Risk Management

December 27, 2017

Executive Officer, Senior General Manager,
Shuji Tamaki
Global Risk Management and Legal HQ
Today’s Takeaways

- Current risk management activities started in conjunction with the rollout of Long-term Vision VG2020*, on the back of global expansion
- Aim to develop a globally integrated framework for fulfilling our social responsibility while working with senior management to create a risk management framework that embodies OMRON’s philosophy and values
- Annual cycle of PDCA activities in place, centered around the Board of Directors and Committee. Undertake risk analysis, develop responses to material risks and crises
- Specifically address the Group’s material risks by handling disaster response, enhancing corporate ethics understanding, and establishing the OMRON Global Rules system
- Aim to continue to act as the link between management and working level, in order to, alongside management, address issues that cannot be resolved at the working level

*VG2020: Long-term Vision started in FY2011
## Sustainability Targets for Risk Management

### Key Initiatives

<table>
<thead>
<tr>
<th>Social Issues</th>
<th>FY2020 Targets &amp; KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Act with Integrity</td>
<td>• Dramatic evolution of global governance</td>
</tr>
<tr>
<td>and Fairness</td>
<td>• Global penetration of OMRON Group Rules</td>
</tr>
<tr>
<td></td>
<td>• Global training implemented for Ethical Conduct Rules</td>
</tr>
<tr>
<td>IT Security,</td>
<td>• Dramatic evolution of global governance</td>
</tr>
<tr>
<td>Personal Information</td>
<td>• Global penetration of OMRON Group Rules</td>
</tr>
<tr>
<td>Protection</td>
<td>• Build new framework for IT security</td>
</tr>
</tbody>
</table>
Today’s Topics

1. Business Activities Expanding Globally
2. Businesses and Risk
3. Starting Up In Conjunction with VG2020
4. Integrated Global Risk Management
5. Initiatives to Date
6. Current Activities
7. Annual Activity Cycle
8. Examples of Activities (Disaster Response, Global Corporate Ethics Month, OMRON Group Rules)
9. Risk Manager Network
10. Future Challenges
Globalization accelerated under VG2020*. Exposed to a wider array of risks in engaging in business activities.

Sales  ¥617.8 billion  (Operating Income  ¥48 billion)
Sales  ¥794.2 billion  (Operating Income  ¥67.6 billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2010</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.E. Asia, Other</td>
<td>8.5%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Greater China</td>
<td>16.0%</td>
<td>18.7%</td>
</tr>
<tr>
<td>Europe</td>
<td>14.6%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Americas</td>
<td>12.3%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>48.6%</td>
<td>41.6%</td>
</tr>
</tbody>
</table>

*VG2020: Long-term Vision started in FY2011
Operating businesses globally makes it necessary to respond to a wide array of risks.

**External environment risk**
- Macro: Economic downturn
- Macro: Economic fluctuations
- Finance: Market volatility
- Quality: Environmental rule change
- R&D: Change in specifications
- Procurement: Raw material price change

**Management, business strategy, financial risk**
- Macro: Market trends
- Finance: Yen interest rates up
- Macro: FX rate movements
- Human capital: Wages up
- Human capital: No management candidates
- Regulatory: Labor Code
- Human capital: Industrial accident

**Human risk**
- Legal: Anti-bribery
- Legal: Anti-trust
- Quality: Defect, recall
- R&D: Patent dispute
- R&D: Brand infringement
- Legal: Environmental law infringement
- Legal: Personal information protection
- Legal: Security trade control
- Quality: Initial response failure
- Procurement: Supplier CSR issues

**Resource, infrastructure risk**
- IT security: Data breach
- IT security: Major data collapse
- IT security: System outage
- Procurement: Component shortages
- Production: Shipments halted
- Production: Production halted

**Natural disaster risk**
- Natural disaster
- Contagious disease

**Natural disaster**
- IT security: Data breach
- IT security: Major data collapse
- IT security: System outage
3. Starting Up in Conjunction with VG2020

Initiate discussions of risk management with the Board of Directors in 2011, the first year of VG2020

Top Management View

- ‘Given the faster pace of change in the operating environment and rising levels of uncertainty, there is a need to prepare and respond rapidly to risks. In order to do so, we must be more attuned to risk, identifying and addressing risks at an early stage.’

