

**FY2018 H1 Earnings  
Ended September 30, 2018**



**Oct. 30, 2018  
OMRON Corporation**

## Summary

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### ■ H1 results

- Operating environment deterioration from Q2 worse than expected. Results fell short of internal plan.
- Despite shortfall, sales and gross profits up Y/Y. IAB, HCB maintained growth.
- Continued to invest for future growth with intent.

### ■ Full-year forecasts

- Revising down full-year forecasts, given expectations for continued uncertainty in the operating environment.
- That said, medium- and long-term trend in social needs remain unchanged. Continue to invest selectively for the future.
- IAB & HCB topline growth to continue, partly supported by investments.

### ■ Aiming for further growth

- Continue to make solid progress with growth initiatives for IAB.
- Continue to enhance growth cycle to achieve sustainable growth.

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This is a summary of the three key takeaways.

First, our H1 FY2018 results. Unfortunately, we fell short of plan. Factors such as US-China trade friction, a slowdown in the semiconductor industry and the depreciation of emerging market currencies meant that the downturn in the operating environment we saw from Q2 onward was worse than we had expected. As a result, topline growth was not as strong as we had projected.

Despite this, we were able to hit new record highs in both sales and gross profits. Continued growth at IAB and HCB supported overall topline growth.

With regard to investments for future growth, including investments in R&D, hiring of sales engineers and marketing investments, we executed as planned. As a consequence, H1 profits declined Y/Y.

Second, our full-year forecasts. We expect continued uncertainty in the operating environment and as such, revise down our full-year forecasts. That said, the longer-term underlying fundamental trends in social needs, such as demand for more sophisticated manufacturing facilities, or automation capable of responding to ever-higher quality requirements, remain unchanged in our view. Therefore, we will continue to invest selectively for future growth.

We expect IAB and HCB sales to continue to grow, as a result of the investments in new product development and frontline resources, which have further enhanced our relationships with our customers. HCB should also benefit from investments to date to expand the online channel.

The third is our initiatives for further growth. We have new initiatives to drive further growth in IAB, the business which is of the most interest to everyone here today. I will discuss these initiatives in greater detail later but we have launched a new business model for IAB, i-BELT. Progress to date has been good. We will continue to focus on achieving sustainable growth by continuously enhancing the growth cycle.

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# H1 Results



## H1 Results

**Sales, Gross Profit up Y/Y. GP Margin of 41.8%.  
Continue to improve ability to generate profits.**

(¥bn)

	FY2017 H1 Actual	FY2018 H1 Actual	Y/Y
Net Sales	410.5	416.2	+1.4%
Gross Profit (%)	170.3 (41.5%)	173.8 (41.8%)	+2.1% <b>(+0.3%pt)</b>
Operating Income (%)	43.5 (10.6%)	36.6 (8.8%)	-16.0% (-1.8%pt)
Net Income Attributable to Shareholders	30.3	26.4	-12.8%
1USD (JPY)	111.2	109.5	-1.7
1EUR (JPY)	125.6	129.5	+3.9

\* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

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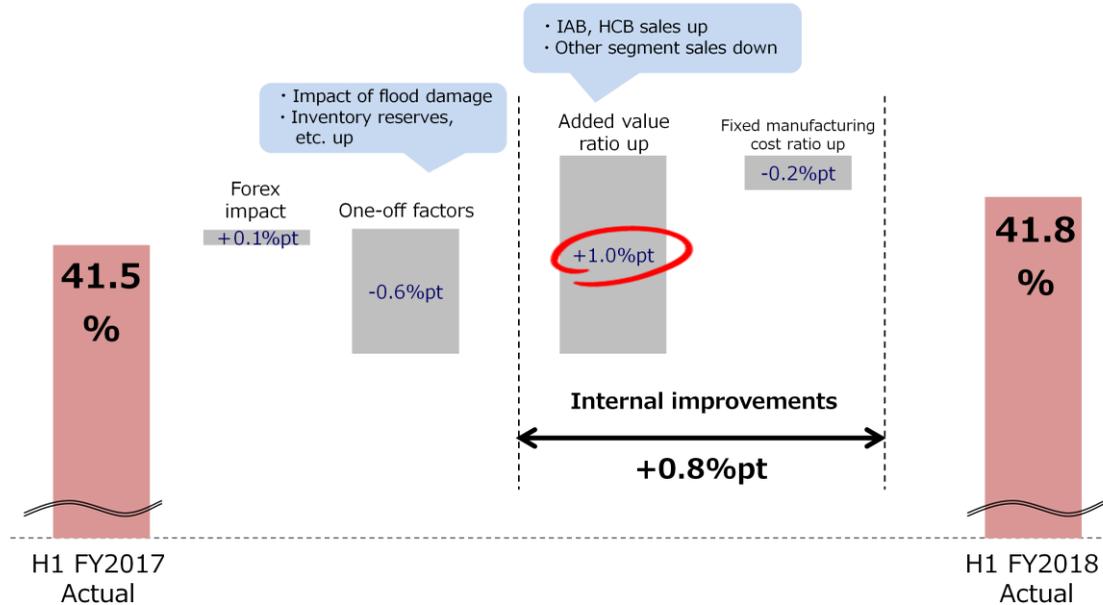
H1 sales were ¥416.2 billion, gross profit ¥173.8 billion, operating income ¥36.6 billion and net income attributable to shareholders ¥26.4 billion.

Although we reported a Y/Y decline in operating income despite topline growth, we hit new record highs for sales and gross profits.

The GP margin improved by 0.3%-points to rise to 41.8%. Despite a deteriorating operating environment, OMRON continues to steadily improve its ability to generate profits.

## GP Margin Analysis, Y/Y

## Solid improvement in profit-generating capability



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This waterfall chart shows the changes in key elements contributing to the Y/Y change in GP margin. The 41.5% on the left is the GP margin for H1 FY 2017; the 41.8% on the right is the H1 FY2018 GP margin.

The torrential rains which struck Western Japan in July damaged the facilities of a partner's plant. As a result, there were one-off factors, such as a drop in Environmental Solutions sales and some provisioning of reserves against inventory.

