach to exchange information on risks and other information without going through OMRON.

● Interviews by the Chair of the Board of Directors (continuously held from fiscal 2016)

The Chair of the Board of Directors holds individual interviews with Directors and Audit & Supervisory Board Members once a year to discuss improvement plans related to the operation of the Board of Directors.

● Outside Executives Discussions (continuously held from fiscal 2019)

Outside Executives hold quarterly opinion exchange meetings to deepen communication between them.

Board of Directors operational policy for fiscal 2021 and its focus themes

Based on the results of evaluation conducted by Corporate Governance Committee, Board of Directors engaged in a discussion to determine its operational policy for fiscal 2021. Based on the results of this discussion, Board of Directors operational policy for fiscal 2021 and its focus themes were determined at Board of Directors meeting held on May 27.

Board of Directors Operational Policy for Fiscal 2021

"To enable the OMRON Group to achieve dramatically improved corporate value in the next decade, the Board of Directors will exercise its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives."

Focus Themes

- Completion of next long-term vision and determination of medium-term management plan
- < Points to be supervised >
 - Response to the new normal era post COVID
 - Initiatives for key sustainability issues
 - Transformation of business model and acceleration of innovation
 - Reform of human resources management
 - Strengthening resilience
- Response to increasing geopolitical risks
- Checking the progress of establishing a companywide IT system



Maintaining Audit Functions Conducive to Maximized Corporate Value and Contributing to the Evolving Governance Structure

Hideyo Uchiyama

Independent Audit & Supervisory Board Member
Member of the Corporate Governance Committee

The revision of the Corporate Governance Code requires companies listed on the TSE Prime Market to further strengthen their governance systems. We spoke with Independent Audit & Supervisory Board Member Hideyo Uchiyama about the function of the Audit & Supervisory Board in OMRON's governance structure and the new Key Audit Matters (KAM).

Positioning and Role of the Audit & Supervisory Board in OMRON's Governance

— Could you tell us about the characteristics of OMRON's governance structure and your assessment of it?

The governance structure of Japanese companies has long supported economic growth after WWII, with Directors and executives serving concurrently, and without sufficient separation between execution and supervision. In recent years, there has been a transition to governance through monitoring, which encourages decisive decision making by management and strengthens the accompanying supervisory structure. The role of Audit & Supervisory Board Members has

become more essential and clearer at the same time as the Audit & Supervisory Board system has also experienced historical changes and has been reformed to ensure adequate functioning.

Although OMRON has an Audit & Supervisory Board, it has a hybrid institutional design with four voluntary committees chaired by Outside Directors, and the Chairman of the Board of Directors is a Non-executive Director. My opinion is that this distinctive system design is, in a nutshell, close to the perfect form of a company with an Audit & Supervisory Board. I believe that this is an extremely appropriate governance structure that was uniquely established under OMRON's corporate culture, since it addresses the demands of the times with a monitoring board, while also strengthening the functions of Audit &

Supervisory Board Members.

— Mr. Uchiyama, as an Audit & Supervisory Board Member, you are also a member of the Corporate Governance Committee. What are the functions and roles of that committee?

OMRON's Corporate Governance Committee consists of Outside Directors and Independent Audit & Supervisory Board Members, and its main role is to evaluate and report on the effectiveness of the Board of Directors. Under Japan's Companies Act, the role of Audit & Supervisory Board Members is to supervise the execution of duties by Directors, so the Committee engages both those who are supervising and being supervised. We are aware that the expectations of our stakeholders can be met by frankly exchanging opinions to improve OMRON's governance functions, regardless of our respective positions. In addition, regular meetings are held between Outside Directors and executive division managers, and information is exchanged among Outside Directors based on questions and answers concerning the business handled by executive division managers. While Audit & Supervisory Board Members are single-person organs that they can exercise their authority independently, and Independent Audit & Supervisory Board Members generally work on company issues based on their individual expertise and experience, it is also necessary for them to fully understand the role of Outside Directors in dealing with company issues in order to ensure the effectiveness of monitoring.

