

# CORPORATE GOVERNANCE, COMPLIANCE, AND RISK MANAGEMENT

As a global company, Omron is committed to demonstrating accountability to our stakeholders, increasing management transparency and maintaining & managing an appropriate governance system. In efforts to firmly establish corporate ethics of a high standard, we will continue to strengthen our compliance system and promote the establishment of a risk management framework that will support ongoing improvement in sustainable corporate value.

## Corporate Governance

### Basic Policies

Omron believes that pursuing long-term maximization of corporate value holds the key to fulfilling all stakeholders' expectations. Reaching this goal requires efficient and competitive management which we strive to achieve by creating an optimal management, structure and conducting fair and appropriate business operations. To achieve stronger corporate governance, we will concentrate our efforts on putting three guiding perspectives into practice continually: fulfilling management accountability, achieving management transparency and pursuing high business ethics.

### Implementation Status of Corporate Governance

In addition to strengthening management monitoring functions, Omron separates management oversight and business execution to quickly respond to changes in the business environment. To facilitate business operations, Omron has adopted an executive officer system. Aiming to strengthen operations of each business area, an internal company system was introduced, with the president of each internal business company empowered by more authority to realize quicker decision-making and more streamlined operations.

Also, the goals between the President & CEO and executive officers, and the top management of each division company have been clarified, along with thorough promotion of management commitments and a performance-based compensation program for meeting various goals including those

for profitability at each division company. These initiatives have been put in place to put into practice corporate value management based on shareholder value.

At the same time, we are taking preventive action against risk by putting in place a system that will identify various forms of risk with the potential to impede ongoing improvement in sustainable corporate value both internally and externally, and that will manage the risk of loss and prevent acts of staff which could be in breach of the law.

