

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

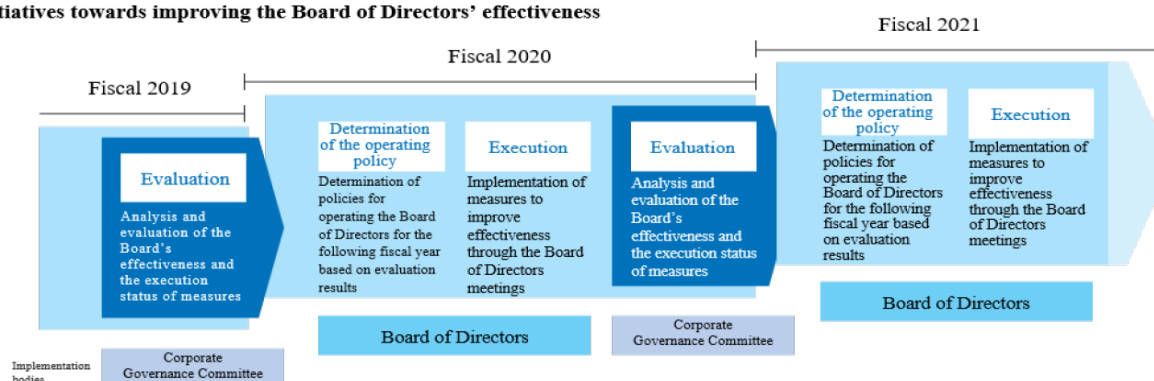
The Company's evaluation of Board of Directors' effectiveness is conducted by Corporate Governance Committee chaired by a Director (Independent) and comprising only Directors (Independent) and Audit & Supervisory Board Members (Independent) (hereinafter "Outside Executives"). Outside Executives act as 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.

Initiatives towards improving the Board of Directors' effectiveness



2. Evaluation of Board of Directors' effectiveness for fiscal 2020

The methods of the evaluation of the Board of Directors' effectiveness and the evaluation items in the self-evaluation for fiscal 2020 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 contents of discussions at the meetings of the Board of Directors and the extent of oversight functions exercised, immediately following each meeting of the Board of Directors.
- Each Director and Audit & Supervisory Board Member performed self-evaluations of the operation, etc. of the Board of Directors over the course of the year following the meeting of the Board of Directors held in February and March 2021.

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

- The Corporate Governance Committee conducted evaluations of the Board of Directors' effectiveness in March and April 2021.

2-2. Self-evaluation items

Self-evaluation items are as follows. Evaluations were performed from the perspectives of whether or not the 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 the Board of Directors
 - 1) Policy for the operation of the Board of Directors for fiscal 2020
 - 2) Fiscal 2020 focus themes
 - 3) Deliberations and reports regarding issues other than focus themes
 - 4) Policy for the operation and focus themes of the Board of Directors for fiscal 2021
2. Increasing information sharing opportunities
 - 1) Individual meetings
 - 2) Initiatives on information sharing opportunities
3. Advisory committees
4. Other overall issues regarding the 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 2020

Corporate Governance Committee conducted an evaluation of Board of Directors' effectiveness for fiscal 2020 and reported the results of the evaluation at Board of Directors meeting held on May 14.

<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

3-1. General comments on evaluation

① Operation of the Board of Directors

In order to realize further improvements in corporate value, based on the results of the evaluation of the Board of Directors' effectiveness for fiscal 2019, the Board of Directors discussed the Board of Directors' operation policy for fiscal 2020. The Board determined that in fiscal 2020, on top of the need to respond to the COVID-19 pandemic, it is important to accurately and speedily grasp global changes, and to provide new value during this period of transformation of the social structure. Based on these discussions, the Board of Directors set the "exercise of its oversight functions in a multifaceted manner and from the short-term and medium- to long-term perspectives" as its operation policy, and listed five focus themes. Based on this operation policy of the Board of Directors, the President and CEO reported on issues including initiatives for focus themes and the status of responses to environmental changes to the Board of Directors, and discussed the issues. (*Please refer to (2) (i) "Initiatives regarding focus themes" below for more details on focus themes.)