When I was appointed as an Independent Audit & Supervisory Board Member for OMRON, Chairman Tateishi sent me a message saying, "Welcome to Team OMRON." I understand now that it is important for both Outside Directors and Independent Audit & Supervisory Board Members to think about how they should function as a team to improve corporate value while fully understanding their own positions. The OMRON approach of mutual understanding and discussing as a team is also an excellent point from the viewpoint of ensuring the effectiveness of governance.

Confidence of Initiatives to Improve the Effectiveness of the Audit & Supervisory Board

— Meaningful communication also leads to strengthened governance. How would you describe the effectiveness of Audit & Supervisory Board Member functions at OMRON?

I believe that there are a number of factors that can improve the effectiveness of Audit & Supervisory Board Member functions. It is often asked whether there are proper structures in place to support activities of Audit & Supervisory Members, cooperation between the Internal Audit Division and the Audit & Supervisory Board, and cooperation with an independent Accounting Auditor. Rather than being inferior, I feel that OMRON's infrastructure is in fact superior when compared to other companies in many ways. However, the important thing is how effective Audit & Supervisory Board Members in such an infrastructure. Independent Audit & Supervisory Board Members are required naturally to be prepared to express opinions that are necessary for governance. I think that the quality they should have is "inquisitiveness based on healthy skepticism." Because Audit & Supervisory Board Members are elected at the Shareholders' Meeting, it is essential for them to maintain the viewpoint of shareholders and to think and make proposals based on social norms and with an appropriate problem-solving perspective. I believe that what enables OMRON to do this is the fact that information is appropriately provided to Outside Executives so that their opinions are meaningful and useful to management, and most importantly, because its Corporate Philosophy is firmly rooted and forms the backbone of the company. Our Corporate Philosophy is always shared as the basis and serves as the benchmark for decisions even in the various discussions we have. I feel that this has strengthened OMRON's governance.

— What is the kind of organization that you think is ideal for the Internal Audit Division at OMRON from the perspective of "inquisitiveness based on healthy skepticism"?

At OMRON, the Global Auditing Office checks the maintenance and operational status of the internal control system throughout the company. Their work is carried out under the direction of the President, and they must have the attitude and ability to detect, analyze, and solve management issues in order to function as the hands, feet, eyes, and ears of the

President.

For quite a while, it has been suggested to management that this kind internal audit work should be positioned as a career plan for human resources they want to cultivate in the future.

Auditing is often regarded as a compliance role that checks the consistency with internal regulations and the status of legal compliance. While this is important, at the same time, I would like internal audit managers to have the perspective of how to appropriately manage the potential and emerging management issues faced by each business segment, and to gain experience so that they can acquire this perspective.

People grow by encountering and acquiring ideas from perspectives that are not their own. How things appear are very different at the foot of Mt. Fuji, the 5th station, and the summit. When in charge of internal auditing, you are in an environment where you can be in constant contact with superiors. This makes it an attractive division where you have the opportunity to grow within the company.

OMRON Governance Effectiveness through KAM Implementation

— KAM has been newly implemented in Japan, although a similar system had been used earlier in other countries. What are your thoughts about OMRON's response to KAM and its significance?

Continuity, identical conditions, and identical treatment are emphasized in the world of auditing and accounting. In particular, audit reports have maintained the same format in every detail, including wording, throughout the history of legal proceedings. Triggered by the Lehman crisis, questions were raised about the usefulness of the traditional, self-serving audit reports to stakeholders, and KAM was introduced in order to improve audit transparency.

Even so, KAM is not concluded just in audit reports, but also needs to be disclosed in a consistent manner so that it can be read together with the non-financial information released by OMRON. For example, it is important to disclose information about business risks disclosed by the company as

non-financial information, including what kind of problems occur in accounting, how to handle this awareness in auditing, and how to communicate this externally as KAM in the audit report.

