

Business and Other Risks

Regarding a number of items described in the Status of Business and the Status of Accounting of this report, some items may pose risks and influence the Omron Group's management results and financial condition (including share price), and Omron believes that these items may substantially affect investor decisions. Note that items referring to the future reflect the Omron Group's forecasts and assumptions as of June 24, 2009 (date of submission of the Securities Report).

(1) Economic Conditions

The primary business of the Omron Group is consumer and commercial electronic components used in the manufacture of electrical and electronic equipment, as well as control system equipment used by manufacturing sectors and in capital investment-related areas. Accordingly, demand for Omron Group products is affected by economic conditions in these markets.

Both in Japan and overseas, therefore, market forces affecting suppliers to, and purchasers from, the Omron Group can result in the contraction of demand for our products, thereby possibly having a negative impact on the Group's operating results and financial condition.

(2) Risks Accompanying Overseas Business Activities

The Omron Group actively conducts business activities such as production and sales in overseas markets. The Group may be subject to operating difficulties in countries outside Japan related to possible social unrest due to factors including differences in culture or religion, political turmoil and uncertainty in economic trends, differences in business customs in areas such as the structure of relationships with local businesses and collection of receivables, specific legal systems and investment regulations, changes in tax systems, labor shortages and problems in the labor-management relationship, terrorism, wars, and other political circumstances.

These risks associated with overseas operations may have a negative impact on the Omron Group's operating results and financial condition.

(3) Exchange Rate Fluctuation

The Omron Group has 120 overseas affiliated companies and continues to reinforce its business operations in overseas markets, such as China, for which major market growth is anticipated in the future. The percentage of consolidated net sales accounted for by overseas sales during fiscal 2008 was 49.7%, and Omron expects further increases in the overseas operations ratio due to factors such as production shifts. The Omron Group seeks to hedge against exchange rate risk, for example by balancing imports and

exports denominated in foreign currencies. Exchange rate fluctuations, however, could have a negative impact on the Omron Group's operating results and financial condition.

(4) Product Defects

Based on its core corporate value of "Working for the benefit of society," the Omron Group has declared maximum customer satisfaction to be one of its management philosophies and implements it by providing the best quality products and services based on the Group's motto of "Quality first." In particular, the Group has established strict quality control standards and built a quality control system, and develops and manufactures its products accordingly. A Group-wide quality check system is in place for the ongoing improvement of the quality of the Group's entire line of products and services.

Nevertheless, taking into consideration of any changes arising in the clients' environment, there is no assurance that all of the Group's products are without defects, and that recalls will not occur in the future. Large-scale recalls and/or product defects resulting in liability-related damages could impose huge costs, severely influence evaluations of the Omron Group, and result in reduced sales. Such events could exert a negative impact on the Group's operating results and financial condition.

In addition, to respond to an EU directive banning the use of lead, cadmium, and certain other chemical substances in electric and electronic products in the European Union from July 2006, the Omron Group, in cooperation with its suppliers, is in the process of investigating the status of regulated chemical substances in all of the components and materials the Group uses, and is accelerating efforts to switch to substitute components and materials that do not contain regulated chemical substances with a view to completely eliminating regulated substances from all the Group's products throughout the world in order to make them more environmentally friendly. However, delays in the switchover beyond customer deadlines due to a late response by suppliers in providing substitute components and other factors could result in liability-related damages or a violation of the EU directive, which could have a negative impact on the Omron Group's operating results and financial condition.

(5) Research and Development Activities

Based on a policy of securing a balance between growth and income, the Omron Group invests aggressively in R&D as part of its technology-centered business operations for the realization of sustainable growth. As a result, the R&D expenses ratio remains at approximately 8%.

The Omron Group strives to increase the new product

contribution ratio by reflecting such considerations as market needs in its R&D projects and goals. However, factors such as delays in R&D or insufficient technological capabilities that result in a decrease in the R&D new product contribution ratio could have a negative impact on the Omron Group's operating results and financial condition.

(6) Information Leakage

The Omron Group acquires personal information and classified customer information through its business processes and acquires important information in the course of business. The Omron Group is taking steps to reinforce control over the information the Group handles and to further improve employees' information literacy, with the goal of preventing external entry into its internal information systems and misappropriation by third parties resulting from theft or loss of that information.

Unanticipated leakage of internal information, however, due for example to invasion of internal information systems using technology exceeding implemented security levels, could exert a negative impact on the Omron Group's operating results and financial condition.

(7) Risks Associated with Patent Rights and Other Intellectual Property Rights

The Omron Group conducts research on technology developed by other companies and in the public domain in the course of its R&D and design activities. A very large number of intellectual property rights exist within the Group's range of business and products, and new intellectual property rights are declared on a daily basis. The potential therefore exists that a third party could present a claim regarding one of the Group's specific products or components, which could have a negative impact on the Group's performance or financial condition.

When exercising our intellectual property rights during efforts to resolve issues related to the intellectual property rights of the Group, disputes with third parties could arise, such as oppositional tactics from the third party subject to the exercise of rights. The Omron Group takes appropriate measures to recognize and compensate employees for inventions, such as through the Employee Invention Compensation Program and the Invention Commendation Program. Disputes regarding the value of an invention can arise with inventors, including inventors who have retired from the Group.

The Omron Group has accumulated technology and expertise allowing it to differentiate its products from those of its competitors. However, the ever-increasing sophistication of counterfeit product manufacturing and sales methods and other factors make it virtually impossible to

completely protect all of the Group's proprietary technology and expertise in certain regions, including China. The Group implements strategic measures to protect its intellectual property rights, but the circulation of low-quality counterfeit items fraudulently bearing the Omron brand has the potential to damage the trust in the Group's products and the Group's brand image and could have a negative impact on the Group's operating activities.

Omron has focused on brand management since its inception and in recent years has initiated prompt and appropriate countermeasures to the use of domain names similar to "Omron" that have appeared overseas. Identifying and taking action against all such fraudulent domain names that have been registered is virtually impossible. The danger exists that the same or a similar name to "Omron" could be used in a fraudulent business transaction that could damage the trust in the Group.

(8) Natural Disasters

A natural disaster, fire, or other calamity, including a large-scale earthquake in Japan's Tokai, Tonankai, or Tokyo metropolitan areas, could lead to reduced production capability or temporary disruption of distribution and sales routes. The Omron Group has implemented the necessary safety measures and taken steps to facilitate the continuity and early restoration of business operations in the case of such an event. The Group maintains operating bases in Japan and around the world, making it virtually impossible to completely avoid the risks that would arise from an unforeseen natural disaster or other calamity.

The Omron Group is also formulating action plans, including establishing policies and business continuity plans, for the entire Group as preventive measures for a worldwide flu epidemic. A rapidly spreading influenza virus that develops into a worldwide pandemic within a short period could lead to temporary closures of operating facilities and reductions in operations considered unnecessary and nonessential that could impact the Group's business activities.

Events such as the above could have a negative impact on the Group's performance or financial condition.