

## Initiatives towards improving Board of Directors' effectiveness

OMRON Corporation

### 1. Overview of initiatives towards improving Board of Directors' effectiveness

The Company ensures transparency and fairness in business management, speeds up management decisions and practices, and strives to boost the OMRON Group's competitive edge. The ultimate objective is to achieve sustained enhancement of corporate value. To this end, the Company reinforces the oversight functions of Board of Directors through initiatives for improving its effectiveness.

Such initiatives are undertaken in a cycle of (1) evaluation of Board of Directors' effectiveness, and (2) determination of the operational policy and focus themes of Board of Directors and formulation and implementation of annual plans.

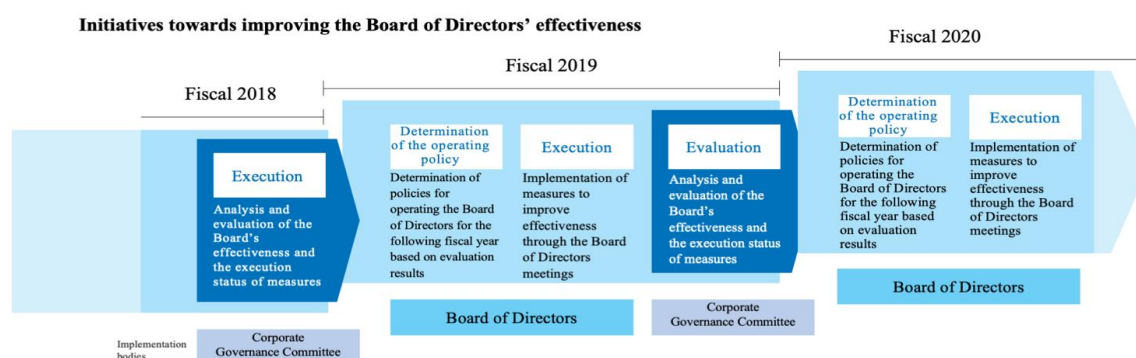
#### (1) Evaluation of Board of Directors' effectiveness

The Company's evaluation of Board of Directors' effectiveness is conducted by Corporate Governance Committee chaired by a Director (Independent) and comprising only Directors (Independent) and Audit & Supervisory Board Members (Independent) (hereinafter "Outside Executives"). Outside Executives act as members of Board of Directors while maintaining the perspectives of all stakeholders including the shareholders. Corporate Governance Committee, which is composed only of Outside Executives, performs evaluations in order to ensure that evaluations are both objective and effective.

#### (2) Determination of the operational policy and focus themes of Board of Directors and formulation and implementation of annual plans

Based on the evaluation results by Corporate Governance Committee in (1) and the business environment, etc., Board of Directors determines its operational policy and focus themes for the next fiscal year. Board of Directors formulates and implements annual plans based on this operational policy.

The Company continues to improve Board of Directors' effectiveness by implementing (1) and (2) above on a yearly basis. Corporate Governance Committee has evaluated these initiatives to be the Company's unique, optimal activities that are both objective and effective. Board of Directors recognizes the Company's initiatives as being more effective than evaluations by third parties.



## 2. Evaluation of Board of Directors' effectiveness for fiscal 2019

The methods for evaluation of Board of Directors' effectiveness and the evaluation items in the self-evaluation for fiscal 2019 are as described below.

### 2-1. Evaluation methods

#### ① Self-evaluations by Directors and Audit & Supervisory Board Members

-Each Director and Audit & Supervisory Board Member performed self-evaluations of the content of discussions at meetings of Board of Directors and the extent of oversight functions exercised, immediately following each meeting of Board of Directors held in and after July 2019.

-Each Director and Audit & Supervisory Board Member performed self-evaluations of the operation, etc. of Board of Directors over the course of the year following the meeting of the Board of Directors held in March 2020.

#### ② Interviews by the Chairman of Board of Directors

-The Chairman of Board of Directors conducted individual interviews with Directors and Audit & Supervisory Board Members between January and March 2020.

#### ③ Evaluation by Corporate Governance Committee

-Corporate Governance Committee conducted evaluations of the focus themes in (1) above in March 2020.

-The effectiveness of Board of Directors was evaluated in May 2020, although this was done later than usual due to COVID-19. The evaluation was based on the overall results of self-evaluations conducted in fiscal 2019 in (1) above, and the results of the interviews in (2) above.

### 2-2. Self-evaluation items

Self-evaluation items are as follows. Evaluations were performed from the perspectives of whether or not Board of Directors sufficiently exercised its oversight functions, and whether it contributed to the exercise of its oversight functions. Evaluations are performed by completing anonymous questionnaires. For each evaluation item, answers are provided using five-point scales and free comment fields.

