

Risk Management

Corresponding SDGs



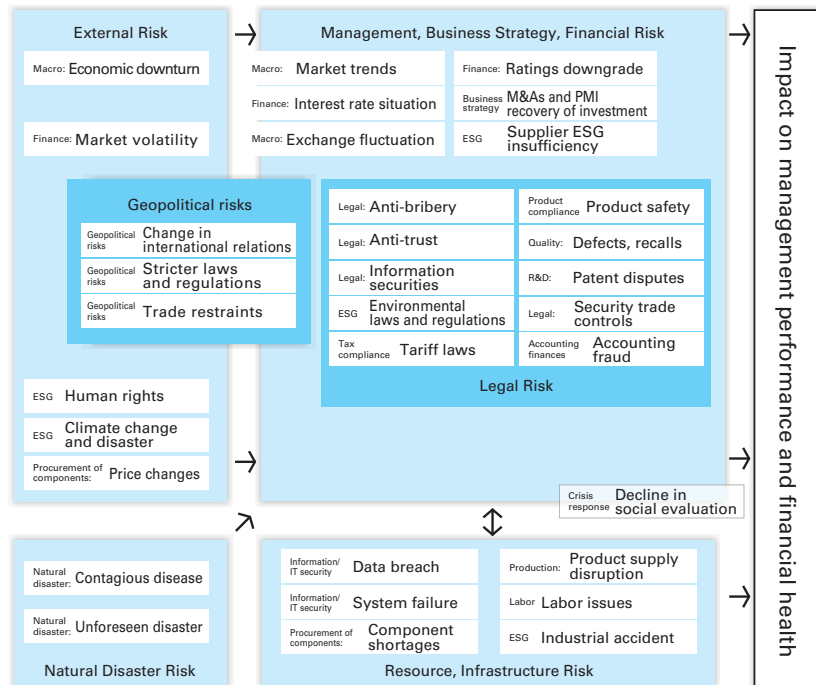
Integrated Risk Management for Supporting Global Business Activities

OMRON started integrated risk management in order to manage the risks of the Group via a shared framework in 2011, the same year OMRON initiated VG2020. The reason for this was that in order to rapidly respond to the faster pace of change in the operating environment and rising levels of uncertainty, we needed to become more attuned to risk, scenting and addressing risks before they became actualized.

We aim to develop effective risk management whereby all employees and management teams can work together to solve issues arising from environmental changes that cannot be resolved at the working level. We work to improve the quality of our initiatives by following the plan-do-check-act (PDCA) cycle on a global scale. We also regard the accelerated business environmental changes as

opportunities, and perceive determining how to take risks as an essential perspective. We are additionally addressing how to build mechanisms enabling efficient, effective, and prompt risk decisions to be made while still adhering to the OMRON Principles and relevant business rules.

Overview of Business Risks



Integrated Risk Management Structure

OMRON has established a PDCA cycle that is conducted throughout the year to analyze risks, respond to material risks, and engage in crisis management. To promote initiatives on a global scale with all employees, risk managers are appointed for each headquarters, division, regional headquarters, and group company across the world.

Activity Cycle for Integrated Risk Management



Risks Surrounding Management and Businesses, and Risk Analysis

As OMRON does business globally, we must respond to a variety of risks. Therefore, the OMRON Group breaks down all risks that may impact its management or financial condition into categories and determined their interrelationships. For major risks, we regularly (at least once a year) conduct comprehensive analyses of expected environmental changes, the appropriateness/sufficiency of Group measures, and actual risk cases that have occurred, and rank these risks accordingly. S-rank and A-rank risks, as defined below, are called significant Group risks. For these, we monitor the implementation status of countermeasures and situational changes.

