Message from the CFO

Portfolio Management: Evolution and Execution

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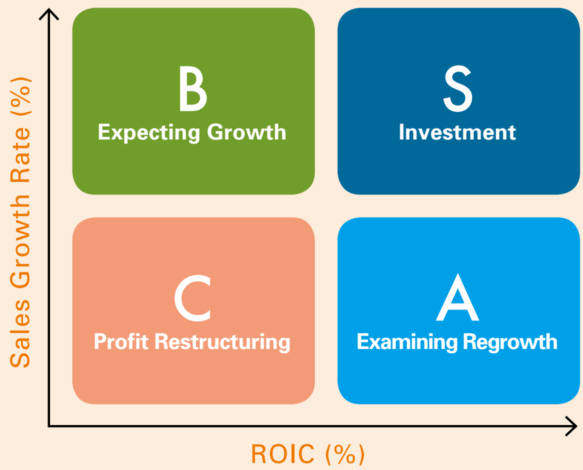
1. Advancing Portfolio Management

1.1. Evolution

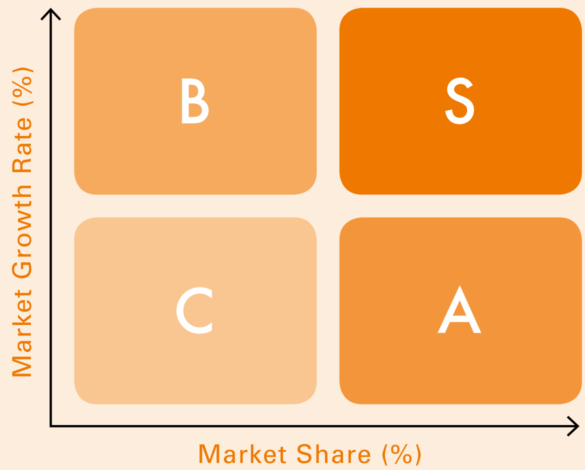
Omron has divided its organization into approximately 90 business units, each subject to a portfolio management system that assesses the economic value of the unit according to (1) ROIC and (2) sales growth rate. In this way, Omron management can make proper and timely decisions related to new business entry, growth acceleration, restructuring, or divestiture to drive improvements in Omron Group value.

We recognize that both economic value and market value of a business must be considered if we are to allocate limited resources in an optimal manner. As such, we incorporate a market value assessment according to our strength as a company (market share) and market attractiveness (market growth rate) as supplementary considerations in portfolio management. This assessment system allows us to identify the growth potential of each business unit, making an optimal allocation of our resources and generating greater business growth.

Assessing Economic Value



Assessing Market Value



Portfolio Management Flow

1.2. Accelerating Business Growth

Our mid-term plan"EARTH-1 STAGE" calls for priority allocation of resources to accelerate growth in our Industrial Automation and Healthcare businesses. To set a foundation for growth, we acquired three companies over the past two fiscal years: NS Industria de Aparelhos Medicos (Brazilian nebulizer manufacturer), Delta Tau Data Systems (U.S.-based motion control manufacturer), and Adept Technologies (U.S.-based robot manufacturer). We intend to leverage the synergies each company brings to create new value for our customers and business partners.

Incidentally, the ¥40 billion used for these three acquisitions came entirely from internal reserves. If Omron should require capital in excess of cash on hand for future mergers and acquisitions (M&A), we will raise capital through debt financing within a scope that allows us to maintain our current long-term credit rating*. At present, we estimate that our debt capacity is ¥100 billion. We will actively leverage debt financing to pursue new growth opportunities if we encounter a promising investment target.

*Rating and Investment Information, Inc. rating: AA-
Standard & Poor's rating: A
(as of July 2016)

Acquisitions

	Year of Acquisition	Company Overview	News Release URL
NS Industria de Aparelhos Medicos Ltda.	Fiscal 2014	Nebulizer manufacturer with No.1 share of the nebulizer market in Brazil	http://www.healthcare.omron.co.jp/english/news/2014/0905.html
Delta Tau Data Systems, Inc.	Fiscal 2015	U.S.-based manufacturer of motion controllers offering world-leading performance	http://www.omron.com/media/press/2015/07/c0730.html
Adept Technologies, Inc.	Fiscal 2015	U.S.-based manufacturer of a wide range of industrial robot models	http://www.omron.com/media/press/2015/09/c0916.html

1.3. Improving Capital Efficiency through Divestiture and Restructuring

Portfolio management not only accelerates business growth, but also serves as a tool for management decisions regarding business divestiture or restructuring. As CFO, I believe I should provide particular leadership in making decisions regarding business divestiture. Recently, we made the decision to sell Omron Oilfield & Marine, Inc. and Omron Colin Co., Ltd. We announced the sale of these companies in June 2016. In making this decision, we made a rational assessment from a corporate-wide perspective, projecting the status of these businesses two-to-three years in the future. Based on this high-altitude view, we considered the negative factors and the positive factors to the company as a whole, eventually making a decision that was best for our entire organization. We also considered our customers, our employees, the acquiring companies, and a variety of other stakeholders, reaching an optimal solution for the benefit of all. We believe that these transactions generated significant value for both Omron (portfolio optimization) and the purchasers (value growth).

Under our system of portfolio management, we generally set a cut-off term of two years for businesses we believe are struggling with significant issues. We begin restructuring these businesses as we formulate a policy for the future. In some cases, restructuring does not result in sufficient improvements, and synergies with other Group businesses remain weak. If, in our judgment, selling this business will result in greater value, we will investigate the potential for divestiture or other measures.

The essence of portfolio management is to reallocate limited resources for the purpose of maximizing overall value. As Omron CFO, I plan to continue promoting and exercising portfolio management for the benefit of our company. As we commit more resources to growth businesses, we will also restructure or shift resources to businesses that struggle with certain issues. In so doing, we will improve capital efficiency. At the same time, structuring an optimal business portfolio will improve the overall corporate value of the Omron Group.

Divestments

	Company Overview	News Release URL
Omron Oilfield & Marine, Inc.	U.S.-based manufacturer and seller of inverter control systems for drilling equipment, power houses, and related equipment	http://www.omron.com/media/press/2016/06/c0603.html
Omron Colin Co., Ltd.	Japan-based seller of patient monitors, non-invasive vascular screening devices, and other medical equipment	http://www.omron.com/media/press/2016/06/h0609.html

2. Improving Shareholder Returns

Following fiscal 2014, Omron conducted another share buyback during fiscal 2015 totaling ¥15 billion. This reflects our ongoing consideration for strengthening shareholder returns and improving capital efficiency. We subsequently retired all 3.44 million shares of treasury stock acquired, leaving a balance of 150,000 shares in treasury stock (less than 0.1% of shares outstanding). We are happy to announce that we met our fiscal 2016 goal of a 30% payout ratio one year ahead of schedule. Our dividend payout ratio for fiscal 2015 was 31.1%, up from 25% in the prior fiscal year. Omron improved shareholder return, even while actively engaging in M&As and other growth investment policies.

We intend to continue to provide stable dividends and engage in strategic share buybacks, balanced by considerations related to earnings, financial status, and growth investments.