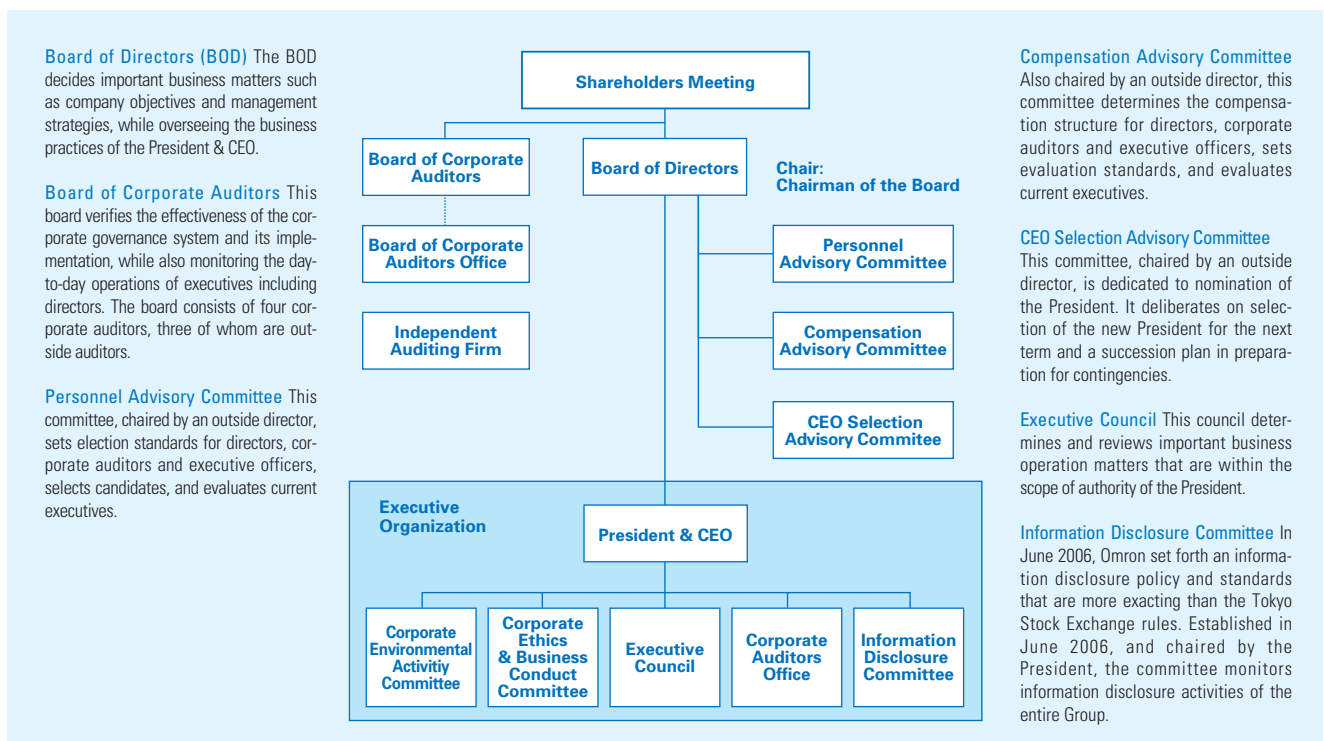
### Basic Structure

#### • Management and Monitoring Structure

Omron has reduced the number of board members to seven to increase its efficiency and deepen deliberations. Our management monitoring functions are based on separating the duties of corporate management and business execution. The President & CEO is the only director who serves concurrently both in corporate management and business execution, while other directors are distanced from day to day business execution.

Furthermore, in order to enforce our management objectivity, we have separated the positions of Chairman of the Board of Directors and President & CEO, and worked to strengthen management monitoring functions. In addition, the Chairman of the Board of Directors oversees business operations as a representative of stakeholders by not taking part in the execution of business. In regard to matters of the appoint-

## Corporate Governance Structure



ment, promotion, and compensation of all officers (directors, auditors, and managing officers), we maintain objectivity and transparency through the Personnel Advisory Committee and the Compensation Advisory Committee within the Board of Directors and by having our two outside directors chair each of the committees. These committees are the venue for addressing personnel and compensation matters relating to all officers, without the presence of the Chairman of the Board and the President & CEO.

• **Auditing Functions**

The Board of Corporate Auditors, consisting of four auditors (including three outside corporate auditors), monitors governance and management conditions as well as the daily activities of the Board of Directors and other management. Also, in undertaking its internal auditing function, the Audit Office, which functions directly under the President & CEO, periodically conducts internal audits of accounting, administration, business risks, and compliance in each headquarters division and in each division company. In addition to its auditing functions, the Audit Office also offers specific advice on ways of improving administrative functions.

**Main Activities of Outside Directors**

The outside directors attend monthly Board meetings and directors' liaison meetings (arranged as forums for free discussion and sharing information on management strategies following Board meetings), as well as technology liaison meetings for narrowing down specific technical themes. They provide appropriate advice and recommendations as necessary. Serving as chairman of the Personnel Advisory Committee, the Compensation Advisory Committee, and the President & CEO Selection Advisory Committee, the outside directors also contribute to the soundness of management.

In accordance with the selection standards for outside directors, Mr. Noriyuki Inoue and Mr. Kazuhiko Toyama have been appointed as Omron's two outside directors. Mr. Inoue has been selected for his extensive experience in corporate management and broad insight while Mr. Toyama has been selected as a management specialist on the basis of his long years of experience in the management of several companies. Omron looks forward to benefiting from the experience and wisdom of the two outside directors in the management of the company.

**Comments from Outside Directors**



For the fourth consecutive year, Omron has set a record in performance. This is proof of the high regard Omron's customers have for its superb expertise in technology. It is also an achievement made possible through growth resulting from Omron's ambitious M&A strategies and a broadening of the company's business domain. As a person involved in corporate management at the top-level, I am committed to working tirelessly for our shareholders and investors by considering what they expect of Omron in light of my own experience. At a time when there are strong demands placed on CSR management, I understand that it is my duty to engage in management keeping in mind our stakeholders including our shareholders and investors and to provide advice and monitoring for Omron's management team from an independent perspective. In this capacity, I am determined to fulfill my responsibilities as an outside director with the aim of improving shareholder value.

Noriyuki Inoue

**Personal History**

- March 1957 Joined Daikin Industries, Ltd.
- February 1979 Appointed Director, Daikin Industries, Ltd.
- February 1985 Appointed Managing Director, Daikin Industries, Ltd.
- June 1989 Appointed Senior Managing Director, Daikin Industries, Ltd.
- June 1994 Appointed President and Representative Director, Daikin Industries, Ltd.
- May 1995 Appointed President and Representative Chairman of the Board, Daikin Industries, Ltd.
- June 1996 Appointed President and Representative Director, Daikin Industries, Ltd.
- June 2002 Appointed CEO and Representative Chairman, Daikin Industries, Ltd. (current position)
- June 2003 Appointed Director, OMRON Corporation (current position)