#### ① Self-evaluations performed immediately following meetings of Board of Directors

- Content of discussions at the meeting of Board of Directors
- Extent of oversight functions exercised by Board of Directors

#### ② Self-evaluations for the entire year, performed at the end of the fiscal year

1. Operation of Board of Directors
  - 1) Policy for the operation of Board of Directors for fiscal 2019
  - 2) Focus themes set forth in the operational policy
  - 3) Deliberations and reports regarding issues other than focus themes
  - 4) Board of Directors operational policy and focus themes for fiscal 2020
2. Issues other than operation of Board of Directors
  - 1) Separate meetings
  - 2) Provision of information such as worksite tours
  - 3) Self-evaluations performed immediately following the meetings of Board of Directors
3. Advisory committees
4. Other overall issues regarding Board of Directors

#### ③ Other self-evaluations (evaluations performed when new officers are appointed, when medium-term management plans are formulated, when changes are made to the corporate governance system, etc.)

- Scale and composition of Board of Directors
- State of operations of Board of Directors
- Operation of advisory committees

### **3. Results of evaluation of Board of Directors' effectiveness for fiscal 2019**

Corporate Governance Committee conducted an evaluation of Board of Directors' effectiveness for fiscal 2019 and reported the results of the evaluation at Board of Directors meeting held on June 23.

#### **<Board of Directors Operational Policy for Fiscal 2019>**

"In fiscal 2019, which is the third year of OMRON's medium-term management plan, "VG2.0," Board of Directors will exercise its oversight functions by looking ahead to the completion of VG2.0 and the next long-term vision, which will be launched in fiscal 2021."

#### **<Focus Themes set forth in the Operational Policy>**

- Confirmation of the direction of long-term strategies with the next long-term vision in mind.
- Continuing initiatives concerning the information system and quality strategies
- Initiatives to respond to changes in the internal and external business environment in fiscal 2019-2020

#### **3-1. General comments on evaluation**

##### **① Operation of Board of Directors (Operation in accordance with the operational policy, selection/discussion of focus themes, deliberation/reporting items in areas other than focus themes)**

As fiscal 2019 was the third year of OMRON's medium-term management plan, "VG2.0," Board of Directors' operation was determined to be conducted by looking ahead to the next long-term vision. As such, Board of Directors determined its operational policy in a way that would exercise its oversight functions by taking the completion of VG2.0 and the next long-term vision into consideration. As such, the Board set forth the three focus themes.

Based on this, the President & CEO and other executive officers implemented each focus theme, and reported its status to Board of Directors. As for the strategies based on VG2.0, the status of business execution was reported to Board of Directors, including each business company's short-term management plan, reorganization of business domains, and deliberation on potential M&A projects. Quality risks and matters subject to disciplinary actions were uniquely specified by the Company as items to be reported on a quarterly basis from the perspective of risk management, and reported accordingly.

In response to reports made by each executive officer, the Board members engaged in active discussions in order to understand the direction of executing each business operation, share issues, and to determine the need for continuous monitoring. As for the divestiture of the automotive electronic component business, discussions were comprehensive, from the underlying policy to detailed risk management. Because OMRON's business environment underwent a radical change in the fiscal year under review, executive officers reported the status of business as necessary and various suggestions were made by Outside Executives.

Corporate Governance Committee decided that Board of Directors was effectively putting its oversight function to use, by recognizing the Board's operation based on its operational policy and discussions with regard to each focus theme from a medium- to long-term perspective. Directors and Audit & Supervisory Board members including Outside Executives spoke out based on their experience and knowledge, while executive officers took the opinions of Board of Directors very seriously, which helped them enhance their strategies and initiatives. At the Board meetings, discussions were conducted not only for pointing out issues regarding individual matters subject to deliberation and those reported, but also reflecting the perspective of medium- to long-term business growth and human resources development. In general, discussions among the Board members were oriented toward enhancing the feasibility of strategies. As such, Corporate Governance Committee concluded that Board of Directors was exercising its oversight functions. As for quality risks and matters subject to disciplinary action, both of which were specified as items to be reported regularly on a quarterly basis, it was confirmed that their initiatives had been instilled deeply into each worksite, and that the systems for these initiatives were functioning properly. Accordingly, Corporate Governance Committee considered that this indicated an improvement resulting from the Board's continuous practice of its oversight functions. In the fiscal year under review, the OMRON Group's business environment experienced radical changes caused by the US-China trade war and the COVID-19 pandemic. The Committee recognized that in response to this situation, Board of Directors' discussion on specific matters, such as things that need to be done to deal with the present situation, and those that need to be done in preparation for the time after these events eventually come to an end. The Committee understood that Board of Directors engaged in not only discussions intended to solve short-term issues but also those reflecting a medium- to long-term perspective.