This fiscal year, the Accounting Auditor described the evaluation of goodwill and other items associated with investments in the Industrial Automation Business and the Healthcare Business as KAM on a consolidated basis for OMRON. As strategic investments during the period of VG2020, they are recognized as having a key impact on management strategies and the Consolidated Financial Statements, and are disclosed in the securities report as items related to M&A given an A rating by OMRON, which conducts integrated risk management.

Although the Audit & Supervisory Board Members determined the Accounting Auditor's recognition and disclosure of OMRON's awareness of these events were comprehensive and appropriate in KAM, the wording was repeatedly discussed between the Accounting Auditor and executives, and efforts were made to connect it with non-financial information as much as possible and to present it in an understandable way to readers. Accordingly, OMRON's securities report itself has also changed significantly, and I think the content has become easier to understand. I particularly emphasized that the content should have a sufficient understanding of the original significance of KAM, while being from the perspective of shareholders, investors, and stakeholders.

There are concerns that KAM will just become boilerplate, but I believe that this is groundless if a stance like OMRON is taken. Those involved in auditing should also properly utilize KAM as a communication tool in order to discover how to increase the information value of audit reports. Going forward, I expect that KAM will be a point to evaluate a company's stance toward information disclosure and, by extension, to also evaluate its governance.

— Finally, please tell us your own thoughts about OMRON's future governance structure?

OMRON constantly evolves and tailors its governance structure for the changing times, and as previously mentioned, it is close to being the culmination of a company with an Audit & Supervisory Board. However, what is important is to maintain an attitude of not

remaining in the current situation, but to continue to adopt new trends and further strengthen and expand governance.

As a new initiative this year, we have changed the monthly evaluation of the Board of Directors, which had been conducted in writing until last year, to a format where the contents of Board of Directors meetings are reviewed only by Outside Directors and Independent Audit & Supervisory Board Members immediately after meetings. There are discussions as to “whether there has been enough debate”, or “whether things need to be examined from a different perspective.” These discussions are held in a timely manner without taking time away from Board of Directors

meetings, and their contents are reflected in subsequent meeting operations as appropriate, with a summary of results for the year used as the basis for evaluating the Board of Directors. I believe that these daily actions will lead to improved effectiveness with a seemingly on-site presence.

As an Independent Audit & Supervisory Board Member, I will continue to maintain audit functions that contribute to enhancing corporate value without compromising what we have now, and as a member of Team OMRON, I will keep contributing to the further strengthening of the governance structure and maximize OMRON's corporate value.

■ Securities Report (84th Term) Excerpt from the Independent Auditor's Report and the Internal Control Audit Report

Key Audit Matters

Key Audit Matters are matters that the auditor considers to be particularly important as a professional expert in the audit of the Consolidated Financial Statements for the consolidated fiscal year.

The KAM are addressed in the auditing process of the Consolidated Financial Statements and in forming the audit opinion, and the auditing firm does not express individual opinions on these matters.

Key Audit Matters for Fiscal Year Ended March 31, 2021

1. Evaluation of goodwill associated with investments in the industrial automation business and recoverability of deferred income tax assets of U.S. consolidated corporations

As part of strategic investments in the long-term vision “Value Generation 2020 (VG2020),” OMRON acquired shares of Delta Tau Data Systems, Inc. and Adept Technology, Inc. in 2015, and Microscan Systems, Inc. in 2017 to make them consolidated subsidiaries in the Industrial Automation Business (IAB). (Hereinafter, these transactions are collectively called “business combination transactions.”)

All of these consolidated subsidiaries are U.S.-based companies.

OMRON has recorded goodwill on its Consolidated Balance Sheets through these important business combination transactions.

In addition, mainly as a result of focused R&D investment and customer development activities to achieve advanced applications through matching acquired product technologies with existing ones from OMRON, the U.S. consolidated tax payment group, which includes the subsidiaries acquired through the above business combination transactions, incurred a tax loss carried forward in previous fiscal years.