The true purpose of governance is to improve intrinsic corporate value, in other words, to make a company consistently well-regarded by society over a long period of time, thereby maintaining and increasing the earnings of the company's business. As a COO of the Industrial Revitalization Corporation of Japan over the past four years, I have engaged directly in corporate revitalization as an authority in corporate governance. I also had first hand experience working with the Kanebo affair\*. That experience made me again realize that corporate governance in Japan - and the world for that matter - had come to a turning point in many respects. It is clear that governance can no longer be seen simply as an extension of the authority of shareholders or a refuge of mutual checking within a village society; these are no longer accepted as answers. Many excellent companies in advanced countries including Japan today are those which promote the concentration of knowledge and establish their competitive superiority on the basis of human capital and knowledge capital. I see Omron as a company in that category and think that it should remain that way in the future. In that context, I think we must consider how governance at Omron should be. Keeping this fundamental issue in mind, I am determined to devote my energy and efforts to contributing to Omron as a director involved in corporate governance to enhance the true corporate value of Omron. In these efforts, I would like to ask for the support of Omron's stakeholders.

Kazuhiko Toyama

**Personal History**

- April 1985 Joined The Boston Consulting Group K.K.
- March 1986 Resigned from The Boston Consulting Group K.K.
- April 1986 Established Corporate Directions, Inc.
- March 1993 Appointed Director, Corporate Directions, Inc.
- April 2000 Appointed Executive Managing Director, Corporate Directions, Inc.
- April 2001 Appointed President and Representative Director of Corporate Directions, Inc.
- March 2003 Resigned from Corporate Directions, Inc.
- April 2003 Appointed Executive Managing Director and COO, Industrial Revitalization Corporation of Japan
- March 2007 Industrial Revitalization Corporation of Japan is dissolved
- April 2007 Appointed CEO & Representative Director, Industrial Growth Platform, Inc. (current position)
- June 2007 Appointed Director, OMRON Corporation (current position)

\* Kanebo affair: an accounting scandal at Kanebo, a maker of cosmetics and other products, after which the Industrial Revitalization Corporation of Japan became involved in the company's revitalization

## Initiatives in Governance in Fiscal 2006

### • Directors' Term Shortened to One Year

In efforts to further clarify the responsibilities of the management team toward our shareholders and to enable rapid response to changes in the management environment, a resolution was passed to shorten the term of office for directors from two years to one year from fiscal 2007 onward.

### • Establishment of the President & CEO Selection Advisory Committee

In December 2006 the President & CEO Selection Advisory Committee was established to further enhance transparency and objectivity in the replacement of presidents.

### • Establishment of the Information Disclosure Committee

In June 2006, in response to the requests of increasingly discerning stakeholders to further disclose information, Omron established information disclosure policies and disclosure stan-

dards which are more rigorous than the timely disclosure standards of the stock exchanges. Based on these standards, we established the Information Disclosure Committee chaired by the President & CEO to monitor the information disclosure activities of the entire Group.

### • Improvement of the Framework for an Internal Control System

We also put in place a structure for assessing and reporting on internal control relating to financial reports (in accordance with the Financial Instruments and Exchange Law) two years ahead of requirement to enable us to submit confirmation by the President & CEO to the Financial Services Agency.

Furthermore, the Board of Directors passed a resolution regarding a structure for ensuring that the execution of the directors' duties conforms to the law and to the Articles of Incorporation as well as a framework for establishing appropriateness in other company business. We are making efforts to put this framework in place.

## Compliance and Risk Management

### Basic Policies

#### • Compliance

Omron has set a high standard in corporate ethics which goes beyond simple observance of laws and regulations. In efforts to ensure that our corporate ethics are thoroughly understood and well established in work practices throughout the company, we have been focusing our compliance activities on four important areas: (1) monitoring, (2) implementing the PDCA (plan do check act) cycle, (3) reinforcing compliance education and (4) rebuilding our compliance structure.

#### • Risk Management

Omron is improving its internal control system as we believe that all risk arising from management and business operations must be accurately assessed and controlled in order to appropriately manage operations, maintain stable growth and protect management resources. To achieve this end, Omron is putting into place a system of risk management for detecting, analyzing, countering and monitoring risk in each headquarters division and division company. Moreover, oversight of risk management activities has been placed in the Corporate Resources Innovation Headquarters, and efforts are underway to promote and improve our risk management system and identify and control risk throughout the Group.