## ② Items other than the operation of Board of Directors

To improve the effectiveness of Board of Directors, the Board strived to increase information sharing opportunities by planning separate meetings and other opportunities to provide information. In the fiscal year under review, new initiatives were launched, including meetings for Outside Executives to exchange opinions with each other, as well as the practice of self-evaluations immediately following each Board meeting.

Corporate Governance Committee regarded Board of Directors' initiatives aimed at promoting the provision of information to Outside Executives properly served as opportunities to improve the Board's effectiveness. These initiatives included workplace tours, information exchange among Outside Executives, and set-up of opportunities for communication between the President & CEO and Outside Executives. As for the Outside Executives' opinion exchange meeting, an initiative launched in the fiscal year under review, the Committee recognized the need for further enhancing its functionality. The Committee considered that the self-evaluations performed immediately following each Board of Directors meeting were effective and useful for improving the Board's effectiveness, and is an initiative unique to the Company.

## 3-2. Overview of Board of Directors' operation

### ① Initiatives regarding focus themes

#### ● Focus theme: Confirmation of the direction of long-term strategies with the next long-term vision in mind

Board of Directors specified its operational policy for fiscal 2019 as exercising its oversight functions by looking ahead to the next long-term vision, which is to be launched in fiscal 2021. Accordingly, the Board identified confirmation of the direction of the next long-term vision as one of its focus themes. Based on this, the President & CEO conducted primary reporting for the next long-term vision. This report on the next long-term vision focused on "things to uphold," "things to evolve," and the "direction of the OMRON Group's evolution." These were determined by redefining the impact social transformation has on the Company's business based on the anticipation that the society envisioned with the present medium-term management plan, "VG2.0," would undergo transformation toward 2030. With regard to this report, Board of Directors discussed the perspective to take for evaluation of the current medium-term management plan, "VG2.0;" the presuppositions on which the next long-term vision should be based, its significance, and methods for setting the vision's objectives; the way of management when putting the vision into practice; the responsibility of OMRON HQ; talent necessary for realizing the vision; methods of sharing the vision externally and internally, and other matters.

Corporate Governance Committee recognized that the discussion regarding the planning of the next long-term vision at Board of Directors meeting helped Outside Executives fully understand the direction of enhancing corporate value through the execution of business operations. The Committee then determined that Board of Directors was exerting its oversight functions more effectively, with Outside Executives suggesting the importance of incorporating a diversity of viewpoints from internal and external sources, and the perspective of giving excitement and motivation to employees. The Committee also made an additional comment, describing the need for continuously fulfilling its oversight functions through the opportunities of periodic reporting and discussions toward the perfection of the next long-term vision.

#### ● Focus theme: Continuing initiatives concerning information system strategies

Based on the recognition of issues related to existing IT systems, the Company has been implementing a Group-wide IT system strategy formulated in fiscal 2018, with the aim of achieving the ideal management system. As such, Board of Directors specified this as a focus theme for fiscal 2019, as it was in fiscal 2018. Accordingly, the President & CEO and the CFO reported the implementation status of the Group-wide IT system strategy in fiscal 2019, with a focus on what the Group-wide IT system strategy aims to achieve, and the progress of the implementation of each management system. In response, Board of Directors engaged in a discussion on such matters as standardization of the IT system, visualization of existing tasks necessary for the IT system standardization, the creation of a step-by-step roadmap for improving feasibility, the need for experienced personnel, the integration of efforts with frontline staff members to promote the project, etc.

Corporate Governance Committee found that Board of Directors, through a discussion regarding continuous implementation of initiatives regarding the information system, became aware of the direction of the IT system strategy, which executive officers had identified and had been promoting as one of the top-priority management challenges, as well as its progress. The Committee also found that items that require the utmost attention when putting plans into practice were shared among Board members based on Outside Executives' suggestions regarding issues and risks related to the implementation of plans. Due to these reasons, Corporate Governance Committee concluded that Board of Directors exercised its oversight functions. Moreover, because issues such as the need for reinforcing project management, reflecting its nature of being a long-term project, as well as the need for experienced personnel, concerns about all-around goals were brought up, Corporate Governance Committee considered that Board of Directors was generally performing appropriate oversight. The Committee added a comment that the Board should continuously fulfill its oversight functions for strategies related to information systems, by taking opportunities for periodic reporting and discussions.

● **Focus theme: Continuing initiatives concerning quality strategies**

Since fiscal 2018, the Company has been working on rebuilding its quality management system (QMS) in order to reinforce its quality capabilities, which is one of the Company's top-priority challenges, based on the awareness of issues related to its existing QMS. Accordingly, Board of Directors specified this as a focus theme for fiscal 2019, as was done in fiscal 2018. In fiscal 2019, a round of effectiveness audits toward rebuilding QMS has been completed across the Group. As such, the President & CEO and the CTO reported common issues that require focus, and key initiatives for fiscal 2020 intended to solve them. In response, Board of Directors reconfirmed the Group-wide framework of QMS, and discussed the auditing for effectiveness tailored for each business's characteristics, human resources development to nurture auditors for effectiveness, etc.