- S Rank: Risks of utmost importance to the operation of the Group, which may jeopardize its survival or bring severe social liability.
- A Rank: Risks that impede the achievement of important Group goals

Addressing Material Group Risks

The following examples of significant Group risks represent those matters related to business and finance which may impact the Group’s operating results and financial condition (including stock price). Items which have undergone a particularly extensive change in management or business environment and which the OMRON Group is currently prioritizing are labeled with an asterisk in the table below. However, this is not an exhaustive list of all risks; the Group may be affected in the future by risks that are not currently foreseeable or considered significant.

Matters discussed here that are not historical fact reflect the judgment of OMRON Group management as of June 25, 2021 (the date of submission of the annual securities report).

S Rank	A Rank
<ul style="list-style-type: none"> * COVID-19 * Global information & IT security * Business continuity * Quality issues Crisis response Accounting/financial fraud Violation of global laws and regulations (e.g. cartels, bribery) 	<ul style="list-style-type: none"> * Geopolitical risks * Addressing sustainability issues <li style="padding-left: 20px;">Human rights risks <li style="padding-left: 20px;">Climate change risks * Recovering M&A and alliance investments Product compliance Tax compliance (e.g. customs) Group company governance systems Internal fraud Labor issues Employee safety Intellectual property disputes and legal proceedings Environment/occupational health and safety

* Priority topics to be addressed

Risk	COVID-19 (S Rank)
Risk Scenario	Since the OMRON Group does business at locations and with suppliers on a global scale, prolonged spread of COVID-19 worldwide would significantly impact Group business activities. Specifically, in the event of decreasing demand caused by stagnating customer business activities and capital investment or stagnating individual consumption, or in the event of delayed supply of products to customers over the long term due to events such as stoppages in parts supply from important suppliers and internal outbreaks of infection, the reduced production performance and declining sales could impact the Group’s operating results or financial condition.
Measures	<p>Continuing from our efforts last year, the Pandemic Response Headquarters, led by our CEO, addresses the pandemic with top priority to ensuring health and safety of our employees and the prevention of the spread of infection in regions where we operate. In addition, based on our COVID-19 Business Continuity Plan (BCP), we are continuing to expand telecommuting and take infection control measures in the workplace in consideration of various national government/regional laws, regulations, and guidance. Infection status and Group efforts to address the pandemic have been brought up and discussed at the Board of Directors as a priority topic. In addition, we are working to improve productivity through new work styles such as remote work and going paperless cultivated amid the COVID-19 pandemic, while promptly responding to demand generated in the pandemic armed with ample infection control measures.</p> <p>Assuming a future business environment with COVID-19, we will continue to maintain our supply chain, accomplish our responsibility to supply our customers, and fulfill our social responsibilities.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Implementation of measures based on the COVID-19 Business Continuity Plan (BCP) ● Monitoring of suppliers in major countries (54 countries/regions) ● Implementation and continuous improvement of in-house infection control measures ● Monitoring of infection outbreak status, work attendance rates, etc.

Risk	Global information & IT security (S Rank)
Risk Scenario	<p>The OMRON Group possesses essential business information, as well as personal or confidential information obtained from business partners during the course of business. New, growing cyberattacks worldwide and revisions to laws on data and personal information protection in the Americas, China, and Asia, such as stronger enforcement of GDPR* in Europe, are greatly impacting business activities. In the event of leakage of essential confidential or personal information due to virus infection of the Group's IT systems, suspension of production activities, or insufficient Company management in accordance with personal information laws and regulations of various nations in data, imaging and other businesses, the stoppage of business activities, administrative penalties, damage to social trust in our brands, and other instances could impact the Group's operating results or financial condition.</p> <p>*GDPR: EU regulations for protection of personal information</p>
Measures	<p>In order to strengthen information security on a global scale, we hold integrated cybersecurity meetings under the control of the CFO, creating a system for monitoring and taking preventive actions before risks arise even during normal times, and for taking unhindered, prompt action in the event of an incident. We also evaluate measures based on global standard information security management systems, and address issues accordingly. Furthermore, we have established Group rules on information security and personal information protection. We are improving the effectiveness of our measures in these areas through initiatives such as website vulnerability checkups, cyberattack drills, and employee education for enhanced information literacy.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Website vulnerability checkups and addressing issues ● Segmenting factory network environments and strengthening protection ● Conducting cyberattack drills ● Implementing data encryption measures based on analyses of increasingly sophisticated cyber risk cases ● Understanding personal data regulations and implementing measures to protect individual rights ● Thorough handling of information based on information security rules(e.g. usage, storage, disposal, measures to take in the event of an incident) ● Employee education for enhanced information literacy