- ‘There is an increasing need to accelerate the pace of our businesses. Ignoring risk management is like being told to drive full speed ahead while blindfolded.’

- Becoming a strong company requires not only the ability to grow and generate profits but the ability to respond appropriately to change.
4. Integrated Global Risk Management

Integrated approach to managing risk on a global basis. ‘Integrated Global Risk Management’
Focus on developing risk management framework fitting for OMRON

Objectives

- Ensure the continued existence of the company
- Achieve targets
- Fulfil corporate social responsibilities

4 Elements of Integration

- Clearly integrate risk management into the Group management process
- Integrate group risk management activities under a common framework
- Integrate information on the Group’s global risks
- Integrate (embed) risk management into day-to-day business activity

Our aim: In response to changes in the operating environment on issues that the businesses find challenging to resolve independently, we aim to bring together the efforts of the business units and management to find resolution.

* Integrated Global Risk Management Policy
https://www.omron.co.jp/sustainability/governance/risk_management/
5. Initiatives to Date

Start building a global framework in 2011. Leverage framework to improve global penetration

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>VG2020 Globe Stage</td>
<td>VG2020 Earth-1 Stage</td>
<td>VG 2.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Basic Policy**
- **Promotion Structure**
- **Risk Information Mgmt.**
- **Analysis and response to material risks**
- **Crisis Mgmt.**
- **Whistle-blower System**
- **Management Review**

**Overview of Initiatives**

- **2011**: Start building a global framework
- **2012**: Leverage framework to improve global penetration
- **2013 - 2017**: Ongoing initiatives to enhance risk management and global rollout of local BCP.
6. Current Activities

Annual activities to promote Risk Management

- **Basic Policy**
    (as set out in the Basic Policy on Maintenance of Internal Control System)
  - Corporate Ethics and Risk Management Committee (includes overseas HQ)
  - Appoint risk managers (HQ, business units, Regional HQ, subsidiaries)

- **Promotion Structure**
  - Establish external risk information collection structure: distribute risk information
  - Internal risk reporting system: Share risk information

- **Risk Information Mgmt.**
  - Global risk analysis (autumn): Designate material risks (Executive Council, Jan.)

- **Analysis and response to material risks**
  - Crisis response in the event of a significant event to be undertaken by Emergency Response HQ
  - BCP plans being developed for domestic/overseas locations & group companies, to be followed by training.

- **Crisis Mgmt.**
  - Japan, Americas, Europe, Asia, Greater China, Korea
    - Number of reports: Domestic 36; Overseas 28 (FY2016)

- **Whistle-blower System**
  - Executive Council (January)

- **Management Review**
  - Board of Directors (March)
7. Annual Activity Cycle

Annual activity cycle established around Board of Directors, Executive Council and Corporate Ethics & Risk Management Committee

- **Plan**
  - Corporate Ethics & Risk Management Committee: Determine risk response plan for the upcoming year, Determine budgets for the upcoming year
  - Board of Directors: Annual activity review
  - Executive Council: Report the progress of activities for the current year, Report results of global risk analysis, Determine important Group risks for the upcoming year

- **Do**
  - Execute Plan: Share/report information related to important risks, Conduct activities based on the plan, Corporate ethics month

- **Act**
  - Analyze Global Risk: Headquarters, regional headquarters, divisions
  - Corporate Ethics & Risk Management Committee: Annual activity review, Share analysis of risks, Select important Group risks (draft)

- **Check**

---

Publish Results of Activities
(Business report, securities report, integrated report, website)
8. Examples of Activities

Examples of Omron Group responses to material risks

1. Disaster response
2. Global Ethics Month
3. Omron Group Rules

**OMRON Group Material Risks**

S Risks: **Business continuity, violation of global laws** (bribery, etc.)
Global information/IT security risks, etc.