While the next long-term vision had been scheduled to start in fiscal 2021, affected by the COVID-19 global pandemic, the Company placed the highest priorities on crisis response so as to ensure business continuity and profits. At the same time, since it is necessary to conduct preparations and transformation for the world after the containment of the COVID-19 pandemic ("post-COVID"), the President and CEO proposed to the Board of Directors to postpone the start of the next long-term vision by a year. In addition, besides resolving social issues based on SDGs, it was suggested that the next long-term vision should be formulated such that it reflects initiatives made from a medium- to long-term perspective in preparation for the post-COVID world. With regard to this, the Board of Directors deemed the postponement of the start of the next long-term vision to be appropriate. The Board also debated the importance of recognizing the speed of transformation of the social structure and the messages that must be given to both parties within and outside the Company when announcing the reason for the postponement. In particular, in order to adapt to the rapid speed of change of the social structure, the Board reaffirmed the necessity of accelerating responses at a pace beyond current expectations. In addition to the above, the President and CEO reported the status of business execution to the Board of Directors, on issues including: the status of response to COVID-19, the performance of each fiscal year in light of the impact thereof, the short-term management plan of each business company, and initiatives related to sustainability. Regarding these issues, the Board of Directors positively evaluated the President and CEO's business operations amidst the COVID-19 crisis. Furthermore, from the perspective of social structural changes due to COVID-19, geopolitical risks and such, the Board discussed the importance of further strengthening existing businesses, creating new business opportunities, and disseminating information from the viewpoint of stakeholders, including investors. In particular, in order for the Company to grow further in the post-COVID era, the Board recognized the further importance of acquiring and utilizing human resources who are not entrapped by existing mindsets and are able to think freely and creatively, and the cultivation of a corporate culture where the spirit of constantly challenging oneself can be demonstrated. In discussions regarding sustainability, the Board recognized that it is vital for OMRON to further link sustainability initiatives to opportunities for the creation of new businesses, in order to achieve its goal of resolving social issues through its businesses.

The Corporate Governance Committee, recognizing that the Board of Directors has positioned fiscal 2020 as a year required to operate under the COVID-19 crisis and as a preparation period for the next long-term vision in view of the new society post-COVID, evaluated favorably on the following: timely reports on business conditions and focus themes were made from those involved in business execution; and Outside Directors and Audit & Supervisory Board Members (Independent) raised issues about the responses needed to realize further improvements in corporate value in the post-COVID era, and engaged in discussions thereof. Furthermore, while discussions at meetings of the Board of Directors revolved around the medium-to-long-term strategies and its function as a monitoring board heightened, it also appropriately functioned as a management board, with each important case, including the responses to quality issues, components procurement and geopolitical risks, being deliberated individually. The fine balance of these aspects was also commended by the Committee.

From the above-mentioned facts, the Corporate Governance Committee recognized that the Board of Directors exercised its oversight functions from multifaceted viewpoints including both the short-term and medium-to-long-term perspectives. Those involved in business execution took advice from the Board of Directors earnestly and evolved their strategies or initiatives accordingly. As a result of the Board and those involved in business execution working together to make the two-wheel system of management oversight and business execution function properly, gross profit margin improved despite the COVID-19 crisis, and profits grew as well. Therefore, the Committee has deemed that the effectiveness of the Board of Directors has increased.

② Increasing information sharing opportunities

The Board of Directors strove to increase information sharing opportunities by conducting individual meetings, etc. aimed at improving the effectiveness of the Board of Directors. In fiscal 2020, amidst the impact of the COVID-19 pandemic, the following meetings were held: “Interviews by the Chairman of the Board of Directors” where the Chairman of the Board of Directors meets with individual Directors or Audit & Supervisory Board Members; “Outside Executives Discussions” attended only by Outside Directors and Audit & Supervisory Board Members (Independent) to exchange opinions; and “Direct Meetings with the Accounting Auditor” where the Board of Directors and the Accounting Auditor have discussions directly.

