

## BUSINESS AND OTHER RISKS

The following risks may influence the Omron Group's management results and financial condition (including share price), and Omron believes that these items may substantially affect investor decisions. Note that items referring to the future reflect the Omron Group's forecasts and assumptions as of June 22, 2007.

### (1) Economic Conditions

The primary business of the Omron Group is consumer and commercial electronic components used in the manufacture of electrical and electronic equipment, as well as control system equipment used by manufacturing sectors and in capital investment related areas. Accordingly, demand for Omron Group products is affected by economic conditions in these markets. Also, the Omron Group procures raw materials and semi-finished products in a wide variety of forms, and rapid increases in demand could result in supply shortages and/or sudden increases in prices that could halt production and/or cause sudden increases in costs.

Both in Japan and overseas, therefore, market forces affecting suppliers to, and purchasers from, the Omron Group can result in the contraction of demand for our products, thereby possibly having a negative impact on the Group's operating results and financial condition.

### (2) Risks Accompanying Overseas Business Activities

The Omron Group actively conducts business activities such as production and sales in overseas markets. The Group may be subject to operating difficulties in overseas countries related to possible social unrest due to factors including differences in culture or religion, political turmoil and uncertainty in economic trends, differences in business customs in areas such as the structure of relationships with local businesses and collection of receivables, specific legal systems and investment regulations, changes in tax systems, labor shortages and problems in the labor-management relationship, epidemics, and terrorism, wars, and other political circumstances.

These risks associated with overseas operations may have a negative impact on the Omron Group's operating results and financial condition.

### (3) Exchange Rate Fluctuation

The Omron Group has 121 overseas affiliated companies and continues to reinforce its business operations in overseas markets, such as China for which major market growth is anticipated in the future. The percentage of consolidated net sales accounted for by overseas sales during the fiscal year ended March 31, 2007 was 47.3 percent, and Omron expects further increases in the overseas operations ratio due to factors such as production

shifts. The Omron Group seeks to hedge against exchange rate risk in such ways as balancing imports and exports denominated in foreign currencies. Exchange rate fluctuations, however, could have a negative impact on the Omron Group's operating results and financial condition.

### (4) Product Defects

Based on its core corporate value of "working for the benefit of society," the Omron Group has declared maximum customer satisfaction to be one of its management philosophies and implements it by providing the best quality products and services based on the Group's motto of quality first. In particular, the Group has established strict quality control standards and built a quality control system, and develops and manufactures its products accordingly. A Group-wide quality check system is in place for the ongoing improvement of the quality of the Group's entire line of products and services.

Nevertheless, there is no assurance that all of the Group's products are without defects, and that recalls will not occur in the future. Large-scale recalls and/or product defects resulting in liability-related damages could impose huge costs, severely influence evaluations of the Omron Group, and result in reduced sales. Such events could exert a negative impact on the Group's operating results and financial condition.

In addition, to respond to an EU directive banning the use of lead, cadmium and certain other chemical substances in electric and electronic products in the European Union from July 2006, the Omron Group, in cooperation with its suppliers, is in the process of investigating the status of regulated chemical substances in all of the components and materials the Group uses, and is accelerating efforts to switch to substitute components and materials that do not contain regulated chemical substances with a view to completely eliminating regulated substances from all the Group's products throughout the world in order to make them environmentally friendly products. However, delays in the switchover beyond customer deadlines due to a late response by suppliers in providing substitute components and other factors could result in liability-related damages or a violation of the EU directive, which could have a negative impact on the Omron Group's operating results and financial condition.

### (5) Research and Development Activities

Based on a policy of securing a balance between growth and income, the Omron Group invests aggressively in R&D as part of its technology-centered business operations. As a result, the R&D expenses ratio remains at approximately 7 percent.

The Omron Group strives to increase the new product con-

tribution ratio by reflecting such considerations as market needs in its R&D themes and goals. However, factors such as delays in R&D or insufficient technological capabilities that result in a decrease in the R&D new product contribution ratio could have a negative impact on the Omron Group's operating results and financial condition.

#### **(6) Information Leakage**

The Omron Group acquires personal information and classified information of customers through its business processes and acquires important information in the course of business. The Omron Group is taking steps to reinforce control over the information the Group handles and to further improve employees' information literacy, with the goal of preventing external entry into its internal information systems and misappropriation by third parties resulting from theft or loss of that information.

Unanticipated leakage of internal information, however, due for example to invasion of internal information systems using technology exceeding implemented security levels, could exert a negative impact on the Omron Group's operating results and financial condition.

#### **(7) Risks Associated with Patent Rights and Other Intellectual Property Rights**

The Omron Group has accumulated technology and expertise allowing it to differentiate its products from those of its competitors. However, it is impossible to completely protect all of the Group's intellectual property consisting of proprietary technology and expertise, due to legal restrictions in specific regions, including China, and conditions that allow only limited protection. At present, the Omron Group is working on intellectual property protection against imitation products, through such measures as the placement of full-time personnel (including local staff) in Shanghai. However, it is possible that the Group will not be able to completely prevent third parties from using its intellectual property in the manufacture of imitation products.

In China, skills in the methods needed to manufacture and sell imitations of the Omron Group's products improve each year, and organizations that manufacture and market counterfeit products have become extremely troublesome. The circulation of low-quality counterfeits that fraudulently use the Omron Group brand in Asia, including China, could damage trust in the Omron Group's products and the Group's brand image, and could exert a negative impact on the Omron Group's operating activities.

Omron has always focused on managing its brands. Recently, however, it has discovered that several overseas businesses and organizations are using domain names similar to Omron's.

Omron has identified some of these and is responding with measures including issuing warning notices.

However, although Omron is monitoring the registration of illegal domain names on a global level and on a daily basis, it is difficult to identify and deal with all businesses and organizations registering and using similar domain names, and there is a danger that such entities will resort to unethical business practices such as the use of identical or similar domain names which could damage the Group's reputation. This is not limited to the problem of imitation products and domain names; when exercising our intellectual property rights, including the granting or assigning of licenses for the intellectual property of the Omron Group, disputes could arise with third parties, such as oppositional tactics from the party which is subject to the exercise of rights.

For its R&D and design, the Omron Group uses a dedicated system to conduct surveys of technologies in the public domain and those of other companies. However, because Group products cover a diverse range of fields in which there are many patents and other intellectual property rights, and in which the number of new patents and intellectual property rights is constantly growing, the possibility exists that a third party could make a claim against the Group with respect to a specific product or part. The Omron Group is working to improve employee morale through measures such as revising its employee invention compensation policy in line with revisions to Japan's Patent Law and introducing a new award system. However, disputes could arise with respect to the value of an invention with inventors who have retired from the Group, and this could exert a negative impact on the Omron Group's operating results and financial condition.

#### **(8) Natural Disasters**

Because of the possibility of reduction of production capability, temporary disruption of distribution and sales routes, or other consequences of a natural disaster, fire or other calamity, including a large-scale earthquake in areas such as Tokai and Tonankai or directly below the Tokyo area, the Omron Group has identified risks and implemented the necessary safety measures and measures for continuation and early recovery of its businesses.

However, the Omron Group's operating bases are located in Japan and around the world, and it is impossible to avoid all risks due to a natural disaster, fire or other calamity. As a result, a natural disaster, fire or other calamity could exert a negative impact on the Omron Group's operating results and financial condition.