

Initiatives to Increase Visibility of Non-financial Information and Monetize Impacts

In our Integrated Report 2023, OMRON conducted correlation analysis to verify how the utilization of human capital impacts financial indicators and contributes to corporate value, focusing on the material relevance and connection to financial indicators of diversity and inclusion (D&I) promotion strategies proposed under SF 1st Stage. The Down-Top ROIC Tree included in The Council of New Form of Capitalism Realization (Cabinet Office, Government of Japan)'s "Guidelines on Visualization of Human Capital" (August 2022) was taken into consideration as part of these verification analysis. [Guidelines on Visualization of Human Capital](#)

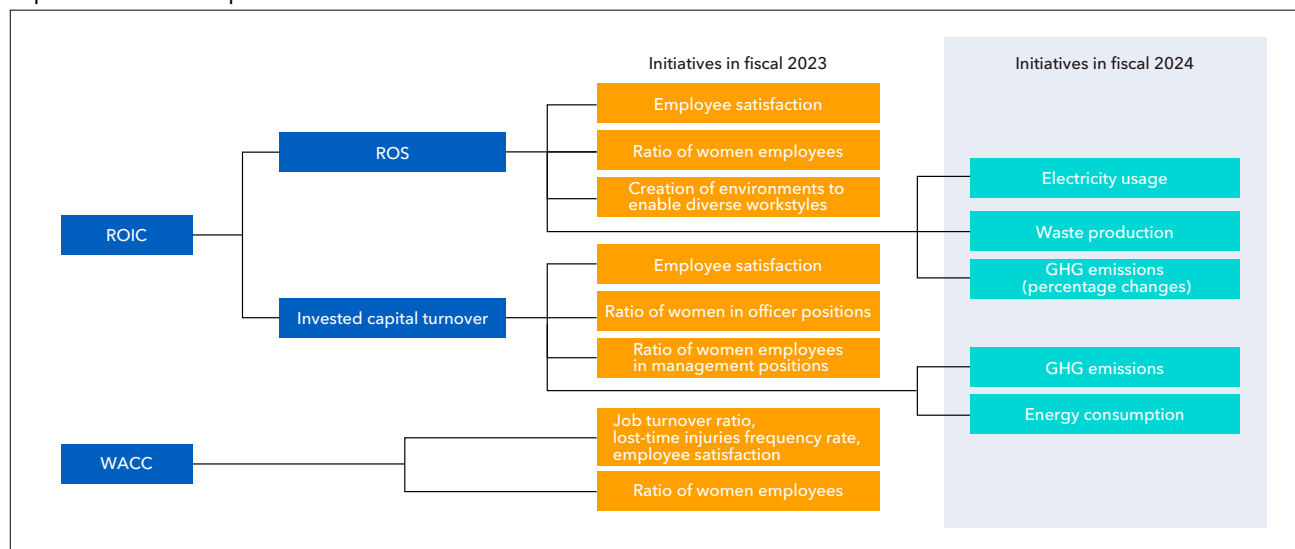
Specifically, we attempted to establish a human capital index correlating to ROS (Return on Sales) and invested capital turnover, which are elements that make up ROIC, and WACC. The reason for attempting to tie human capital not only to ROIC, as illustrated in the Guidelines, but also to explore a correlation to WACC, was to verify the relationship between utilization of human capital and equity stories. This year, we have expanded the scope of this verification to include "E (Environment)."

We also aimed to monetize the impacts that OMRON's initiatives in the areas of "Environment," "Products," and "Employment" have on society. We will leverage the insights gained from these analyses on the visualization of non-financial information and the monetization of our impacts to better identify materiality and set more informed goals for the next medium-term management plan.

As with the previous project, we received extensive support from Sustainable Lab Inc. in carrying out these analyses. OMRON will continue to capitalize on the knowledge and scientific approach of outside partners to further visualize non-financial information.

Analysis method	(1) Built machine learning models based on financial and non-financial indicators from 136 companies in the electronic equipment and components industry, including OMRON. Quantified the importance and weight of environment-related data to financial indicators (2) Similarly quantified non-disclosure data related to SF2030 environmental performance indicators (3) Visualized the various positive and negative correlations between individual financial and non-financial indicators. Results were interpreted by ESG consultants.
Target data	For analysis: 136 GICS Technology, Hardware and & companies, including OMRON Variables: - Financial: ROS (Return on Sales) and invested capital turnover - Non-financial: Indicators related to the environment from among ESG indicators Time series: 2016-2023
Result highlights	<ul style="list-style-type: none"> ● Within the sector, direct cost reduction through efforts to reduce electricity usage and waste production and indirect contributions to net sales by enhancing market competitiveness through continuous efforts to reduce GHG emissions are tied to increased profitability and, by extension, ROIC. ● For invested capital turnover, results suggested that reducing GHG emissions and energy consumption may contribute to the effective utilization of capital.

Expansion of Down-Top ROIC and ESG Trees



Initiatives to Increase Visibility of Non-financial Information

For environment-related indicators, we used a similar approach to what we used in fiscal 2023 to establish an index correlating to ROS and invested capital turnover, components of ROIC. This approach ensured that the impacts of consistent environmental initiatives by companies could be reflected through data analysis by considering both percentage changes and single-year emissions. The analysis findings suggest that environmental initiatives have a material impact on ROIC in our industrial sector, leading us to believe that our measures to “Achieve Decarbonization and Lower Environmental Impact,” as outlined in SF2030, have been validated to some degree.

Initiatives to Monetize Impacts

OMRON aims to maximize its corporate value by interpreting our initiatives to create social value into economic value. To present the social value we create in a more comprehensible way, we have enhanced the disclosure of non-financial data. In our latest initiative to quantify the value we create, we have begun monetizing the impact of our efforts on OMRON’s material sustainability

issues in relation to both business outcomes (business impact) and the effects of our business on society (social impact).