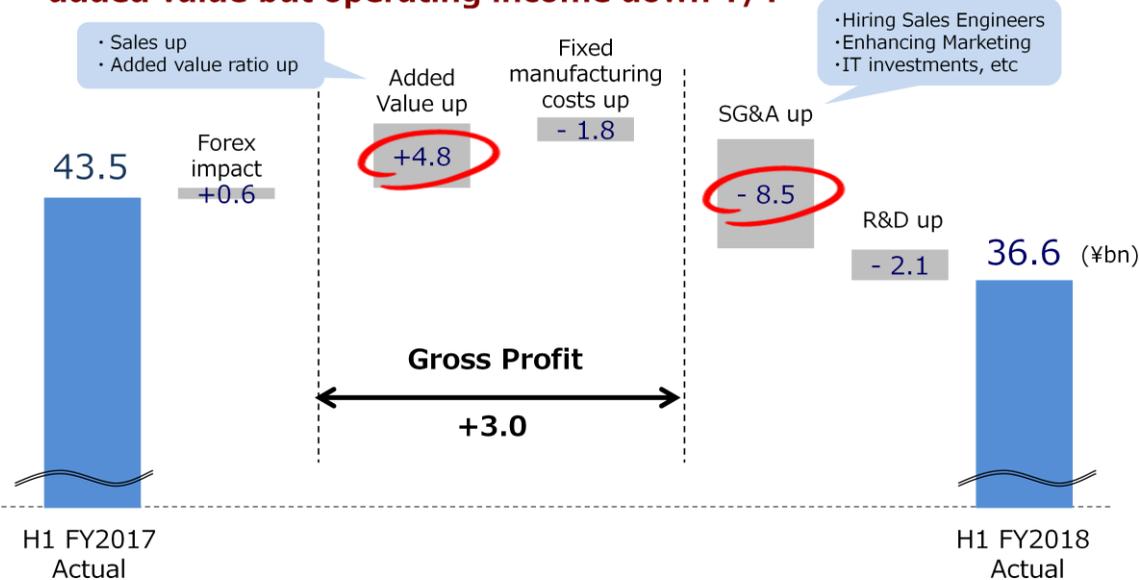
This was offset by internal improvements such as a 1%-point improvement in the added value ratio, contributing to the GP margin of 41.8%.

The improved added value ratio was due to increased sales of high value added products in IAB and HCB, as well as progress in restructuring the backlight business.

In addition, the company as a whole moved to raise selling prices and made further progress in reducing and eliminating unprofitable products.

## Operating Income Analysis, Y/Y

**Proactive investments for future growth funded by increase in added value but operating income down Y/Y**



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The next slide is a waterfall chart showing the changes in key elements contributing to the Y/Y change in operating income. The ¥43.5 billion on the left is the operating income for H1 FY 2017; the ¥36.6 billion on the right is the H1 FY2018 operating income.

IAB and HCB drove significant increases in added value but as a result of continuing to proactively execute on investments for future growth, SG&A and R&D expenses increased, leading to the Y/Y decline in profits. The breakdown of the increased SG&A and R&D spending was approximately 60% for IAB, approximately 20% for HCB and approximately 10% for HQ expenses, such as core technology development and IT systems improvements. Within IAB, the increased spending was the result of building new Automation Centers, which are the core contact points for our customers, as well as hiring more sales engineers.

The increase in fixed manufacturing costs reflects efforts to expand manufacturing capacity for IAB, and, at EMC, the transfer of manufacturing facilities to optimize and consolidate the manufacturing footprint.

## Sales by Business Segment

**IAB, HCB growth maintained. SSB sales also up.  
Restructuring Other segment.**

	H1 FY2017 Actual	H1 FY2018 Actual	(¥bn) Y/Y
<b>IAB</b> Industrial Automation	193.5	201.5	+4.1%
<b>EMC</b> Electronic & Mechanical Components	52.8	51.3	-2.8%
<b>AEC</b> Automotive Electronic Components	64.1	65.0	+1.3%
<b>SSB</b> Social Systems, Solutions & Service	19.5	20.6	+5.6%
<b>HCB</b> Healthcare	51.1	55.5	+8.5%
<b>Other</b> Businesses under the Direct Control of HQ	26.5	20.0	-24.7%
Eliminations & Corporate	3.0	2.4	-19.6%
<b>Total</b>	<b>410.5</b>	<b>416.2</b>	<b>+1.4%</b>

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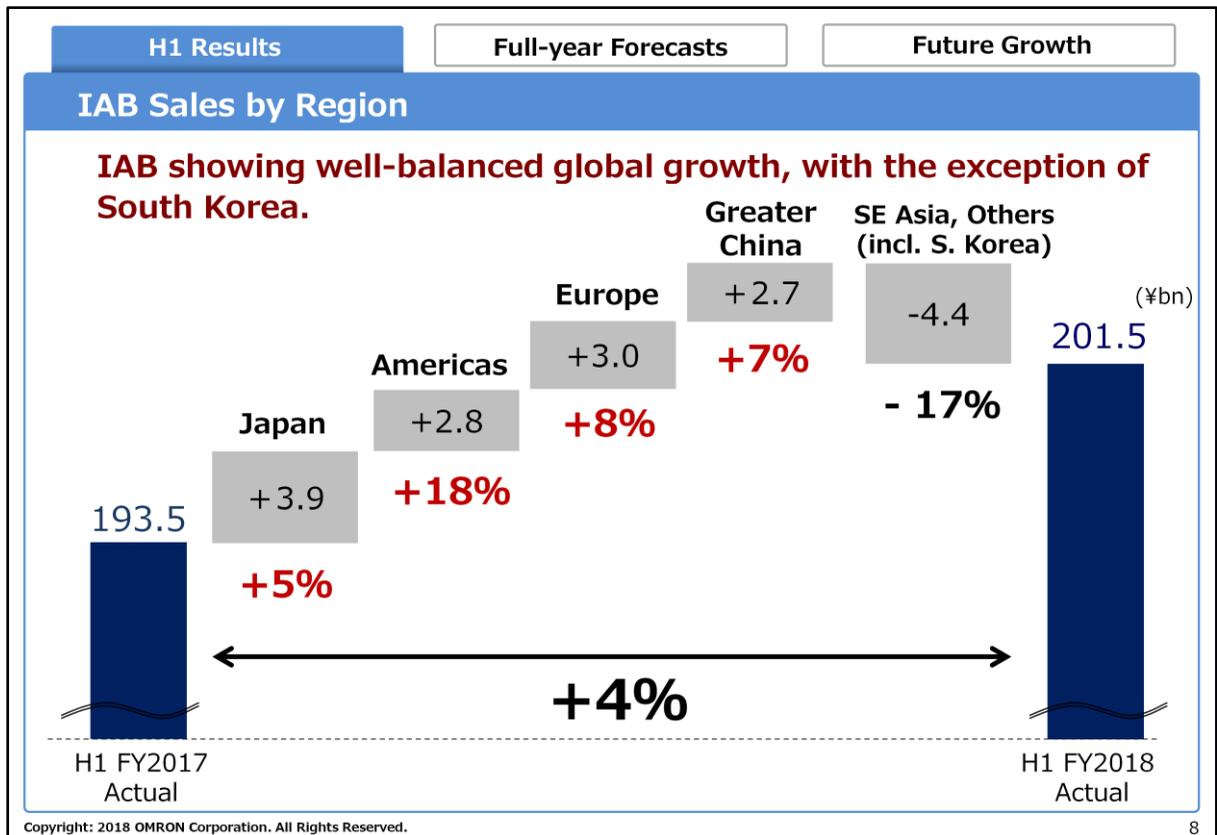
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We show the sales breakdown by segment on this slide.

