

A Step Forward in Compensation Governance

— Toward Sustainable Corporate Value Growth —

OMRON has been working to strengthen its corporate governance based on the OMRON Principles. In fiscal 2017, we revised our compensation structure for directors and executive officers, aiming to spur even greater corporate value growth. Chairman Fumio Tateishi and outside director Eizo Kobayashi, who served as chairman of the Compensation Advisory Committee until last year, discussed how this structure will accelerate sustained corporate value growth at OMRON.

The Approach of OMRON Management and the Role of Compensation

Tateishi Based on the OMRON Principles, our aim is to contribute to a better society by sustained enhancement of corporate value. To accomplish this, we develop our long-term vision every 10 years. We create a medium-term management plan that covers a span of three to four years, while we also create short-term plans for a single fiscal year. Of course, we must strengthen our corporate governance as we execute on this vision and these plans, continuing to raise corporate value. We consider compensation and appointment to be an

important pillar supporting corporate governance. We have two goals we want to accomplish with compensation. The first is to motivate directors and executive officers practicing the OMRON Principles to boldly pursue our long-term vision. The second is to use the disclosure of compensation policy to demonstrate our commitment to raising sustainable corporate value. This is one way we help our stakeholders understand our philosophy and initiatives regarding management.

Evolution of Compensation

Kobayashi Even before I was named an outside director, I knew OMRON for its strong corporate governance. I became a director in fiscal 2013. From the start, I was truly surprised by the level of commitment to strengthening corporate governance.

We deliberated compensation within the Compensation Advisory Committee, and in fiscal 2014 we decided to adopt a compensation structure that provided a stronger link between medium-term performance and compensation. Our objective here was to ensure that we



Fumio Tateishi
Chairman



Eizo Kobayashi
Outside Director

accomplished our medium-term management plan.

Tateishi Specifically, we adopted medium-term performance-linked bonuses that varied according to the achievement level of the operating income target defined in our medium-term management plan. We also tied performance-linked stock acquisition rights according to the achievement level of the net sales target.

Kobayashi That's correct. A number of companies have adopted some type of annual performance-based compensation using a variety of different performance indicators. However, I think we are one of the leaders in focusing more on medium- to long-term performance, linking pay to how well we meet the expectations of our shareholders and other stakeholders.

Tateishi This revised compensation structure resulted in an even higher motivation among directors and executive officers to engage with a focus on reaching our medium- to long-term goals. Unfortunately, we were not able to accomplish our initial targets. We did, however, strengthen our

management in terms of medium- to long-term focus. I consider our M&A activities and growth investments to be cases in point.

Kobayashi Seeing what is discussed at the Board meetings, I am sure OMRON is shifting its management to a more medium- to long-term orientation.

The Compensation Advisory Committee conducted a review of the effectiveness of the compensation structure.

This was the second revision since fiscal 2014. The Compensation Advisory Committee paid particular attention to two factors: Whether the compensation system functioned as a motivation for directors and executive officers to improve sustained corporate value growth and whether the system was clear enough for our stakeholders to understand and see whether it was aligned with their expectations.

Tateishi Global technology innovation takes place at near blinding speed today. This innovation is changing our society in significant ways. How will we solve the social issues that these changes

bring? Today, it is more important than ever that we engage in opportunistic policies looking toward the society for the year 2030.

Our VG2.0 medium-term management plan, which we launched in fiscal 2017, provides specific

and actionable measures for accomplishing this task. I believe that the upgraded compensation structure will be a driving force to move VG2.0 forward.

Highlights of the Fiscal 2017 Revision


Tateishi With this revision, the ratio of compensation for our CEO, for example, has been changed from 1:1:1 (base salary: short-term performance linked compensation : medium- to long-term performance-linked compensation) to 1:1:1.5. I think this change is truly groundbreaking. The higher the position in our company, the greater the responsibility for the medium and long term. By weighting the ratio toward medium- to long-term performance, we are making it clear what we expect of people in these positions. This is very significant for OMRON management.

Kobayashi In addition, the performance indicators tied to performance-linked compensation are very important. We have short-term and medium- to long-term performance-linked components. Of course, we must meet the expectations of our shareholders and other stakeholders every fiscal year. To do this, we will use an evaluation of ROIC (the fundamental measure of our management), operating income, and net income as the indicators

for annual bonuses.