Corporate Governance Committee recognized that discussions regarding continuing initiatives concerning quality strategies at Board of Directors helped realize anew that executive officers were addressing this issue by specifying it as one of its top-priority management challenges. Moreover, the Committee noted that various suggestions for ensuring the practice of quality strategies were made by Outside Executives. Due to these reasons, Corporate Governance Committee concluded that Board of Directors properly exercised its oversight functions. Moreover, the Committee recognized that the Board was performing appropriate oversight as a whole, because the need for focusing on highly effective processes was also brought up for discussion. This was to avoid the possibility that QMS would become a formality through reliance on a single unified activity, which could eventually cause a reduction of quality.

● **Focus theme: Initiatives to respond to changes in the business environment**

Aware that the speed of changes in the business environment has recently continued to accelerate, Board of Directors specified recognition of the business environment as one of its focus themes for fiscal 2019. Accordingly, the President & CEO and the CFO reported on the changes in the business environment recognized through the execution of business and initiatives to respond to them as part of the agenda of quarterly results review. With regard to this report, Board of Directors confirmed the growth of business and investment themes of focus, and discussed ways of improving accuracy in the projection of results, in response to changes in the business environment.

Corporate Governance Committee determined that Board of Directors exercised its oversight functions, as the Board strengthened understanding of each business company's methods for detecting and analyzing changes in their respective business environments, and made specific proposals regarding the challenges the Company should tackle in these times of economic recession.

② **Other deliberation/reporting items**

Board of Directors deliberated 28 issues to be resolved at Board of Directors meeting, as well as 29 reported issues. These included regular meeting agendas such as quarterly results and other matters for which deliberation is legally required, as well as quality risks and matters subject to disciplinary action.

**3-3. Overview of initiatives other than the operation of Board of Directors**

Board of Directors and the Audit & Supervisory Board also strive to expand the opportunities of sharing information other than that pertaining to the operation of Board of Directors, in order to improve the effectiveness of Board of Directors. In fiscal 2019, with the aim of helping Outside Executives to more deeply understand the state of the Company's business execution, and to help strengthen communications among Outside Executives, various separate meetings were conducted. Moreover, starting in fiscal 2019, self-evaluations were performed immediately following each Board meeting by accepting the suggestions of Outside Executives. Specific initiatives are as follows:

① **Organizing separate meetings**

● **Meeting to exchange opinions between Outside Executives and the accounting auditor (continuously held since fiscal 2015)**

By sharing the perspective of the accounting auditor with Outside Executives, the Company seeks to strengthen the oversight and auditing functions of Board of Directors and the Audit & Supervisory Board. This initiative also helps build a relationship between the Outside Executives and the accounting auditor that facilitates direct exchange of risk and other information without going through the Company.

- **Interviews by the Chairman of Board of Directors (continuously held since fiscal 2016)**

The Chairman of Board of Directors conducts individual interviews with Directors and Audit & Supervisory Board Members once a year to discuss plans to improve the operation of Board of Directors, etc.

- **Meeting to exchange opinions between the President & CEO and Outside Executives (continuously held since fiscal 2018)**

The President & CEO and Outside Executives exchange opinions once a year to strengthen mutual understanding.

- **Meeting to exchange opinions among Outside Executives (launched in fiscal 2019)**

Outside Executives exchange opinions with each other on a quarterly basis to enhance communications among them.

- ② **Self-evaluations immediately following each Board of Directors meeting (launched in fiscal 2019)**

Directors and Audit & Supervisory Board Members perform self-evaluations immediately following each Board of Directors meeting, while the content of the discussion at the meeting is still fresh in memory.

#### **4. Board of Directors operational policy for fiscal 2020 and its focus themes**

Based on the results of evaluation conducted by Corporate Governance Committee, Board of Directors engaged in a discussion to determine its operational policy for fiscal 2020. Based on the results of this discussion, Board of Directors operational policy for fiscal 2020 and its focus themes were determined at Board of Directors meeting held on July 28.

##### **<Board of Directors Operational Policy for Fiscal 2020>**

“To enable the OMRON Group to deliver new value in this period of social structure transformation, Board of Directors will exercise its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives. ”

##### **<Focus Themes>**

- Business operations with COVID-19 in mind
- Response to increasing geopolitical risks
- Creation of new businesses in the period of transformation and taking on the challenge of new business model development
- Building a new core information system
- Determination of the direction of next long-term vision with new values in mind