There are 2 key takeaways from this slide.

The first is the sales growth we achieved in IAB and HCB. In IAB, we concentrated on the four focus domains. We were able to achieve well-balanced sales growth on a global basis. I will discuss the regional sales breakdown for IAB on the next slide. In HCB, we reported strong growth of more than 8%, primarily driven by solid performances in Europe and Greater China. SSB also posted positive sales growth.

The second takeaway is the sales decline in the Other segment, where we continue our restructuring efforts at the Backlight business. Additionally, damage to our partner's manufacturing facilities impacted sales for the Environmental Solutions business. This is the backdrop to the ¥6.5 billion Y/Y decline.



I will talk about the IAB business in more detail.

This chart shows the sales growth for IAB broken out into geographic areas. OMRON has been executing on the innovative-automation strategy on a global basis. As you can see, the resulting sales growth is well-balanced across the regions.

The only region reporting declines was SE Asia/Other, which includes South Korea. I would like to provide more color on the situation. If we exclude South Korea, SE Asia sales remained strong, growing 11% YoY. However, sales in South Korea dropped off dramatically. Sales to manufacturing facilities related to the digital industries of semiconductors, smartphones and flat panel displays fell substantially. As a result, this dragged down SE Asia/Other sales by 17% Y/Y.

However, the weakness in South Korea was offset by strength in Japan, the Americas, Europe and Greater China, resulting in 4% Y/Y growth for IAB as a whole.

## Operating Income by Business Segment

**Increased growth investments at IAB, EMC.  
Continued strength at HCB.**

	H1 FY2017 Actual	H1 FY2018 Actual	(¥bn, %: OP margin) Y/Y
<b>IAB</b> Industrial Automation	38.0 (19.7%)	33.3 (16.6%)	-4.7 (-3.1%pt)
<b>EMC</b> Electronic & Mechanical Components	7.3 (13.9%)	4.6 (8.9%)	-2.8 (-5.0%pt)
<b>AEC</b> Automotive Electronic Components	2.6 (4.1%)	3.2 (4.9%)	+0.6 (+0.8%pt)
<b>SSB</b> Social Systems, Solutions & Service	-2.8 (-)	-2.5 (-)	+0.3 (-)
<b>HCB</b> Healthcare	6.2 (12.1%)	7.2 (13.0%)	+1.0 (+0.8%pt)
<b>Other</b> Businesses under the Direct Control of HQ	0.4 (1.6%)	-1.2 (-)	-1.6 (-)
Eliminations & Corporate	-8.3	-8.0	+0.3
<b>Total</b>	43.5 (10.6%)	36.6 (8.8%)	-7.0 (-1.8%pt)

\* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

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Next is the segment breakdown for operating income. Please turn to slide 9.

We positioned FY2018 as a year of proactively investing for future growth in IAB. As such, we have been investing in R&D, marketing and increasing sales engineering resources. Therefore, operating income for IAB was down primarily on increased SG&A and R&D expenses.

For EMC, in addition to the impact of lower sales, increased costs related to measures to optimize the manufacturing footprint depressed profits Y/Y.

In contrast, HCB continued to report profit growth, reflecting the impact of previous initiatives on selling prices and measures to enhance productivity.

This covers our H1 FY2018 results. I will now turn to a discussion of our full-year forecasts. Please turn to slide 11.



# Full-year Forecasts

H1 Results	Full-year Forecasts	Future Growth
<b>H2 Business Environment by Segment (Change vs. Initial Plan)</b>		
<b>Expect uncertain business environment to continue. However, underlying longer-term growth trend is unchanged.</b>		
<b>IAB</b> Industrial Automation	Auto:	Remain firm, on capex for ADAS/EV & electrification
	Digital:	Semiconductor/smartphone investments weak
	Food & Bev.:	Stable. Automation/quality mgmt. investments for safety & security needs
	Social Infra.:	Remain firm on continued EM smart city investments
<b>EMC</b> Electronic & Mechanical Components	Consumer:	Americas/Europe firm. Weaker China demand for consumer/commercial product
	Automotive:	Expect China demand to decline but other regions generally firm
<b>AEC</b> Automotive Electronic Components	Demand in China to decline on weak US automakers and cooling consumer sentiment but overall markets firm with demand picking up in Japan, SE Asia/Other	
<b>SSB</b> Social Systems, Solutions & Service	Station sys.:	Replacement cycle firm, expect demand to pick up
	Transport:	Expect firm replacement demand
<b>HCB</b> Healthcare	Online channel firm globally despite negative impact of weaker EM currencies and slowing personal consumption in China	
<b>Other</b> Businesses under the Direct Control of HQ	Env. Soln.:	PV inverters weak but continued growth for storage systems
	Backlights:	Smartphone market to remain weak

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I will begin with a discussion of our view of the operating environment.

We expect the uncertain business environment to continue in H2, on the back of US-China trade friction, the slowdown in semiconductors and weaker emerging market currencies.

In IAB, we expect to see weakness in the Digital industries, particularly in investments for semiconductors and smartphones. There has been some suggestion that semiconductors might recover in Q4 but we prefer to take a cautious view. In contrast, we expect the Auto, Food & Beverage and Social Infrastructure industries to remain solid.