Risk	Business continuity (S Rank)
Risk Scenario	<p>The OMRON Group operates production sites in China, Asia, and other regions around the world. We deliver products to our clients globally through sales sites in these countries and regions. The supply chain for parts and other items used by the Group is also diversified in processes globally, from materials procurement to the production assembly process. Our dependence on highly-competitive manufacturers is increasing. Recently, climate change has caused major natural disasters and earthquakes, large-scale fires at business partners, and other unforeseen disasters. Tightening product supplies due to this and rising demand has a significant impact on our business activities. In the event that social infrastructure or economic activities were to halt in a broad area, or if supply shortages were to occur for critical components, our business activities could be partially suspended or curtailed, which could have an impact on OMRON Group operating results or financial condition.</p>
Measures	<p>The OMRON Group has devised a business continuity plan (BCP) for not only production, but also purchasing and procurement, logistics, and IT, and is taking actions to provide for necessary safety measures, business continuity, and rapid recovery in preparation for the outbreak of new infectious diseases and all kinds of natural disasters. We also conduct simulations and training drills for emergency situations, operate an employee safety confirmation system in preparation for disasters, and stockpile emergency food and drinking water to improve the effectiveness of our continuity plans.</p> <p>Furthermore, in preparation for an emergency in the supply chain, we are taking measures such as building a mechanism to ascertain parts supply risk immediately after a disaster and securing strategic parts inventory according to degree of importance. At present, global supply of semiconductors is tight due to greater use of electrical equipment in automobiles and increasing demand for personal computers caused by the COVID-19 pandemic-driven acceleration of remote work, as well as due to the expectations of economic recovery in Europe and the United States. While resolution is not considered likely over the short term, we are striving to secure supply through strong trust relationships and close communications via strategic dialogue with our suppliers. At the same time, we are trying to minimize risks by exploring and adopting alternative materials for high-risk parts.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Formulating and updating business continuity plans (BCP) ● Conducting simulations and training drills ● Centralized management of supplier production area information and establishment of evaluation systems for alternative production sites ● Understanding and analyzing market/material information using third-party information ● Regular meetings with suppliers (dialogue based on information analysis) ● Securing parts inventories according to degree of importance ● Establishing escalation routes for emergencies