For the loss carried forward, deferred income tax assets for future tax benefits are recorded on the Consolidated Balance Sheets.

2. Evaluation of goodwill associated with investments in the healthcare business and evaluation of investments in affiliates

As part of strategic investments in the long-term vision “Value Generation 2020 (VG2020),” OMRON acquired shares of NS Industria de Aparelhos Medicos Ltda. in 2014 to make it a consolidated subsidiary in the Healthcare Business (HCB). In addition, OMRON gradually acquired shares of AliveCor, Inc. starting in 2017, and made it an affiliate accounted for using the equity method in 2020.

Through these investment activities, OMRON records goodwill on its Consolidated Balance Sheets, as well as investments in and advances to affiliates, which include goodwill under the equity method.

Directors (As of June 30, 2021)

Directors



Fumio Tateishi

Chairman
CEO Selection Advisory
Committee Member

Aug. 1975 Joined OMRON
Jun. 1997 Director
Jun. 1999 Managing Executive Officer
Jun. 2001 Senior General Manager,
Corporate Strategic
Planning HQ
Jun. 2003 Executive Vice President;
President, Industrial
Automation Business
Company
Jun. 2008 Director and Executive Vice
Chairman
Jun. 2013 Chairman of the Board (to
present)



Yoshihito Yamada

President and CEO

Apr. 1984 Joined OMRON
Jun. 2008 Executive Officer;
Representative Director and
President, OMRON
HEALTHCARE Co., Ltd.
Mar. 2010 Senior General Manager,
Corporate Strategic
Planning HQ
Jun. 2010 Managing Executive Officer
Jun. 2011 Representative Director and
President (to present)



Kiichiro Miyata

Director, Senior Managing
Executive Officer, CTO
Personnel Advisory Committee
Member

Apr. 1985 Joined Tateisi Institute of
Life Science, Inc. (now
OMRON HEALTHCARE
Co., Ltd.)
Mar. 2010 Representative Director and
President, OMRON
HEALTHCARE Co., Ltd.
Jun. 2010 Executive Officer
Jun. 2012 Managing Executive Officer
Apr. 2015 Chief Technology Officer
(CTO) and Senior General
Manager of Technology &
Intellectual Property HQ (to
present)
Apr. 2017 Senior Managing Executive
Officer (to present)
Jun. 2017 Representative Director (to
present)
Apr. 2018 Senior General Manager,
Innovation Exploring
Initiative HQ



Koji Nitto

Director
Senior Managing Executive Officer, CFO
Compensation Advisory Committee
Member

Apr. 1983 Joined OMRON
Mar. 2011 Senior General Manager,
Global Resource
Management HQ
Jun. 2011 Executive Officer
Mar. 2013 Senior General Manager,
Global SCM and IT
Innovation HQ
Apr. 2013 Managing Executive Officer
Mar. 2014 Senior General Manager,
Global Strategy HQ (to
present)
Apr. 2014 Senior Managing Executive
Officer (to present)
Jun. 2014 Director (to present)
Apr. 2017 Chief Financial Officer (CFO)
(to present)

Directors



Satoshi Ando

Director
Vice Chairman of the Personnel
Advisory Committee
Vice Chairman of the CEO
Selection Advisory Committee
Vice Chairman of the Compensation
Advisory Committee

Apr. 1977 Joined The Bank of Tokyo,
Ltd. (now MUFG Bank, Ltd.)
July 2003 Branch Manager of Jakarta
Branch, The Bank of
Tokyo-Mitsubishi, Ltd. (now
MUFG Bank, Ltd.)
(Resigned in June 2007)
Jun. 2007 Audit & Supervisory Board
Member (Independent),
OMRON
Jun. 2011 Executive Officer and
Senior General Manager,
Investor Relations HQ
Mar. 2015 Senior General Manager,
Global Investor Relations &
Corporate Communications
HQ
Apr. 2015 Managing Executive Officer
Jun. 2017 Director (to present)