While HCB is likely to be impacted by weaker emerging market currencies and lackluster consumer spending in China, we expect global sales to remain firm, supported primarily by strength in the online channel and the emerging markets.

Notwithstanding, while the operating environment is likely to remain uncertain in the near term, we believe the longer-term fundamental societal trends supporting investments in factory automation and continued advances in healthcare remain unchanged, and will be supportive for IAB and HCB respectively. We remain focused on initiatives to support longer-term growth.

## Full-year Forecasts

**Forecasts revised: projecting sales growth but profit declines Y/Y.  
Full-year GP Margin 41.8%, up Y/Y.**

	FY2018 Initial Plan	FY2018 Forecast	Chg. vs Plan	FY2017 Actual	(¥bn) Y/Y
Net Sales	900.0	880.0	-2.2%	860.0	+2.3%
Gross Profit (%)	382.5 (42.5%)	367.5 (41.8%)	-3.9% (-0.7%pt)	357.8 (41.6%)	+2.7% (+0.2%pt)
Operating Income (%)	93.0 (10.3%)	83.0 (9.4%)	-10.8% (-0.9%pt)	86.3 (10.0%)	-3.8% (-0.6%pt)
Net Income Attributable to Shareholders	64.5	58.5	-9.3%	63.2	-7.4%
1USD (JPY)	107.0	109.7	+2.7	111.2	-1.5
1EUR (JPY)	131.0	128.3	-2.7	129.4	-1.1

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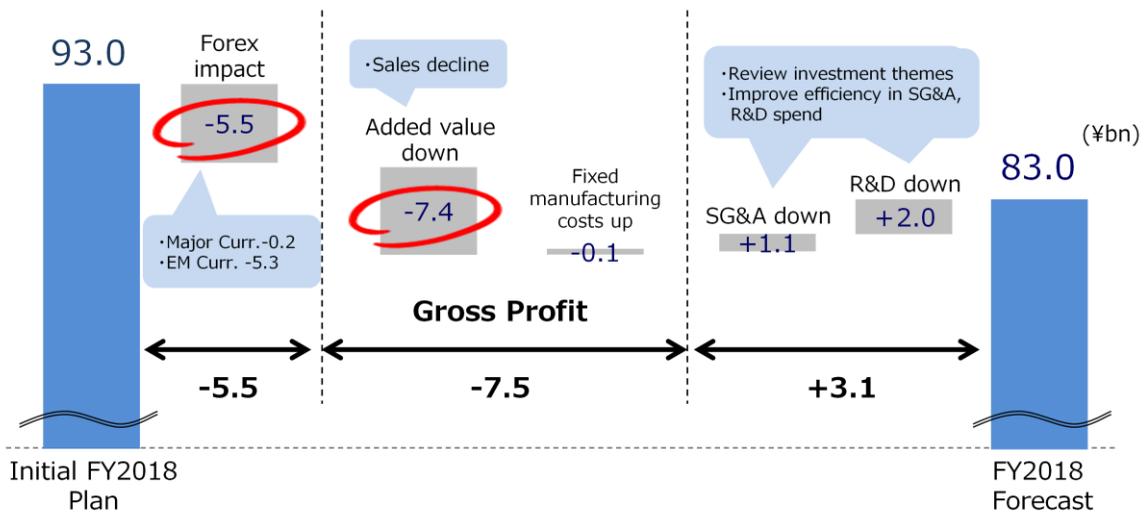
On slide 12, we show our targets for FY2018.

On the back of a deteriorating operating environment, we have revised down our forecasts. Similar to our results in H1, we expect sales and gross profits to be up Y/Y. However, we will continue to invest, albeit more selectively; as such, we expect operating income to decline Y/Y.

We project net sales of ¥880 billion, gross profit of ¥367.5 billion, operating income of ¥83 billion and net income of ¥58.5 billion. We expect the GP margin to be 41.8%, up 0.2%-points.

## Operating Income Analysis (vs Initial Plan)

**Lowered OP forecast, on impact of weaker EM currencies and sales decline. Maintaining growth investments.**



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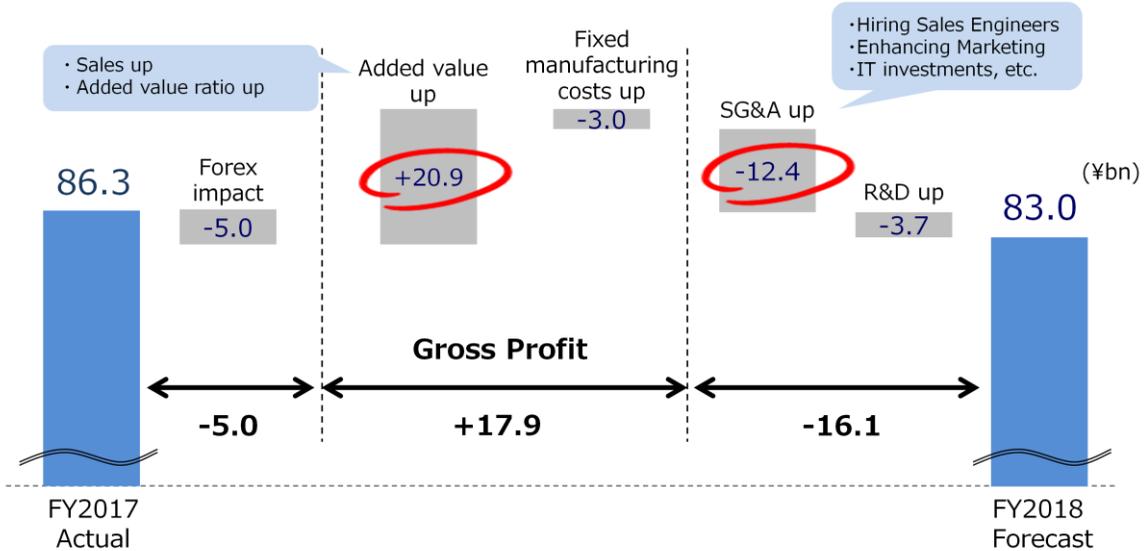
This is the waterfall chart for changes in key elements contributing to operating income from our initial FY2018 plan to our new FY2018 forecasts, using the same structure we applied previously to analyzing operating income changes in H1 FY2018.

