

**Q&A Session Summary, ESG Meeting  
OMRON Corporation  
December 27, 2017; Tokyo**

**I. Human Capital Management**

Q: How do you evaluate and determine the appropriate balance of business profit growth in TOGA entries (TOGA: The OMRON Global Awards),

A: TOGA entries are judged on the basis of how well they have enacted the OMRON principles. The focus is not on near-term profits but instead on how much of a contribution is made toward maximizing corporate value over the medium to long-term.

Q: Is TOGA designed to enhance employee loyalty and encourage medium to long-term personal development?

A: It is a forum that fosters awareness of the link between the principles and day-to-day tasks, which allows employees to share and embrace this awareness. It is also important in that it creates a groundswell of enthusiasm that draws in colleagues.

Q: What kind of improvements do you have in mind for TOGA? Is there not a risk of focusing on low-hanging fruit?

A: When we started, there were many themes with an aspirational focus, such as projects aimed at halving lead-time. More recently, there has been an evolution in project themes, with more of focus on highlighting the value employees have created in response to social issues. To date, many of the teams consisted entirely of employees, but going forward, we are moving toward teams involving external partners like customers.

Q: You have increased the number of acquisitions you have made in the last few years. How do you propose to inculcate the OMRON culture in the acquired companies?

A: We recognize there are differences in corporate culture between ourselves and the companies we have acquired. We first focus on sharing our corporate principles. We believe that no progress can be made in the absence of a common understanding of the principles. Recently acquired companies have been proactive in participating in TOGA.

Q: Relative to your target of having women account for 8% of managerial positions, where do you stand now?

A: As of April 2017, the ratio was 3.4%. We have implemented a number of initiatives, particularly focusing on encouraging women employees to be more ambitious and determined, as well as elevating their skill sets and building networks. We are also addressing concerns about balance in the face of life events, by allowing employees to work remotely or to take paid leave on an hourly basis. We have also enhanced our mentoring program.

**II. Manufacturing**

Q: How do you define your 3,000 suppliers? Is this only your Tier 1 suppliers, or do you also monitor your Tier 2 suppliers?

A: The 3,000 suppliers represent our Tier 1s. In addition, there are another 200 companies related to the supply chain where we conduct supplier surveys.

Q: How would you handle a situation where you discover a major infraction of an element on your supply chain checklist, where the item supplied is an important input for OMRON? Would this be a matter where you would seek a board level decision?

A: To an extent, it would depend upon the nature of the infraction but our response would come from the following three choices: Suspension of all business; Suspension of new business; or Order to enact improvements. The decision would be made and implemented by the Manufacturing Innovation HQ.

### III. Challenges common in all three areas

Q: What did you find challenging in implementing initiatives (Human capital management, Manufacturing, Risk management)?

A: Human capital management:

Inculcating intangibles such as culture is challenging. By being persistent with our initiatives and promoting better understanding, we are aiming to encourage employees to incorporate the principles in their daily tasks. We continue to reiterate our initiatives with all 36,000 employees.

Manufacturing:

The ability to respond to a changing environment is important in enhancing sustainable manufacturing capabilities. Even with the 40-plus domestic manufacturing bases, we must cope with changes in regulations or wage levels. We aim to capture changes in the operating environment for each area on a global basis in order to develop appropriate responses.

Risk management:

As our operations become increasingly global, it is challenging to ensure we maintain a certain level of risk management control across the organization. For instance, one challenge we face is ensuring an understanding of risk management at our group subsidiaries or management level employees.

### IV. Sustainability, ROIC

Q: The presentations were very helpful in giving me a comprehensive understanding of where OMRON is with its initiatives. To what extent are sustainability assessments incorporated into performance reviews? You have said it is reflected in board members' assessments but what about executive officers?

A: On the impact of sustainability assessments on board compensation, it accounts for about 10% of medium-term performance-linked equity compensation. The specific precondition is OMRON's inclusion in DJSI World in FY2020. We were first included in World in FY2017. We aim to further elevate our sustainability initiatives. Executive directors' compensation includes the same component.

Q: How are the sustainability target KPIs tied to the assessment of management performance? How are they related to the inclusion in DJSI World, one element of compensation assessment for board members?

A: Achieving the VG2.0 targets is tied to the achievement of the sustainability targets, so this is how it is reflected in board members and executive officers' compensation. While DJSI, which we have designated as an element in assessing sustainability contributions to compensation, is not the same as our sustainability targets, we felt it was appropriate as a basis for compensation assessments given it is an objective assessment, and also a comprehensive assessment of our company's sustainability initiatives.

## V. Feedback from the survey and reception

Overall response was overwhelmingly positive

- I was able to get a good understanding of how OMRON thinks about functions such as human capital management, manufacturing and risk management, which are underpinned by the principles and support the company's growth.
- It was very helpful to hear the relevant directors discuss the challenges they face in making progress, through specific examples.
- I came away with a better understanding of things that do not necessary fully come across in the integrated report, like the strong common sense of purpose felt by both senior management and employees on the ground.
- The presentations made clear the commitment of board members and management to sustainability issues through the PDCA cycle and board oversight, and the fact that responsibility for these issues is not being simply delegated to employees on the ground.
- I was able to get a good understanding of the linkage between the sustainability initiatives and SDGs to corporate value and VG2.0. I now hold expectations for concrete medium to long-term progress on business strategies, profitability and the impact on ROIC.
- (Including themes not discussed this time) I hold high expectations for further communication about future developments and progress.