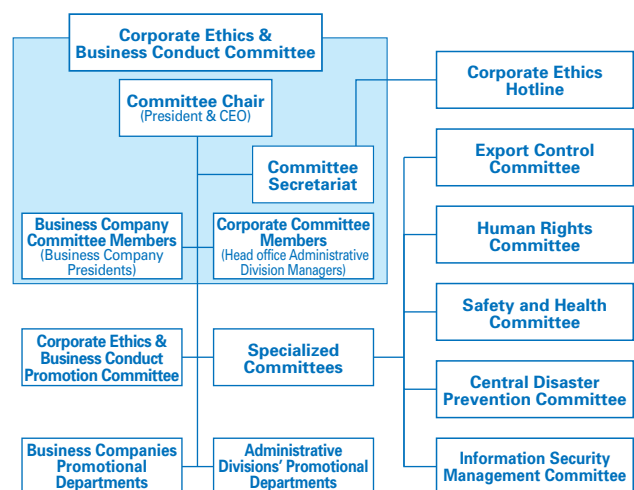
### Basic Framework

In 2003, Omron combined its risk management and compliance activities by establishing the Corporate Ethics & Business Conduct Committee chaired by the President & CEO. The General Manager of each headquarters division and the President of each division company participate in this committee to report on corporate ethics efforts for their

respective organizations in accordance with their corporate ethics and conduct framework and on the status of the response to risks. Moreover, the Corporate Resources Innovation Headquarters has established the Corporate Ethics Hotline (a call center was also opened at an outside law firm in fiscal 2005), a whistleblower center to receive reports directly from employees and their families.

Also, Omron has also appointed officers or managers in its Group companies to promote risk management and compliance throughout the Group and is conducting training for these officers every year in efforts to promote and thoroughly familiarize staff in the Omron Group with risk management.

### Structure of Omron Corporate Ethics



## Efforts in Fiscal 2006

### • Compliance

In fiscal 2006, we undertook compliance monitoring at 11 Omron Group companies in Japan and overseas, including newly acquired companies, to confirm that laws and regulations are being observed. In all domestic companies, we reviewed compliance activities on the basis of the PDCA cycle in efforts to strengthen compliance. Also, at all of our domestic Group companies, in addition to conducting compliance training for directors, management, specialist personnel, and regular and temporary staff, we also held training sessions for new employees and staff transferring from other companies. In addition, we introduced e-learning as a new method of training and in fiscal 2007 we plan to broaden its application as we continue to focus our efforts on ways of promoting compliance throughout the Group.

### • Risk Management

To establish an enduring information security system, we undertook a company-wide review of the status of security in domestic Group operations. With an understanding of our obligation to fulfill our social responsibility to our stakeholders by appropriately managing confidential and personal information to safeguard it against leaking or unauthorized use, we undertook a sweeping review of our rules for information management and commenced the construction of an integrated system for managing both confidential information and personal information. In fiscal 2007 we intend to implement comprehensive measures to guarantee security in information management at Group companies in Japan and we will also commence a review of rules for information management in our overseas Group companies.

## Promoting corporate ethics and compliance in four regions outside of Japan

At the Omron Group, a total of 32,456 people are working in Japan and four regions around the world. To demonstrate fairness and integrity in all corporate activities and individual employees' behavior throughout the world, Omron is promoting compliance and risk management at each region through distribution of the Corporate Ethics Guidelines and monitoring of compliance status. In fiscal 2007, Omron will publish regional versions of the CSR Practice Guidelines, which are based on and upgraded from the Corporate Ethics Guidelines. Continued promotion of compliance training and monitoring is also planned.

### North America

Compliance officers are in place at each North American Group company. In fiscal 2006, compliance monitoring for Group companies continued, while awareness of the whistleblower hotline was enhanced, resulting in 11 hotline contacts received.



Blake Thatcher



Bill Abbott

### Europe

Under the leadership of Omron Europe's Risk Management Committee, compliance auditing and manager training have been conducted on a regular basis to strengthen compliance. Establishment of a contact channel to work in collaboration with the committee is now underway along with the improvement of the compliance promotion system. Managers in charge of regulatory matters were assigned to ensure strict observance of environmental and other regulations.



Patrick Duregger

### China

Compliance and maintenance of ethical standards are among the key CSR issues for Omron in Greater China. In fiscal 2006, corporate ethics officers were assigned at each Group company, and the first promotion conference was held in Shanghai. In addition to manager training, compliance monitoring continued with a focus on observing compliance with three important laws, related to customs, bribery and operations falling outside each company's authorized scope of business.



Fumihiro Matsuzaki



Dai Ogihara

### Asia-Pacific

Taking into consideration the language and cultural diversity in the region, the Corporate Ethics Guidelines have been translated into five different languages\*. Efforts are focused on education, training and monitoring with the aim of strengthening understanding of corporate ethics and compliance among all employees through the distribution of guidelines and creation of a system to ensure strict legal observance.

\*Thai, Indonesian, Vietnamese, Malay and Tamil