We have revised down our operating profit forecast, factoring in the impact of weaker emerging market currencies and a lower level of sales. We estimate the negative forex impact from USD and EUR to be only ¥0.2 billion but the impact of weaker emerging market currencies to have a negative impact of ¥5.3 billion. This brings the total forex impact to negative ¥5.5 billion.

As a result of lower sales, we expect added value to decline by ¥7.4 billion but this will be mitigated by ¥3.1 billion in tighter expense controls.

## Operating Income Analysis (Y/Y)

**Added value up significantly Y/Y. Continue to proactively invest for the future; OP down Y/Y as a consequence.**



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This is the waterfall chart for changes in key elements contributing to operating income from FY2017 to our FY2018 forecasts, also using the same structure as applied previously.

Operating income in FY2017 was ¥86.3 billion.

We have factored in a forex impact of negative ¥5 billion.

We project the increase in added value on the back of higher sales in IAB and HCB to be ¥20.9 billion.

However, we intend to continue to invest for future growth which will lead to increases in SG&A and R&D expenses.

As such, we forecast operating income for FY2018 of ¥83 billion.

We will continue to invest for longer-term growth, but on a more selective basis.

H1 Results	Full-year Forecasts			Future Growth	
<b>Sales by Business Segment</b>					
<b>Revised full-year segment forecasts.</b>					
<b>IAB, HCB continue to grow Y/Y.</b>					
				(¥bn)	
	FY2018 Initial Plan	FY2018 Forecast	vs. Initial Plan	FY2017 Actual	Y/Y
<b>IAB</b> Industrial Automation	428.0	411.5	-3.9%	396.1	+3.9%
<b>EMC</b> Electronic & Mechanical Components	102.0	103.0	+1.0%	104.4	-1.3%
<b>AEC</b> Automotive Electronic Components	128.0	130.0	+1.6%	131.2	-0.9%
<b>SSB</b> Social Systems, Solutions & Service	74.0	76.0	+2.7%	70.3	+8.1%
<b>HCB</b> Healthcare	119.0	117.5	-1.3%	108.5	+8.3%
<b>Other</b> Businesses under the Direct Control of HQ	43.5	37.5	-13.8%	44.4	-15.5%
Eliminations & Corporate	5.5	4.5	-18.2%	5.2	-13.0%
<b>Total</b>	<b>900.0</b>	<b>880.0</b>	<b>-2.2%</b>	<b>860.0</b>	<b>+2.3%</b>
<small>* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.            * Other segment UPS business included in SSB.</small>					
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We show here the breakdown of our sales forecast by segment. We have also revised our segment forecasts.

Relative to our previous plan, we now expect IAB sales to decline by 4%. This is due to a negative forex impact of ¥6 billion. In addition, by region, we have factored in weakness in the Digital industry for Greater China and South Korea, relative to our initial plan. We have largely maintained our IAB forecasts for Japan, the America and SE Asia.

While IAB sales will decline relative to the initial plan, we expect growth of 4% on a Y/Y basis. By region, with the exception of South Korea which should remain weaker because of the downturn in digital investments, we expect IAB sales in all regions to improve Y/Y.

We also expect HCB sales to rise Y/Y. We expect to hit new record highs for both IAB and HCB.

Next, for the Other segment, we expect sales to decline on the restructuring of the backlight business. In addition, as a part of restructuring initiatives, the UPS business included heretofore in the Other segment has been transferred to SSB. We believe integrating the UPS business into SSB will allow us to capture the significant opportunity related to IoT and aim to grow this business further.

## Operating Income by Business Segment

(¥bn, %: OPM)

	FY2018 Initial Plan	FY2018 Forecast	vs. Initial Plan	FY2017 Actual	Y/Y
<b>IAB</b> Industrial Automation	82.0 (19.2%)	72.0 (17.5%)	-10.0 (-1.7%pt)	74.0 (18.7%)	-2.0 (-1.2%pt)
<b>EMC</b> Electronic & Mechanical Components	12.5 (12.3%)	11.5 (11.2%)	-1.0 (-1.1%pt)	12.5 (12.0%)	-1.0 (-0.8%pt)
<b>AEC</b> Automotive Electronic Components	6.0 (4.7%)	6.0 (4.6%)	±0.0 (-0.1%pt)	5.8 (4.4%)	+0.2 (+0.2%pt)
<b>SSB</b> Social Systems, Solutions & Service	5.5 (7.4%)	6.0 (7.9%)	+0.5 (+0.5%pt)	4.8 (6.9%)	+1.2 (+1.0%pt)
<b>HCB</b> Healthcare	12.5 (10.5%)	13.0 (11.1%)	+0.5 (+0.6%pt)	11.2 (10.3%)	+1.8 (+0.7%pt)
<b>Other</b> Businesses under the Direct Control of HQ	-1.0 (-)	-2.5 (-)	-1.5 (-)	-1.2 (-)	-1.3 (-)
Eliminations & Corporate	-24.5	-23.0	+1.5	-20.9	-2.1
<b>Total</b>	93.0 (10.3%)	83.0 (9.4%)	-10.0 (-0.9%pt)	86.3 (10.0%)	-3.3 (-0.6%pt)

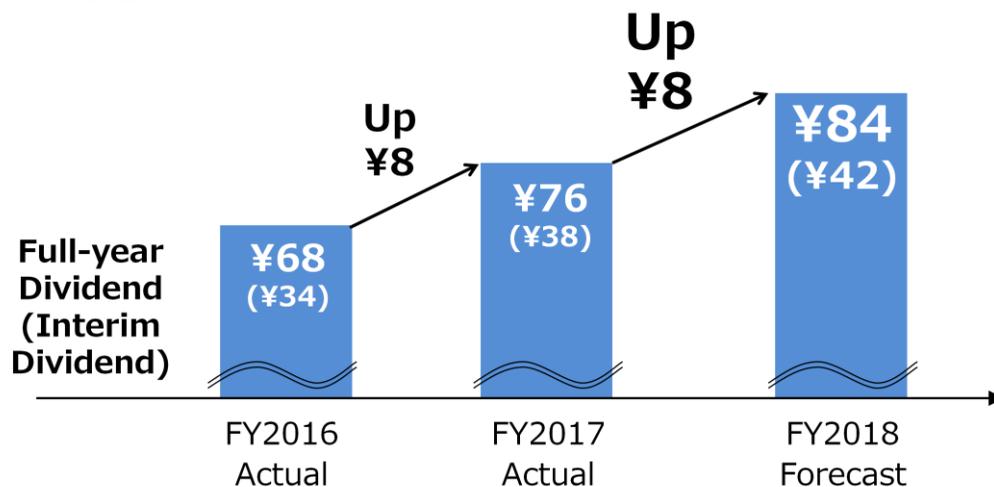
\* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.  
\* Other segment UPS business included in SSB.