Outside Directors



Eizo Kobayashi

Outside Director
Chairman of the CEO Selection Advisory
Committee
Chairman of the Corporate Governance
Committee
Member of the Personnel Advisory Committee
Member of the Compensation Advisory Committee

Apr. 1972 Joined ITOCHU Corporation
Jun. 2000 Executive Officer, ITOCHU
Corporation
Apr. 2002 Managing Executive Officer,
ITOCHU Corporation
Jun. 2003 Representative Director and
Managing Director, ITOCHU
Corporation
Apr. 2004 Representative Director and
Senior Managing Director,
ITOCHU Corporation
Jun. 2004 President and CEO,
ITOCHU Corporation
Apr. 2010 Chairman and Representative
Director, ITOCHU Corporation
Jun. 2011 Chairman, ITOCHU Corporation
Jun. 2013 Outside Director, OMRON
(to present)
Jun. 2016 Chairman, ITOCHU Corporation
Apr. 2018 Senior Representative,
ITOCHU Corporation
Apr. 2020 Director Emeritus, ITOCHU
Corporation (to present)



Takehiro Kamigama

Outside Director
Chairman of the Compensation
Advisory Committee
Vice Chairman of the Corporate
Governance Committee
Member of the Personnel Advisory Committee
Member of the CEO Selection Advisory Committee

Apr. 1981 Joined TDK Corporation
Jun. 2002 Corporate Officer, TDK
Corporation
Jun. 2003 Senior Vice President, TDK
Corporation
Jun. 2004 Director & Executive Vice
President, TDK Corporation
Jun. 2006 President & Representative
Director, TDK Corporation
Jun. 2016 Chairman & Representative
Director, TDK Corporation
Jun. 2017 Outside Director, OMRON
(to present)
Jun. 2018 Mission Executive, TDK
Corporation
Jun. 2021 Chief Consultant,
Contemporary Ampere
Technology Japan KK (to
present)



Izumi Kobayashi

Outside Director
Chairman of the Personnel Advisory Committee
Member of the Selection Advisory Committee
Member of the Compensation Advisory
Committee
Member of the Corporate Governance
Committee

Apr. 1981 Joined Mitsubishi Chemical
Industries Limited (now
Mitsubishi Chemical
Corporation)
Jun. 1985 Joined Merrill Lynch
Futures Japan Inc.
Dec. 2001 President and
Representative Director,
Merrill Lynch Japan
Securities Co., Ltd. (now BofA
Securities Japan Co., Ltd.)
Nov. 2008 Executive Vice President of
Multilateral Investment
Guarantee Agency, The
World Bank Group
Apr. 2015 Vice Chairperson of Japan
Association of Corporate
Executives
Jun. 2016 Governor of Japan
Broadcasting Corporation
Jun. 2020 Outside Director, OMRON
(to present)

Audit & Supervisory Board Members (As of June 30, 2021)

Audit & Supervisory Board Members (Full-time)



Shuji Tamaki

Audit & Supervisory Board Member (Full-time)

Apr. 1985 Joined OMRON
 Mar. 2008 General Manager of the Legal Center, Management Resources Innovation HQ
 Mar. 2015 Senior General Manager of Global Risk Management and Legal HQ
 Apr. 2015 Executive Officer
 Jun. 2021 Audit & Supervisory Board Member (Full-time) (to present)



Kiyoshi Yoshikawa

Audit & Supervisory Board Member (Full-time)

Apr. 1983 Joined OMRON
 Mar. 2010 Senior General Manager, Monozukuri Innovation HQ
 Jun. 2010 Executive Officer
 Apr. 2016 Managing Executive Officer
 Jun. 2019 Audit & Supervisory Board Member (Full-time) (to present)

Audit & Supervisory Board Members (Independent)



Hideyo Uchiyama

Audit & Supervisory Board Member (Independent)
 Corporate Governance Committee Member