Another question is how to generate business and management innovation. This includes new products and services based on new technologies, M&A, and more. We adopted net sales, EPS, and ROE as of fiscal 2020 for our medium- to long-term performance indicators. We believe these indicators will help us make steady progress in accomplishing VG2.0. Further, we adopted a performance-linked stock-based compensation system to encourage directors and executive officers to focus on sustainable corporate growth from the same perspective as our shareholders.

Tateishi With this recent revision, we added a sustainability evaluation* to the indicators we use for medium- to long-term performance-linked compensation. In the fall of 2015, the United Nations adopted Sustainable Development Goals. OMRON needs to accelerate our sustainability initiatives to contribute to society through our businesses.



“I believe that the upgraded compensation structure will be a driving force to move VG2.0 forward.”

“It is important to meet the expectations of our stakeholders and to spur greater corporate value growth.”



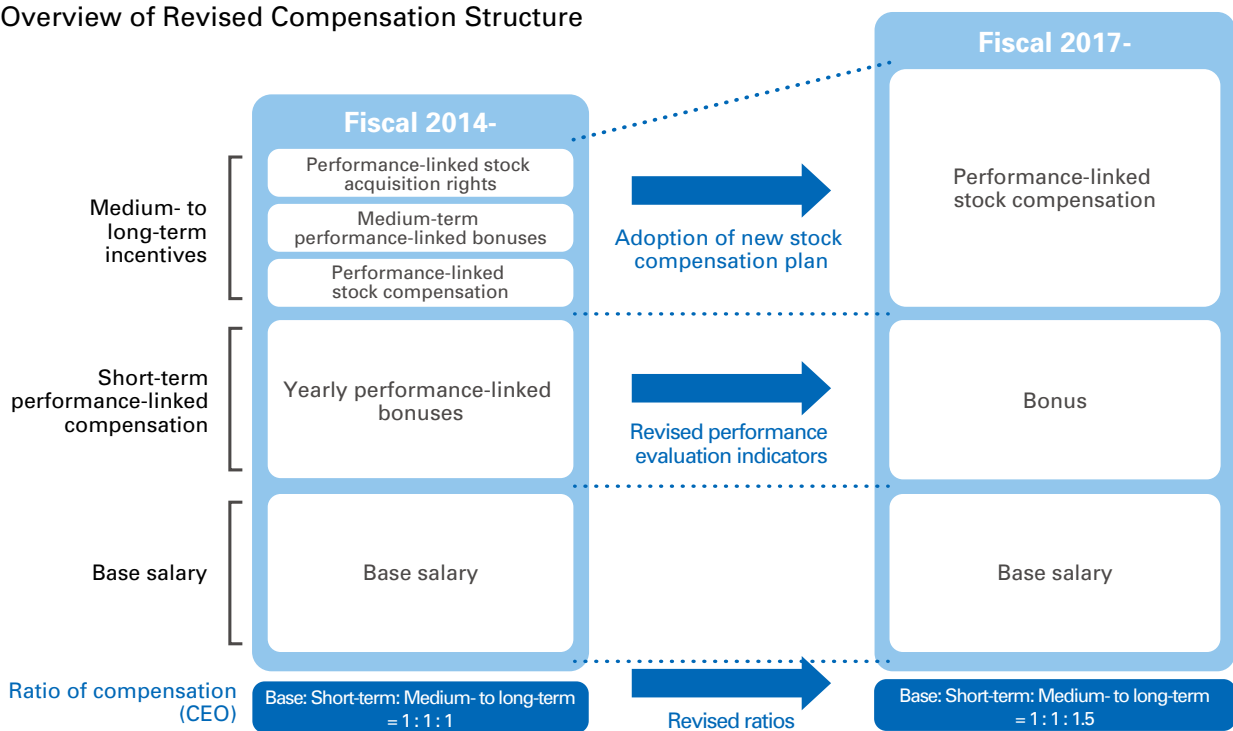
Kobayashi With this revision, we spent quite a while discussing how to evaluate sustainability and which objective indicators we could use. We took great pains to determine objective measures that weren't simply self-serving. Finally, we decided to refer to sustainability indicators obtained from a third-party organization for transparency and accountability.