The Corporate Governance Committee considered these initiatives to be effective opportunities for improving the Board’s effectiveness. Specifically, Interviews by the Chairman of the Board of Directors were commended, as they provided a place for executives to voice concerns that they may not be able to fully convey during Board of Directors meetings. In Outside Executives Discussions, younger management executives introduced new businesses, which allowed for a deeper understanding of each of the Company’s businesses as well as of the next-generation management personnel. The Committee deemed these discussions meaningful, as they also provided a chance to offer advice from a different perspective, from outside the Company. In a Direct Meeting with the Accounting Auditor, a discussion was conducted about the medium to long term based on the Accounting Auditor’s auditing knowledge. In this meeting, due to the different perspectives and stances of the Accounting Auditor and Directors and Audit & Supervisory Board Members, the subjects could not be sufficiently deliberated. The Committee requested that they should carefully determine the themes and consider how to proceed the discussion more smoothly from the next time onwards. Regarding on-site visits that could not be conducted due to the impact of COVID-19, since these visits are an important activity that allows Outside Executives to have a sense of the Company’s businesses, the Committee requested for their resumption depending on the situation of the pandemic.

3-2. Overview of Board of Directors’ operation

① Initiatives regarding focus themes

● Focus theme: Business operations with COVID-19 in mind

As COVID-19 has a material impact on business, the Board of Directors has set “Business operations with COVID-19 in mind” as one of its focus themes. Based on this theme, the President and CEO determined three pillars of business operations: 1) prioritizing the safety and health of employees; 2) fulfilling responsibility as a supplier in the supply chain; 3) secure revenue even in the emergency mode. The President and CEO reported at Board of Directors meetings about issues including the state of infections, countermeasures, production systems worldwide, the careful handling of fixed costs, and measures to improve the Company’s earnings ability. In response, the Board affirmed that the safety and health of employees should be the top priority, and discussed about the necessity of a stably supply by establishing a tri-polar framework among Japan, China and Southeast Asia, demand trends and procurement conditions for core components such as semiconductors, as well as the necessity of making growth investments when fixed costs have to be carefully handled. In particular, concerns over a further worsening of supply shortage of semiconductors were discussed and shared.

Through continuous monitoring by the Board of Directors, the Company fulfilled its social responsibility towards employees and the supply chain based on its corporate principles. Even amidst the COVID-19 crisis, the Company increased its profits through improving its gross profit margin and other means. The Corporate Governance Committee commends such achievement and deems that the Board of Directors has appropriately exercised its oversight functions.

● **Focus theme: Response to increasing geopolitical risks**

have a material impact on business and performance, the Board of Directors has set “Response to increasing geopolitical risks” as a focus theme. Based on this, the President and CEO regularly reported to the Board of Directors about changes in the business environment in each region and how performance is being impacted, in relation to topics about business performance. The President and CEO also reported on the optimal production, research and development, and the ideal management of intellectual property, as well as systems that can speedily detect and provide insight about changes in legal regulations that will affect each business. In response, the Board discussed the need to constantly bear in mind the fact that relationships between countries may evolve beyond the previous scope of expectations. In particular, due to rapid changes in geopolitical risks, the Board recognized that risk management based on an assessment of each country’s circumstances is a necessary task, and confirmed that the Board will continue this discussion.

The impact of geopolitical risks are reported at Board of Directors meetings, and appropriate responses are discussed. Responses against geopolitical risks are incorporated into the internal control system, and the Board of Directors sufficiently monitors such risks and recognizes the issues that must be tackled going forward. Therefore, the Corporate Governance Committee deems that the Board of Directors has appropriately exercised its oversight functions.

● **Focus theme: “Determination of the direction of next long-term vision with new values in mind”
“Creation of new businesses in the period of transformation and taking on the challenge of new business model development”**

Continuing from the previous fiscal year, the Board of Directors has set the “Determination of the direction of next long-term vision with new values in mind” as a focus theme relating to the next long-term vision, which is being formulated. In addition, the Board has set the “Creation of new businesses in the period of transformation and taking on the challenge of new business model development” as a focus theme. Based on this, at Board of Directors meetings, the President and CEO reflected the current state of the assumptions and targets set for the next long-term vision, raised at Board of Directors meetings in the previous fiscal year. Furthermore, the President and CEO reported to the Board about the next long-term vision based on the post-COVID worldview and changes in values, as well as the direction of new businesses that use existing businesses as their starting point. Regarding this, the Board discussed how one’s viewpoint can widen through exchanges with people from different industries, the employment of human resources with specialized expertise, and the utilization of talented personnel obtained through M&As, since the nurturing of next-generation leaders who can guide the Company towards the next long-term vision is an important issue that is necessary for further growth. At the same time, the Board recognized the importance of creating a corporate culture that encourages employees to take on challenges, and the necessity of building mechanisms that enable trial and error. Regarding the creation of new businesses, the Board recognized that the active utilization of corporate venture capitals will be important going forward. Furthermore, in order to realize its goals, the Board concluded that it is important to link the Company’s goals to the dreams and ambitions of employees.

