Internal Controls

Maintaining Internal Controls to Ensure Healthy and Effective Operations

Omron has established the Basic Policy on the Maintenance of Internal Controls to ensure the healthy and effective operation of its organization. This policy provides the basis for the maintenance and operation of internal controls throughout the Omron Group to ensure the controls are functioning effectively in each of the four objective areas of financial report accuracy, legal compliance, operating efficiency, and asset safeguarding.

Omron maintains a monitoring system undertaken by the Internal Audit Division after each division and subsidiary conducts its own review of the maintenance and operation of business processes in accordance with the Internal Control Reporting System (I-SOX) requirements of Japan’s Financial Instruments and Exchange Act, promulgated in June 2006. The reviews enable each division and subsidiary to deepen its own understanding of the internal controls associated with financial reporting and thereby serve as a system for promoting self-governing controls.

One is the Internal Control Audit to ensure whether the internal controls are functioning effectively in each of the four objective areas of financial report accuracy, legal compliance, operating efficiency, and asset safeguarding.

The other is the Management Audit, which examines compliance, operating efficiency, and asset safeguarding.

Omron conducts two types of internal audits to ensure the healthy and effective operation of its organization.

Two Types of Internal Audits to Ensure Healthy and Effective Organizational Operations

Omron conducts two types of internal audits to ensure the healthy and effective operation of its organization.

One is the Internal Control Audit to ensure whether the internal controls are functioning effectively in each of the four objective areas of financial report accuracy, legal compliance, operating efficiency, and asset safeguarding.

The other is the Management Audit, which examines the solutions and improvement measures implemented for specific management issues. In the event the results of these audits include items recommended for improvement, the Company supports measures to carry out the improvements.

In addition, Omron has established the Internal Divisions Audit and placed full-time auditors in each of its four regions of global business—Americas, Europe, Greater China *, and Asia Pacific—to implement internal audits at its business sites worldwide based on local practices and legal systems and in accordance with globally standardized audit policies.

* Greater China: China, Hong Kong, and Taiwan

Compliance and Risk Management

Strengthening Compliance and Risk Management on a Global Scale

The Omron Group faces various risks related to compliance, regulations, and other issues in its business operations. In order to address these risks, we employ an approach called Integrated Global Risk Management, which manages information and countermeasures in an integrated and global manner.

The basic provisions for Integrated Global Risk Management are defined in the Basic Policy on the Maintenance of Internal Controls by the Board of Directors. Further, the Basic Rules of Integrated Global Risk Management describe the framework for risk management initiatives, and this framework is applied to all Omron Group companies around the world.

To enhance these activities, the Corporate Ethics & Risk Management Committee has been established. Through the committee, various risk countermeasures are discussed and implemented by members from the corporate headquarters and business companies as well as from overseas regional head offices. In addition, we have appointed risk managers to take charge of compliance and risk management at all Omron Group companies around the world, and we are utilizing our global network to quickly share risk information and discuss countermeasures on a daily basis.

A specific initiative of Integrated Global Risk Management is the identification of Group Critical Risks. Every year, we identify and analyze the risks that the Omron Group faces from a global perspective. We assess these risks and categorize the most significant risks into S rank and those less significant risks into A rank. We then establish plans for risk countermeasures to be implemented throughout the entire Company via the Executive Council. After verification and correction, the results are reported to the Board of Directors and finally disclosed.

In other words, this process forms the risk management PDCA cycle. For fiscal 2014, S-ranked risks include business continuity risk and violation of laws, such as bribery. Aranked risks include internal fraud, CSR non-compliance (Electronic Industry Citizenship Coalition (EICC), conflict minerals, and occupational health and safety), and global IT governance risk.

In fiscal 2014, we will further strengthen the Integrated Global Risk Management PDCA cycle and more intensively integrate it into our business activities to enhance risk management initiatives. In particular, we will redouble our efforts overseas, using the central role of regional head offices to carry out risk management in accordance with regional conditions.

Cultivation of Responsiveness and Management — Execution Capabilities from a Global Perspective

Expectations of an Outside Director

I assumed the position of outside director of Omron in June 2013, and one year has since passed. Omron is a manufacturer, whereas I am from a general trading company. I believe that the Company’s expectation is for me to give suggestions and advice that will help cultivate the responsiveness and management-execution capabilities needed to advance steadily toward the achievement of Omron’s goals. And I am expected to do this while quickly and accurately ascertaining changes in the operating environment from a global standpoint.

I therefore hope to support Omron’s management in achieving the goals of the VG2020 long-term management strategy, and I will accomplish this by fulfilling my duties as an outside director.

Revision of Executive Compensation Systems

When I became an outside director, I also assumed the role of chairman of the Compensation Advisory Committee. In this capacity, I have advanced vigorous discussions aimed at better governing executive compensation at Omron.

Omron’s management strategies had defined medium-to-long term targets, but the Company lacked compensation systems for directors that were linked to the accomplishment of these targets. I therefore felt that Omron needed better governance for executive compensation if it was to pursue sustainable growth. For this reason, I initiated efforts aimed at a revision of compensation systems. As new systems, we introduced medium-term, performance-linked bonuses that will be adjusted based on progress toward achieving medium-term management targets. We also issued stock options with performance-linked exercise conditions to encourage directors to hold a stake in the Company and pursue medium-to-long term improvements in shareholder value. I feel that these systems have effectively reinforced the governance of director compensation.

The strengthening of governance must not remain confined to executive compensation and other internal systems. Governance systems must be made effective before they can contribute to improved corporate value, which is their ultimate goal. For this reason, I help to verify the effectiveness of the initiatives of the Board of Directors and the Company’s various advisory committees through active participation while simultaneously providing suggestions for further reinforcing corporate governance at Omron.

July 2014

Outside Director

Eizo Kobayashi
Chairman, ITOCHU Corporation