Corporate Governance

Basic Stance for Corporate Governance

At the OMRON Group, corporate governance is defined as the system of processes and practices based on the OMRON Principles and the OMRON Management Philosophy. The system is intended to ensure transparency and fairness in business and speed up management decisions and practices. This is done by connecting the entire process from oversight and supervision all the way to business execution in order to boost the OMRON Group’s competitive edge. OMRON's corporate governance also involves building such a system and maintaining its proper function. The ultimate objective is to achieve sustainable enhancement of corporate value by earning the support of all stakeholders.

Omron Corporate Governance Policies

OMRON Corporation established the OMRON Corporate Governance Policies*1 based on the Basic Stance for Corporate Governance. Since establishing the Management Personnel Advisory Committee in 1996, we have spent more than 20 years formalizing and strengthening our framework of corporate governance. We intend to continue our pursuit of ongoing corporate governance improvement as we develop our own unique vision of governance.

*1 Omron Corporate Governance Policies https://www.omron.com/about/corporate/governance/policy/

Corporate Governance Initiatives

<table>
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<tr>
<th>Year</th>
<th>President</th>
<th>Chair of the Board of Directors / CEO</th>
<th>Separation of management oversight and business execution</th>
<th>Advisory Board</th>
<th>Outside Directors</th>
<th>Audit &amp; Supervisory Board Members (Independent)</th>
<th>Advisory and Other Committees</th>
<th>Corporate Philosophy</th>
<th>OMRON Corporate Governance Policies</th>
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Corporate Governance Framework

OMRON has elected to be a company with an Audit & Supervisory Board. The OMRON Board of Directors is made up of eight members to ensure substantive discussion and deliberations. OMRON has separated the management oversight and business execution functions within the company, creating a system whereby the majority of Board Directors are not engaged directly in business operations. We have also adopted a policy setting the ratio of outside directors to at least one-third of the total number of directors on the board.

To increase objectivity on behalf of the Board of Directors, the titles and roles of chairman of the Board and President (CEO) have been separated. The Chairman serves as chair of the Board of Directors with no direct corporate representational authority.

OMRON has established several advisory committees to enhance the oversight functions of the Board of Directors. These committees include the Personnel Advisory Committee, the CEO Selection Advisory Committee, the Compensation Advisory Committee, and the Corporate Governance Committee. The Personnel Advisory Committee, the CEO Selection Advisory Committee, and the Compensation Advisory Committee are all chaired by outside directors with at least half of the committee members being outside directors. The CEO is not a member of any of these committees. The chair and members of the Corporate Governance Committee are outside directors and outside members of the Audit & Supervisory Board. This structure offers another layer of transparency and objectivity to the decision-making process.

In these policies, OMRON has created a hybrid governance framework that combining the best features of a company with an Audit & Supervisory Board and a company with a Nomination Committee.

Outside directors and outside members of the Audit & Supervisory Board attended the 13 meetings of the Board of Directors held during fiscal 2018 at a rate of 100%. Outside members had an attendance rate of 96.2% at the 13 meetings of the Audit & Supervisory Board.

Fiscal 2019 Corporate Governance Framework

Board of Directors
Selects board directors, auditors, and executive officers, determines compensation for directors and executive officers, makes decisions on important business issues, and performs other supervisory functions.

Compensation Advisory Committee
Sets policies for director and executive officer compensation; deliberates compensation levels and specific compensation packages.

Corporate Governance Committee
Oversees ongoing corporate governance improvement; deliberates policies to advance management transparency and fairness.

Audit & Supervisory Board
Oversees corporate governance framework and execution business operations; conducts audits of day-to-day business activities, including those performed by directors.

Personnel Advisory Committee
Sets standards and policies related to selecting and hiring directors, Audit & Supervisory Board members, and executive officers; deliberates on proposed candidates.

CEO Selection Advisory Committee
Deliberates candidates for selection as new CEO; deliberates succession plans and candidates in the event of an emergency.

Executive Council
Deliberates and discusses important operational matters within the scope of the authority of the president and CEO; determines future direction.

Sustainability Committee*
Identifies important issues relating to sustainability in the focus domains, the head office divisions, and various committees (the Corporate Ethics & Risk Management Committee, the Information Disclosure Executive Committee, and the Group Environment Activity Committee) and oversees them on a Group-wide basis.

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OMRON has set up the Compensation Advisory Committee for the purpose of bolstering the management oversight function of the Board of Directors by enhancing transparency and objectivity in determining compensation amounts for each director and executive officer. In response to a consultation request from the chairperson of the Board of Directors, the Compensation Advisory Committee deliberates on and makes recommendations regarding the Compensation Policy for Directors. The Compensation Advisory Committee also deliberates on and determines the Compensation Policy for Executive Officers in response to a consultation request from the CEO. Reflecting the committee’s recommendations, the Board of Directors determines the Compensation Policy for Directors.

Based on the above-mentioned respective Compensation Policy, the Compensation Advisory Committee deliberates on compensation of Directors and Executive Officers. Director compensation is based on input from the Compensation Advisory Committee. The board of directors considers this input to determine director compensation within the scope approved by a resolution at the general meeting of shareholders. The amount of executive officer compensation is determined in accord with deliberations and reports from the Compensation Advisory Committee.

These amounts shall be within the maximum limit of the sum of compensation amounts for all directors, as set by a resolution of the General Meeting of Shareholders. The amounts of compensation for individual executive officers shall be determined according to the recommendations of the Compensation Advisory Committee.

*See our website for more about Audit & Supervisory Board member compensation policies.
https://www.omron.com/about/corporate/governance/compensation/
(1) Compensation Composition Ratio

Compensation consists of a “base salary” (fixed compensation) and compensation according to Company performance, namely “short-term performance-linked compensation (bonuses)” and “medium-to-long-term, performance-linked compensation (Performance-linked and Share-based Incentive Plan).” The ratio of compensation consisting of performance-linked compensation compared to base salary has been determined for each role:

<table>
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<tr>
<th>Base salary</th>
<th>Short-term performance-linked compensation (bonuses)</th>
<th>Medium-to-long-term, performance-linked compensation (Performance-linked and Share-based Incentive Plan)</th>
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<td>= 1:1:1.5*</td>
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*Referring to Representative Director, President and CEO
*The ratio is based on the assumption that the performance targets are set as 100% for each performance-linked compensation

(2) Base Salary

A base salary is paid to Directors 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 (Bonuses)

Bonuses are paid to Directors excluding Directors (Independent) as short-term performance-linked compensation, which is linked to yearly performance indicators and the degree of achievement of performance targets. Director bonuses vary between 0% and 200% according to the achievement of operating income, net income, and ROIC targets defined in the annual operating plan.

(4) Medium-to-long-term, Performance-linked Compensation (Performance-linked and Share-based Incentive Plan)

Stock compensation is paid as medium-to-long-term, performance-linked compensation to Directors excluding Directors (Independent). Stock compensation comprises the performance-linked component (60%), which is linked to the degree of achievement of the medium-term management plan, and the nonperformance-linked component (40%), which aims for retention and motivation to improve share prices over the medium-to-long-term, and is paid under the condition of a certain term of service.

Stock compensation for performance-linked component varies between 0% and 200%, according to achievement of net sales, EPS, and ROE targets based on the medium-term management plan, as well as sustainability evaluation* based on a third-party organization.

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 Director 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 discussion and recommendation, the Board of Directors 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.