This is the breakdown of our operating income forecast by segment.

We now forecast operating income for IAB to be ¥72 billion, EMC ¥11.5 billion, and HCB ¥13 billion.

## Full-year Dividend

**Dividend guidance revised to ¥84 per share, in line with revised forecasts.**



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With regard to our dividend guidance, in line with the revised forecast, we revise our full-year dividend guidance to ¥84 per share.

This represents a ¥8 decline from our initial forecast of ¥92 per share.

Relative to FY2017, when we paid a full-year dividend of ¥76 per share, this represents an increase of ¥8. The interim dividend has been fixed at ¥42.

This is a record high level for our interim dividend; the full-year ¥84 dividend per share will also be a new record high for OMRON.

We continue manage our business to ensure we can consistently pay a stable dividend.

We continue to repurchase shares under the ¥20 billion share buyback program announced in July. As of the end of September, we have bought ¥9.5 billion in shares.

I will now discuss new initiatives for further growth.



# Aiming for Further Growth

## IAB: Aiming for Further Growth

**Creating revolutionary applications****Adding automation centers,  
hiring sales engineers****Initiating i-BELT**

I will highlight 3 initiatives for IAB.

The first is the creation of revolutionary applications.

The second is the increase of Automation Centers and the adding of new sales engineers.

The third is the launch of the new i-BELT business model.

To date, we have been proactively investing to support these initiatives. We are now starting to gain traction and seeing results.

I will start with the creation of revolutionary applications.

## IAB: Creating Revolutionary Applications

**Multiple unique and revolutionary applications launched in growth domains where investment is increasing.**

### Auto (EV/ADAS)



- ✓ Improve quality control in assembly process
- ✓ Greater manufacturing flexibility through integrated modularization of control and safety
- ✓ Enhance QCD of new manufacturing process for next-gen secondary batteries

### Digital (Semi/OLED)



- ✓ Improve plastic mold quality control for semi encapsulation process
- ✓ Introduction of IoT for passive component production equipment
- ✓ Advances in OLED chemical deposition process

### Food & Beverage (Safety/Security)



- ✓ Maintain quality control through real-time feedback of temperature and pressure data
- ✓ Detect setup process errors by applying AI to torque data feedback
- ✓ Incorporate accumulated expertise into maintenance process through visualization of overall facility efficiency

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As you know, OMRON is strategically concentrating on the four focus domains of Auto, Digital, Food & Beverage, and Social Infrastructure.

In the Auto industry, we are seeing significant, active investments in EVs and ADAS. In the Digital industries, there is increasing demand for more sophisticated manufacturing on the back of technological progress in semiconductors and OLED.

In the Food & Beverage and Pharmaceutical industries, we are seeing strong investments to achieve ever higher levels of safety and peace of mind.

OMRON has already launched multiple solutions in these hot areas, which we refer to as revolutionary applications. Such revolutionary applications include solutions for manufacturing challenges that our customers believed to be unsolvable to date; we are revolutionizing the level of productivity and product quality that is possible for our customers.

Our solution packages are a combination of hardware and software. We show a few examples in the presentation slides.

## IAB: Creating Revolutionary Applications

**Create revolutionary applications to address industry challenges around sensory inspection and traceability.**

**Automate sensory inspection process**



**Traceability systems**



We have already created 20 application packages.

I will talk about 2 specific examples: a solution for automating sensory inspections and a traceability system.

## IAB: Revolutionary Application Example (Sensory Testing)

**Fully automated inspection process for compact electronic components.**

**Visual Inspection**

**Inspection process  
400 workers**

**Full Automation**

Vision sensors

**Inspection process  
0 workers**

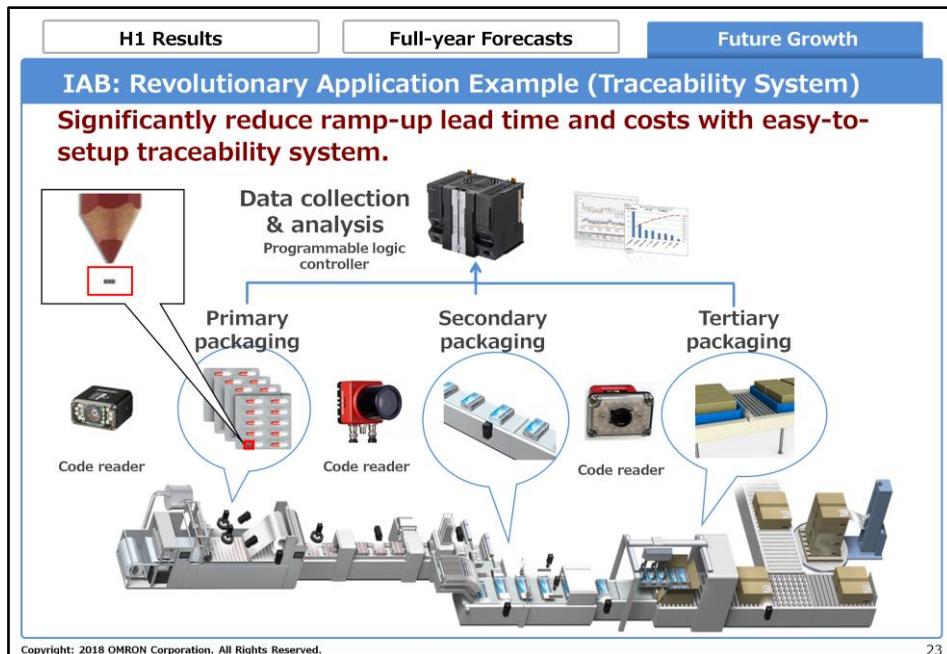
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Starting first with the automated sensory inspection solution.

As a result of increasingly demanding requirements for higher performance levels or improved quality levels in compact electronic components, production processes for electronic components and lenses has made inspections for super fine defects essential. Until now, it had been considered virtually impossible to automate inspections for such super fine defects; all inspections were done visually by human beings. Because the defects are so small, it had been challenging for inspectors to visually detect such defects without changing the angle of light or using magnification; the inspection process was very physically demanding. This process has long been an area that customers have strongly wanted to automate; in very large facilities, customers still have hundreds or thousands of people involved in the inspection process.