Risk	Quality issues (S Rank)
Risk Scenario	<p>The OMRON Group aims to provide products with a high degree of novelty for accelerating technological evolution and resolving social issues. Increasing demands for product safety and accuracy, as well as for reporting and actions taken against product quality defects, and furthermore the globally-growing rigorosity of environmental chemical substance regulations covering products (such as the European RoHS Directive) and laws, regulations, and standards relating to product safety are greatly impacting business activities. In the event that we provide inadequate product design/inspection, inappropriate customer support, or inappropriate reporting, or in the event that we are non-compliant with laws, regulations, and standards, the resulting large-scale recalls or damage to social trust in our brands could impact the Group's operating results or financial condition.</p>
Measures	<p>In order to maximize customer satisfaction, we have established a basic quality policy based on the principle of quality first. We have also established a quality management system based on international standard requirements. In addition, in order to further our quality governance, the Global Procurement and Quality Management HQ, which conducts top-level oversight of quality, holds company-wide quality meetings. In addition, we have established and enforce Group rules regarding our quality assurance system, quality assurance activities, and management in the event of a serious quality issue. Furthermore, we are strengthening our management system by ascertaining trends in globally-changing environmental and safety-related laws, regulations, and standards related to products and other areas.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Acquisition of ISO 9001 / ISO 13485 / IATF 16949*1 ● Internal audits of QMS*2 at business companies ● Promotion of design process problem solving activities ● Currently working to ascertain trends in environmental and safety-related laws, regulations, and standards related to products and other areas, and to strengthen management systems conducting impact assessments <p>*1 ISO 9001: International standard for quality management systems ISO 13485: International standard for quality management systems for medical devices IATF 16949: International standard for quality management systems specifically for the automotive industry *2 QMS: Quality management system</p>
Risk	Geopolitical risks (A Rank)
Risk Scenario	<p>The OMRON Group operates production sites in China, Asia, and other regions around the world. We deliver products to our clients globally through sales sites in these countries and regions. Changes in policies and regulations following shifts in international relations, such as U.S.-China relations, greatly impact our business activities. In the event that various national export regulations, technology transfer restrictions, and tax increases impose limitations on development, production, logistics, and sales activities, this could impede the delivery of products to our customers, impacting the Group's operating results or financial condition.</p>
Measures	<p>We regularly monitor global political and economic conditions and trends in laws and regulations, ascertaining changing business environments in each area and their impact on our performance. We are also exploring systems for rapidly analyzing and generating insights on the state of optimal production, research and development, and intellectual property management, as well as on the impact of changes in laws and regulations on our various businesses. In addition, export regulations in various countries have wielded greater influence in recent years. Our Global Risk Management and Legal HQ manages a company-wide export control committee, conducting proper security trading management. These initiatives have been brought up and discussed at the Board of Directors as a priority topic.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Analyzing and evaluating policies such as tariff increases in major countries, export restrictions, and emerging technology trading restrictions based on security export controls ● Re-evaluating transaction formats and our supply chain ● Building a system to manufacture products in parallel at multiple locations
Risk	Addressing sustainability issues (human rights risks) (A Rank)
Risk Scenario	<p>The OMRON Group has business locations around the world, and does business with suppliers across a number of countries. Awareness of business and human rights is growing more and more, particularly in developed countries. The increasing demand by stakeholders for addressing ESG concerns at a higher level, such as calls to address human rights and conflict minerals in the supply chain, greatly impacts our business activities. In the event that the Group and its suppliers were to fail to appropriately address these, the resulting suspension of customer transactions, administrative penalties, or damage to social trust in our brands could impact the Group's operating results or financial condition.</p>
Measures	<p>We maintain legal compliance in each country and region, refer to international rules and guidelines regarding sustainability, such as ISO 26000*1, and have formulated OMRON Group policies and codes of conduct. We have also declared our compliance with the UK Modern Slavery Act and have publicly announced Group initiatives to address human rights. We are also taking other measures, such as operating global whistle-blower hotlines. Regarding human rights risks, which fall under our sustainability targets, we are advancing initiatives through discussions at the Sustainability Committee, with the oversight and supervision of the Board of Directors. We also require our suppliers to manage their affairs properly in line with our sustainable procurement guidelines.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Establishing OMRON Group Sustainable Conduct Policies and OMRON Group Rules for Ethical Conduct ● Implementing RBA*2 risk assessments (at all 25 production sites*3) ● Declaring compliance with the UK Modern Slavery Act ● Conducting human rights training (Japan, China) ● Operating whistle-blower hotlines worldwide ● Conducting human rights training for on-site outsourced employees and establishing whistle-blower hotlines (Japan) ● Presenting sustainable procurement guidelines to suppliers and confirming compliance status <p>*1 ISO 26000: International standard for social responsibility *2 RBA: Responsible Business Alliance *3 Production sites accounting for 80% or more of Group production (excludes minor production)</p>