A Risks: Employee safety, **Internal fraud**, occupational health & CSR compliance, Group management weakness, etc.
Examples of Activities

December 27, 2017

General Manager,
Yoshichika Tanabe
Risk Management Department,
Global Risk Management and Legal HQ
8.1. Disaster Response

Given earthquakes and other natural disasters carry significant risk for employees, regional communities and business continuity, this is our top priority.

■ Natural disasters impacting our business
  2011 Great East Japan Earthquake (factories, offices); Thai floods (factories)
  2016 Kumamoto Earthquakes (factories); Central Tottori Earthquake (factories)
  2017 Mexico Earthquake (office)

■ Earthquake response
  • Confirm safety of employees
  • Decide whether physical structures can be used safely
  • Confirm status for restoration of electric power, gas, water and other utilities, secure utilities
  • Confirm status of component and materials suppliers
  • Provide support to employees to restore normal living conditions in order to return to work, provide support to local communities
  • Prepare to restart production/operations
  • Restart production
  • Disclose information to external stakeholders

■ Even when OMRON facilities are not directly impacted, confirm that there will be no impact to supply chain
8.2. Global Corporate Ethics Month

Every October and November designated Global Corporate Ethics Months to raise awareness and understanding of corporate ethics. Each region allowed to tailor activities to enhance penetration.

Common Global Activities

- Streaming of President’s message (25 languages)
- Promotion of Omron Group Rules for Ethical Conduct (25 languages)

Japan China Asia

- e-learning (96% participation rate* rollout ongoing in some geographies)

Americas

- Ethics Month Meetings (Training for presidents and management of subsidiaries)

Europe

- Animated character features in Compliance video explaining the importance of corporate ethics to employees

OMRON Group CSR Practice Policies / OMRON Group Rules for Ethical Conduct
https://www.omron.co.jp/assets/img/sustainability/pdf_inquiry/omron_csr_guideline_w.pdf
8.3. OMRON Group Rules

As a part of initiatives to rebuild the governance framework, developed OMRON Group Rules (OGR) to bring together risk management, compliance practices. Focused on raising awareness and penetration on a global basis.

OMRON Group Rules (OGR)

- Consists of 24 Global Rules (Ethical conduct, risk management, unauthorized control, information security, security trade management, approval authority, management of group companies, IT controls, accounting and funding, occupational health, environmental management, procurement, brand management)

- Enhance Group company governance
- Execution of rules = Implementation of sustainability practices

Corporate Principles
Our unchanging beliefs that are the cornerstone of our decisions and actions. They are what binds us together and are the driving force behind OMRON’s growth.

Management Stance
Management’s commitment to executing on the corporate principles through our businesses.

LT Vision VG2020
Long-term vision expressing OMRON’s strong commitment to building a better society, over a 10-year span.

Omron Group Management Policies
Policies allowing our employees to come together globally while respecting diverse value systems, but also granting them the ability to express their individual talents.
9. Risk Manager Network

Risks Managers tasked with raising penetration on a global basis (Global HQ, business companies, regional HQs, group companies)

We will continue to reinforce the network, based on a relationship of trust

- Senior Risk Manager: 10
- HQ Division Risk Managers: 7
- Business Company Risk Managers: 5
- Regional HQ Risk Managers: 174
- Group company Risk Managers: 174
10. Future Challenges

Enhancing group governance, including risk management, will allow us to deliver more value, at a faster pace, to our customers.
In Closing

Given the faster pace of change in the operating environment and rising levels of uncertainty, there is a need to prepare and respond rapidly to risks. In order to do so, we must be more attuned to risk, identifying and addressing risks at an early stage.

To do so,
Risk management team will act as a link between management and the businesses. In particular, in response to changes in the operating environment on issues that the businesses find challenging to resolve independently, we aim to bring together the efforts of the business units and management to find resolution.

Thank you