Nov. 1975 Joined Arthur Young & Company
 Dec. 1979 Joined Asahi Accounting Company (now KPMG AZSA LLC)
 Mar. 1980 Registered as Certified Public Accountant
 July 1999 Representative Partner, KPMG AZSA LLC
 May 2002 Board Member, KPMG AZSA LLC
 Jun. 2006 Executive Board Member, KPMG AZSA LLC
 Jun. 2010 Managing Partner, KPMG AZSA LLC, Chairman, KPMG Japan
 Sep. 2011 Chairman, KPMG Asia Pacific
 Oct. 2013 CEO, KPMG Japan
 Sep. 2015 Executive Advisor, ASAHI Tax Corporation (to present)
 Jun. 2016 Audit & Supervisory Board Member (Independent), OMRON (to present)



Tadashi Kunihiro

Audit & Supervisory Board Member (Independent)
 Corporate Governance Committee Member

Apr. 1986 Registered as attorney with the Daini Tokyo Bar Association; Joined Nasu & Iguchi Law Office
 Jan. 1994 Established Kunihiro Law Office (now T. Kunihiro & Co. Attorneys-at-Law)
 Jun. 2017 Audit & Supervisory Board Member (Independent), OMRON (to present)

Executive Officers (As of June 30, 2021)

President

**Yoshihito Yamada**

CEO

Senior Managing Executive Officers

**Kiichiro Miyata**CTO and Senior General Manager,
Technology & Intellectual Property HQ**Koji Nitto**CFO and Senior General Manager,
Global Strategy HQ

Managing Executive Officer

**Shizuto Yukumoto**Company President, Electronic and
Mechanical Components Company**Seigo Kinugawa**CEO, OMRON EUROPE,
Industrial Automation Company**Toshio Hosoi**President and CEO,
OMRON SOCIAL SOLUTIONS**Masahiko Tomita**Senior General Manager,
Global Human Resources and
Administration HQ**Isao Ogino**President and CEO,
OMRON HEALTHCARE**Junta Tsujinaga**Company President,
Industrial Automation
Company**Nigel Blakeway**Chairman and CEO, OMRON
MANAGEMENT CENTER OF AMERICA
and Chairman, OMRON MANAGEMENT
CENTER OF EUROPE
and Chairman, OMRON MANAGEMENT
CENTER OF ASIA PACIFIC

Executive Officers

**Goshi Oba**

Chairman and President,
OMRON INDUSTRIAL AUTOMATION
(CHINA)

**Katsuhiro Shikata**

President and CEO,
OMRON FIELD ENGINEERING

**Takayoshi Oue**

Senior General Manager,
Global Finance and Accounting HQ

**Virendra Shelar**

President, OMRON MANAGEMENT
CENTER OF ASIA PACIFIC
and General Manager, Global Human
Resource Strategy Dept.

**Tsutomu Igaki**

Senior General Manager,
Global Investor & Brand
Communications HQ

**Masayuki Yamamoto**

Senior General Manager,
Strategy Planning Division HQ,
Industrial Automation Company

**Jian Xu**

President and CEO,
OMRON (CHINA)

**Robert Black**

President, CEO and COO,
OMRON ELECTRONICS (USA),
Industrial Automation Company

**Kenji Eda**

Senior General Manager,
Global Procurement and Quality
Management HQ

**Masahiko Ezaki**

Senior General Manager of Business
Management Division HQ, Electronic
and Mechanical Components Company

**Shinji Fukui**

Senior General Manager,
Technology Development Division HQ,
Industrial Automation Company

**Hidetaka Ishihara**

Senior General Manager of Innovation
Exploring Initiative HQ

**Seiji Takeda**

General Manager,
Corporate Planning Dept.,
Global Strategy HQ

**Hisako Takada**

Senior General Manager of CEO Office

**Taisuke Tateishi**

Senior General Manager,
Energy Solutions Business HQ,
OMRON SOCIAL SOLUTIONS

**Motohiro Yamanishi**

Senior General Manager of Product
Business Division HQ,
Industrial Automation Company