OMRON has been able to fully automate the visual inspection process. Why is OMRON able to achieve this? It became possible through the acquisition last year of dedicated FA camera maker Sentech. Sentech has vision sensor technology that is superior to human vision. We were able to combine this with OMRON's proprietary sensing technology, a software that captures human observation behavior and decision-making process in an algorithm, and lighting technologies to create a single application package for our customers. I cannot provide you with specifics, but I can tell you that for one of our electronic components' customers, we are now poised to reduce the number of workers in the inspection process in one of their facilities from 400 to zero through full automation. We will be looking to apply this solution to other customers as well.



I will talk about the traceability system next.

As a result of more rigorous laws and changing consumer awareness, food and pharmaceutical manufacturers are increasingly seeking solutions to provide better product safety and peace of mind to consumers, as well as raising product quality levels.

In response, traceability has moved from lot traceability to individual product traceability. In some cases, manufacturers are now working toward achieving full traceability and information management for individual components. However, in order to achieve traceability down to the level of individual products or components, the identifying barcodes must be miniaturized. Reading super small barcodes has been a major challenge for manufacturers. Additionally, the high cost of implementing a traceability system had also been a major barrier to adoption.

However, last year, OMRON acquired the industry top class player in code readers, Microscan, and has been able to develop the technology for reading barcodes as small as  $1\text{mm}^2$ . In addition, we have also developed a programmable logic controller that is able to aggregate and analyze the massive volume of data generated by the proliferation of code readers. Creating a solution in the form of an application has made it much easier for our customers to adopt traceability systems. With this new super miniaturized system, we envision a future where individual MLCCs would each incorporate manufacturing data. We are focusing on growing sales of this system.

## IAB: Creating Revolutionary Applications

**Serially launching new products to deliver revolutionary applications**

**I**nput

Industry First



Industry Fastest



**L**ogic

Industry First



Industrial PC combining robustness and expandability

**O**utput



Industry Fastest



Multi axis motion controller capable of nano order control

**R**obot



Self-propelled co-bot to enable flexible manufacturing

Industry First



SCARA robot enabled with predictive maintenance functionality

**S**afety

Industry First



Safety controller enabled for high levels of safety when adopting robots

In order to develop such revolutionary applications, OMRON has been developing and launching multiple high spec products that are industry firsts or fastest-in-class. On slide 24, we show some examples of such new products.

Of the products shown here, I highlight in particular the AI controller launched in October, which is the world's first to integrate control and data to predict potential production facility issues or product defects. By using this controller, we believe we can contribute to helping our customers achieve production lines that do not stop and eliminate defective products. This AI controller has already been installed in several production lines of a number of leading companies. OMRON is taking the lead in terms of accumulating expertise in the use of AI in actual manufacturing processes.

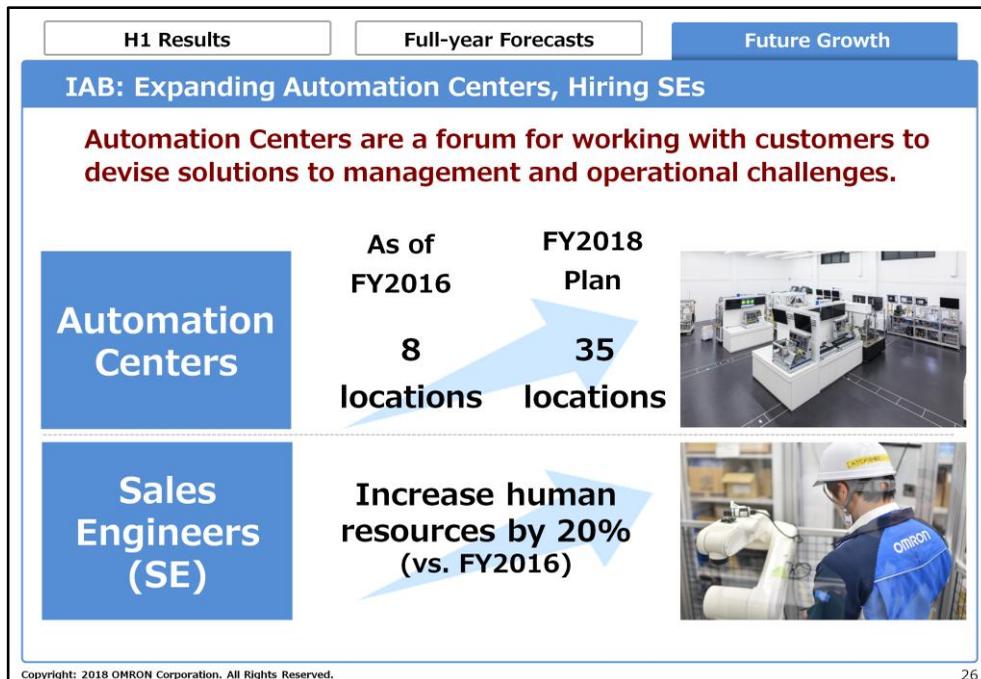
## IAB: Aiming for Further Growth

Creating revolutionary applications

Adding automation centers,  
hiring sales engineers

Initiating i-BELT

The second initiative I would like to discuss is the increase in Automation Centers and further hiring of sales engineers.