To monetize the impacts, in light of the trend in impact-weighted accounts by the Harvard Business School (HBS) (Impact-weighted Accounts Initiative <IWAII>) and the International Foundation for Valuing Impacts (IFVI), among others, we are attempting to visualize the impacts in the three areas of the environment, employment, and products, based on the outcomes (social value) of the material sustainability issues set forth in SF2030. In this issue, we report the results in the area of the environment as calculated thus far and provide an overview of the progress in the areas of employment and products. Going forward, we will utilize the outcomes of our initiatives to monetize impacts, together with our initiatives for internal control, such as setting KPIs, for presentations to our external stakeholders.

Environmental Impact

For environmental impact, we see the reduction of GHG emissions as a key environmental benefit. We calculated this by determining the difference in Scope 1 and 2 GHG emissions between this fiscal year and the last. This difference was then multiplied by the appropriate carbon

prices.

In alignment with the OMRON Principles of “contributing to a better society,” we established the OMRON Carbon Zero target in July 2018, aiming for zero Scope 1 and 2 GHG emissions by 2050.

As such, beginning in fiscal 2019, we decided to monitor cumulative benefits to calculate the impact of GHG emissions reduction. In monetary value, the impact of the GHG emissions reduction effect between fiscal 2019 and fiscal 2023 totaled approximately 1.5 billion yen*. While the monetary valuation of this impact has provided clearer insight into the benefits of GHG emissions reduction, we have recognized a concern that the effect may be underestimated in emerging countries with lower carbon prices. One takeaway from this calculation process is the importance of monitoring both GHG emissions reductions and their monetary impact, regardless of carbon price, to ensure further emissions reductions across the entire Group.

* Calculated by multiplying by-country emissions by carbon prices for each developed country (those that have pledged net-zero targets) according to a scenario up to 2030 from the IEA World Energy Outlook 2023 (1USD = 157.83JPY, as of July 12, 2024). The calculating formula was prepared in consultation with data from IWAII and IFVI.

Employment Impact

For impact on employment, we deliberately chose D&I from among the indicators for material sustainability issues to visualize its impact on business, and examined possible evaluation items and necessary procedures. After a thorough analysis of OMRON’s data and prior studies, two key issues emerged: “narrowing down impacts to be emphasized” and “gathering the data needed to do so.” In other words, we realized that we need to monitor data for each specific project and team and feed the data back into the process. By moving on with this calculation process and accumulating knowledge, we aim to visualize the monetary value OMRON creates in the area of employment.

Impact	Corresponding material sustainability issues	Target for visualization
Environment	Achieving decarbonization and lower environmental impact	Social impact of reduction in GHG emissions
Employment	Generating diverse talent taking on the challenge of value creation	Business impact of D&I
Products	Resolving social issues through our Business	Social impact of products/services of the Healthcare Business, Social Systems, Solutions and Service Business, and Device & Module Solutions Business

Product Impact

For the impact that our products have, we are attempting to visualize the monetary value of the impact that our products and services in the Healthcare Business, Social Systems, Solutions and Service Business, and Device & Module Solutions Business have on society.

For example, in the Healthcare Business, we are currently assessing the social impact of the introduction of home blood pressure monitors on hypertension treatment in Japan and North America.

OMRON not only promotes the use of home blood pressure monitors but also raises awareness of the importance of monitoring blood pressure at home. Furthermore, we are committed to preventing cerebrovascular and cardiovascular events that occur as a result of worsening hypertension, spanning a broad range of environments from home to medical settings. To this end, we are working to realize the proper blood pressure control through telemedicine services and supporting medical practices. By streamlining these processes through which these initiatives facilitate early detection and treatment of hypertension, prevent severe hypertension, reduce treatment costs, and lighten the workload of healthcare professionals, we are working to calculate the exact scale of their impact. Once these calculations are completed, we will consider disclosing information on our efforts to visualize the impact that our products and services from each business have on society (monetary value, etc.).

Comment from Experts in Impact Accounting

OMRON's efforts in impact accounting embody its fundamental purpose of "creating social value through businesses and continuing to contribute to the development of society." Their outstanding approach has set a model for other companies, identifying impacts in the three areas of environment, employment, and products based on material sustainability issues set forth in its long-term vision, SF2030. This initiative is highly significant as it not only details monetization of impacts but also shares the underlying ideas, takeaways, and measures for future improvement.

Impact accounting is a crucial tool for making better decisions for humanity and the earth. For business managers, it enhances the quality of decision-making and maximizes corporate value, including social value. For employees, it ensures a fair and equal workplace environment, boosts engagement and job satisfaction, and facilitates contributions to local communities. For stakeholders, it clarifies the impact businesses have on society and the environment, thus deepening trust and empathy. I expect OMRON to further advance its initiatives for impact accounting, true to its principle of "taking the initiative as pioneer."

Takeshi Igarashi, CPA

Comment from Our Partner, Sustainable Lab Inc.

We believe that these analyses successfully visualized the financial and societal impacts of OMRON's environmental initiatives and demonstrated how OMRON's sustainability contributes to value creation. In the future, we expect OMRON to deepen the visualization of non-financial information, expedite its attempt to monetize impacts, and further strengthen disclosure.

Daichi Maeda, ESG Consultant
Shohei Ikegami, Data Scientist
Satoko Maruyama, ESG Consultant

<About Sustainable Lab Inc.>

Established in 2019, Sustainable Lab Inc. is a startup company that uses AI and big data to collect and analyze non-financial data from companies. For these analyses, we used the dataset from TERRAST, a SaaS databank provided by Sustainable Lab.



Sustainable Lab