<p>Risk</p>	<p>Addressing sustainability issues (climate change risks) (A Rank)</p>
<p>Risk Scenario</p>	<p>Customers, suppliers, and society as a whole are calling for reductions in greenhouse gas emissions in the supply chain toward a decarbonized society as well as environmental consideration in products and services as an international response to climate change risks.</p> <p>The OMRON Group has business locations around the world, and does business with suppliers and customers across a number of countries. Due to the rise in energy prices as a result of tightening regulations in various nations, additional capital investment to address energy savings and renewable energies, and impact from the introduction of carbon taxes, there are risks of increasing business costs. Furthermore, in the event that OMRON and its suppliers were to fail to appropriately address these, the resulting suspension of customer transactions, administrative penalties, or damage to social trust in our brands could harm business opportunities. If the aforementioned risks were to become apparent, this could impact the Group's operating results or financial condition.</p>
<p>Measures</p>	<p>The OMRON Group maintains compliance with environmental laws, regulations, and guidelines in each country and region, and has formulated Group policies with reference to international rules. We have also launched analyses of business opportunities and risks given future regulatory trends. In our declaration of the OMRON Carbon Zero target, we aim for the company to emit zero greenhouse gas emissions in 2050 (Scopes 1 and 2), and are steadily reducing emissions each year to achieve this goal. We have also declared our support for the TCFD*1. We conduct governance, risk management, target-setting, and strategy-building in accordance with this framework, and disclose information accordingly.</p> <p>Regarding reduction of greenhouse gas emissions and increase in environmental contribution*2, which fall under our sustainability targets, we are advancing initiatives through discussions at the Sustainability Committee, with the oversight and supervision of the Board of Directors.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● OMRON Carbon Zero declaration ● Setting greenhouse gas emission reduction targets, implementing energy savings, implementing captive consumption of renewable energy, and advancing other initiatives based on the SBT*3 ● Declaring support for TCFD, disclosing information in accordance with this framework, and implementing scenario analyses ● Increasing environmental contribution*2 ● Presenting sustainable procurement guidelines, including for addressing climate change, to suppliers and confirming compliance status <p>*1 TCFD: Taskforce on Climate-Related Financial Disclosures *2 Environmental contribution: CO2 emissions that can be reduced by utilizing products and services related to energy creation and savings in society *3 SBT: Science Based Targets, a series of medium to long-term targets for greenhouse gas reductions based on scientific evidence</p>
<p>Risk</p>	<p>Recovering M&A and alliance investments (A Rank)</p>
<p>Risk Scenario</p>	<p>The OMRON Group considers M&A and alliances to be necessary strategies for future growth. In accordance with this, we work to improve the corporate value of the Group with M&A, alliances, and divestment of business based on portfolio management*.</p> <p>Here, in the event that governance or compliance issues arise at the company to receive investment, which could not be identified even with prior investigation, or in the event of failure to achieve the expected sufficient synergistic effects due to dramatic deterioration in the economy, changes in the competitive environment, or changes in laws and regulations, etc., there is a risk that impairment losses may occur due to failure to achieve the expected results, impacting the Group's operating results or corporate value.</p> <p>*Portfolio management: Efforts to evaluate businesses based on assessments of economic value and market value for the approximately 60 business units OMRON controls at present</p>
<p>Measures</p>	<p>When executing M&A and establishing alliances, we form project teams comprised of members from business divisions, headquarters units, and outside experts. These teams issue investment determinations in consideration of risks and synergistic effects from collaboration with the Group based on confirmation of financial and contract details with the company in question and a detailed preliminary examination through conversations with management, among other actions. Even after the acquisition, business divisions and HQ units work together to formulate and execute a post-merger integration (PMI) plan given the business strategy and risks. In addition, the performance of the company in question, the progress of the relevant business strategy, and the assessment of its business value are regularly reviewed by the Company's Board of Directors.</p> <p>[Major Initiatives]</p> <ul style="list-style-type: none"> ● Exploring and assessing M&A and alliance candidates based on business strategy ● Formulating due diligence and business plans according to M&A and alliance projects ● Review of specific target progress for post-acquisition economic impact by the Company's Board of Directors(At least once a year)