Tateishi I believe OMRON has demonstrated to our stakeholders how serious we are about raising corporate value by solving social issues through our businesses, particularly given our adoption of a sustainability evaluation.

Kobayashi While single-year performance is important, it is even more important to meet the expectations of our stakeholders with our CEO, directors and executive officers keeping long-term corporate growth in mind. We believe this new compensation structure will be very effective in helping us achieve our VG2020 goals for the year 2020 and raise corporate value.

* Sustainability Evaluation
An evaluation based on the Dow Jones Sustainability Indices (DJSI). The DJSI are a series of ESG Indices which include companies evaluated and selected based on long-term shareholder value perspective, reflecting economic, environmental, and social factors comprehensively.

Overview of Revised Compensation Structure



Future Compensation Structure and Expectations

Kobayashi A compensation structure must evolve in response to the times and business environment. As a Compensation Advisory Committee, we will continue to review and improve our compensation structure, ensuring that it functions as a motivation for strong decision-making by directors and executive officers and that it meets standards of transparency and accountability to our stakeholders.

Tateishi The goal of corporate governance is to enhance sustainable corporate value by achieving our long-term vision based on the OMRON Principles. When corporate governance (including compensation structure) functions as it should, directors and executive officers will embrace a medium- to long-term perspective, leading to faster execution of policies for creating value into the future. OMRON directors and executive officers will work as one united entity to achieve our long-term vision and raise our corporate value.

New 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.
- 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 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.
- 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 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

- All compensation for directors shall be determined by a resolution of the Board of Directors reflecting the deliberations and recommendations of the Compensation Advisory Committee.

* A similar policy has been adopted for executive officers toward achieving medium- to long-term performance targets.

Overview of New Compensation Structure (Directors, Executive Officers)

1) Ratio of compensation

Compensation consists of base salary (fixed compensation) and compensation according to Company performance, namely short-term performance-linked compensation and medium- to long-term performance-linked compensation.

The ratio of compensation consisting of performance-linked compensation compared to base salary has been determined for each role:

$$\text{Base salary} : \text{Short-term} : \text{Medium- to long-term} = 1 : 1 : 1.5 \text{ (CEO)}$$

2) Base salary (directors, executive officers)

A base salary is paid 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 (internal directors, executive officers)

Bonuses are paid based on yearly performance indicators and the degree of achievement of performance targets.

Director bonuses (excluding outside directors) vary from 0% to 200% according to the achievement of operating income, net income, and ROIC targets defined in the annual operating plan.

$$\text{Bonus} = \text{Target amount for each position} \times \text{Performance score (Operating income 50\%, Net income 50\%)} \times \text{ROIC score}$$

Performance indicators for executive officers are established individually according to their respective responsibilities.

4) Medium- to long-term performance-linked compensation (internal directors, executive officers)

The performance-linked component (60%) and non-performance-linked component (40%) are paid as stock-based compensation.

The performance-linked component may vary from 0% to 200%. This range is based on achievement of net sales, EPS, and ROE targets based on our medium-term management plan, as well as a sustainability evaluation* based on a third-party organization.

$$\text{Stock-based compensation} = \text{Target amount for each position} \times \text{Performance score (Net sales 30\%, EPS 70\%)} \times \text{ROE score} \times \text{Sustainability score}$$

The non-performance-linked component aims for retention and motivation to improve share prices over the medium- to long-term. Payment is conditioned on a certain term of service.

As a rule, stock paid in stock-based compensation must be held by the individual during their term of service. In the event that an individual in question engages in serious misconduct during their term of service, and such misconduct harms the Company, the Compensation Advisory Committee will deliberate and make a recommendation. Based on this recommendation, the Board of Directors (when said individual is a director) or the CEO (when said individual is an executive officer) shall resolve to limit the payment of stock-based compensation.

* Sustainability Evaluation

An evaluation based on the Dow Jones Sustainability Indices (DJSI). The DJSI are a series of ESG Indices which include companies evaluated and selected based on long-term shareholder value perspective, reflecting economic, environmental, and social factors comprehensively.

Fiscal 2016 director compensation was paid based on the former compensation structure. For more information, see the following URL:

http://www.omron.com/about/ir/shareholder/pdfs/convocation_notice_80th.pdf

(Convocation Notice for the 80th Ordinary General Meeting of Shareholders, P43-44)