The President and CEO also gave an interim report on the next long-term vision regarding the Industrial Automation Business and the Healthcare Business, which are mainstay businesses. In the interim report, the President and CEO reflected on each of the two above businesses over the past ten years, and reported on the social issues of each business domain in the next decade, the technologies and new business models required to resolve those issues, as well as on the status of reviews of M&As. With regard to this, the Board of Directors discussed the possibility of realizing the creation of new businesses and measures. In particular, based upon that discussion, the Board recognized that it is necessary to employ a more flexible human resources strategy throughout the Company. Regarding the next long-term vision, the Board displayed their awareness of issues based on changes in the external environment, including the COVID-19 crisis and geopolitical risks. The Committee commends the Board for making steady progress towards completion within fiscal 2021. Furthermore, since discussions are being made at Board of Directors meetings about issues and tasks necessary for further growth, the Corporate Governance Committee deems that it has appropriately exercised its oversight functions. The Committee has also verified that the Board will continue to fulfill its oversight functions in preparation for the start of the next long-term vision in fiscal 2022.

● **Focus theme: Building a new core information system**

As IT systems vary between business divisions and regions, recognizing the importance of having a unified system globally, the Board of Directors has set “Building a new core information system” as a focus theme, for the third year following fiscal 2018 and fiscal 2019. Based on this, the President and CEO reported to the Board of Directors that the planning phase is progressing according to schedule and the advanced introduction of a portion of the systems, including the purchase of indirect materials and reimbursements, is progressing smoothly, but that it is necessary to review the scope of implementation due to the issue of a lack of IT personnel. Regarding this, the Board discussed the importance of spreading awareness throughout the Company that they are building an operational process that must be compatible with system flows based on global standards, the importance of bridging the people in charge of bringing this large-scale decade-long project to its fruition, the people on site, and the human resources who are constructing the system, as well as the need to continue discussions on this theme, from the standpoint of scale and difficulty. In particular, the Committee recognized that the most important issue which should be the top priority is to secure and allocate talented personnel from each business division.

Based on the experience and insights of the Outside Executives, the Board discussed about the inculcation of the mindset that is key to bringing this large-scale project to realization and the types of human resources needed for the project. Since the direction of monitoring in the future has been clearly defined, the Corporate Governance Committee deems that the Board of Directors has appropriately exercised its oversight functions.

② Other deliberated or reported matters

The Board of Directors has deliberated on 29 proposals to be resolved and 30 reported cases, including quarterly business results as a legally required matter for deliberation, election proposals of executives, etc., and regularly reported proposals such as those relating to product quality risks and disciplinary cases.

The Corporate Governance Committee commends the Board of Directors for making explanations in election proposals of executives, a legally required matter for deliberation, based on the status of the promotion of diversity, as well as for making highly transparent explanation for each individual case for Outside Executives.

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 2020, 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. 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 among Outside Executives (continuously held since fiscal 2019)

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

4. Board of Directors operational policy for fiscal 2021 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 2021. Based on the results of this discussion, Board of Directors operational policy for fiscal 2021 and its focus themes were determined at Board of Directors meeting held on May 27.

<Board of Directors Operational Policy for Fiscal 2021>

To enable the OMRON Group to achieve a remarkable enhancement of its corporate value over the coming decade, the Board of Directors will exercise its oversight functions in a multifaceted manner from both the short-term and the medium- to long-term perspectives.

<Focus Themes>

- Finalization of the next long-term vision and decision of the medium-term management plan
 - <Issues subject to oversight>
 - Adapting to the New Normal after COVID-19
 - Initiatives aimed at addressing important sustainability issues
 - Transformation of business models and acceleration of innovation
 - Human resources management reforms
 - Enhancement of resilience
- Response to increasing geographical risks
- Confirmation of progress in the construction of the Corporate IT System