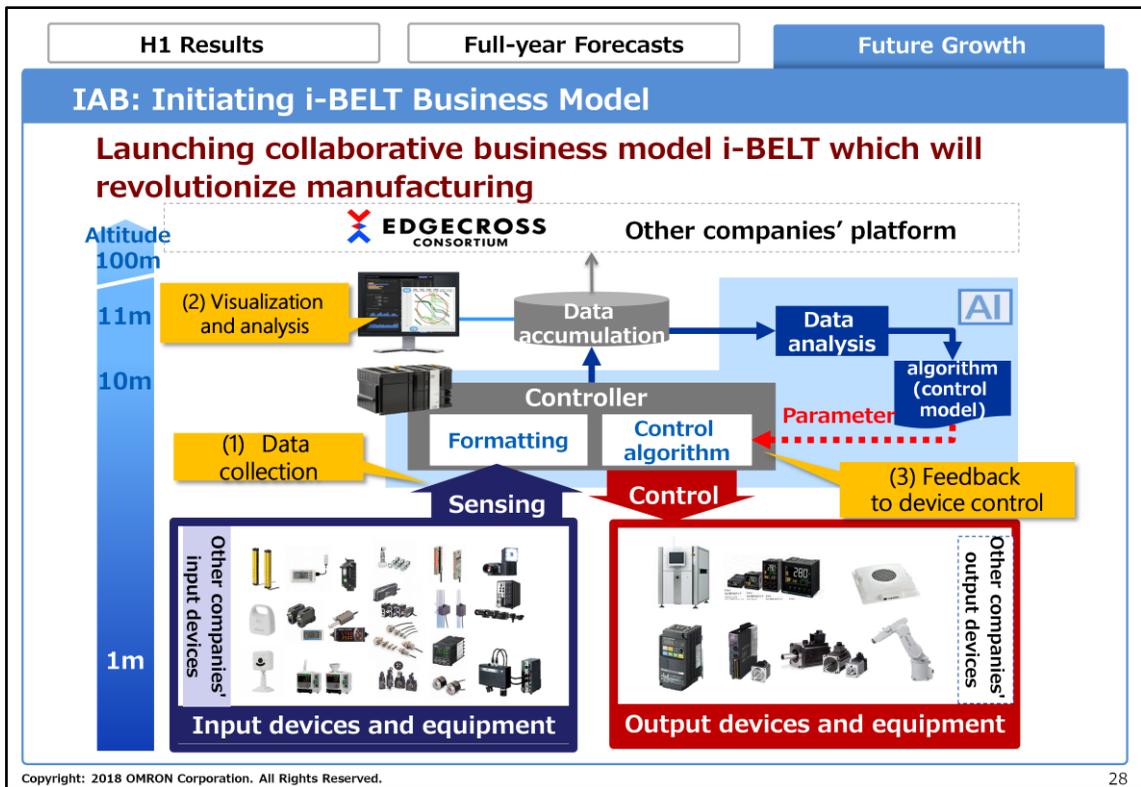
As I touched upon earlier, in order to provide our revolutionary applications to our customers, we are expanding our network of Automation Centers and adding sales engineers. The key point for these revolutionary applications is that we are collaborating and jointly investing with our customers through open innovation. The venue for our collaborations with our customers is our Automation Centers.

In FY2016, we had 8 Automation Centers but we aim to have 35 around the globe by the end of FY2018. As of the end of H1, we had already established 30. Through this we will accelerate our efforts to pursue open innovation alongside our customers to create value.

In addition, we are increasing the number of sales engineers. We are hiring individuals with extensive hands-on experience in manufacturing processes, a deep understanding of our customers' needs and the ability to develop solutions. We aim to increase the number of sales engineers on staff by 20% from FY2016. By achieving this goal, we will have more than 1,000 sales engineers working with our customers globally on daily basis to resolve their challenges. We aim to develop a robust foundation that will allow us to contribute to providing solutions to the issues our customers face. This will drive continued growth for the IAB business.

**IAB: Aiming for Further Growth****Creating revolutionary applications****Adding automation centers,  
hiring sales engineers****Initiating i-BELT**

The third initiative is the launch of the i-BELT business model.  
Please turn to slide 28.



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We are seeing significant changes on shop floors on a daily basis. In particular, the shortage of human resources with technological expertise is creating a major challenge: ensuring that accumulated technical expertise is passed along within an organization. There are high expectations that AI, IoT and Robotics will provide the solutions to this challenge, but so far none of our customers has been able to fully leverage these technologies effectively.

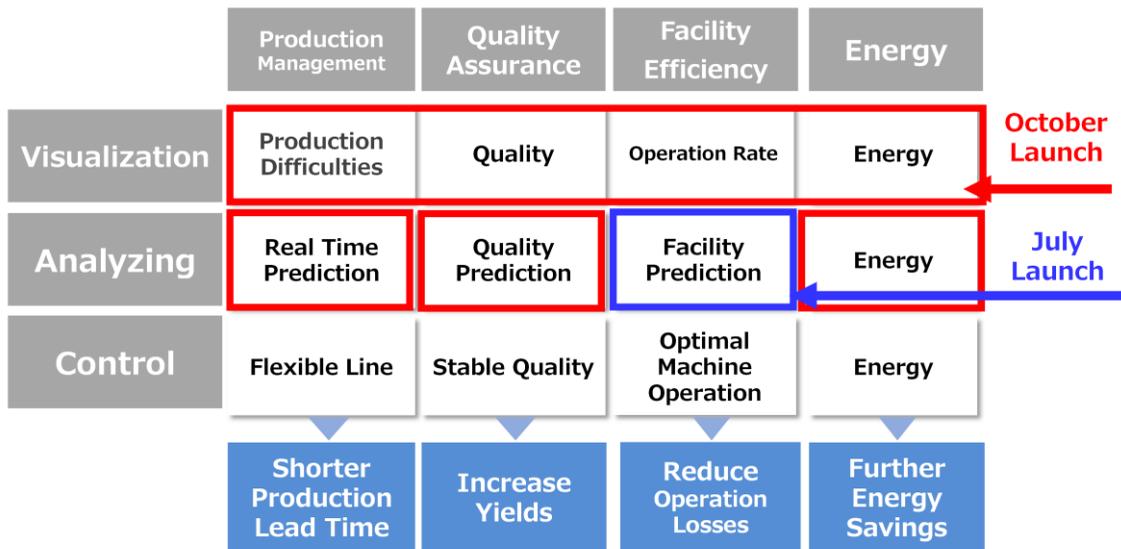
OMRON is focused on solutions that cover up an altitude of 11m from the shop floor, an area of strength. We are now launching a business model in which we seek to work with our customers to devise solutions to issues specific to the actual manufacturing process, which we call the i-BELT business model.

First, the i-BELT service leverages IoT in order to capture data about the production facilities and products from all input devices. Using proprietary OMRON technology, we then analyze the data to visualize potential production issues. Using the results of the analysis, the AI controller then provides optimized feedback to the output devices to ensure there are no line stoppages or production defects. This is the service we are proposing to customers.

## IAB: Initiating i-BELT Business Model

**Phase 1: Analytics service to predict production facility issues.**

**Phase 2: Visualization/analytics service targeting operational issues**



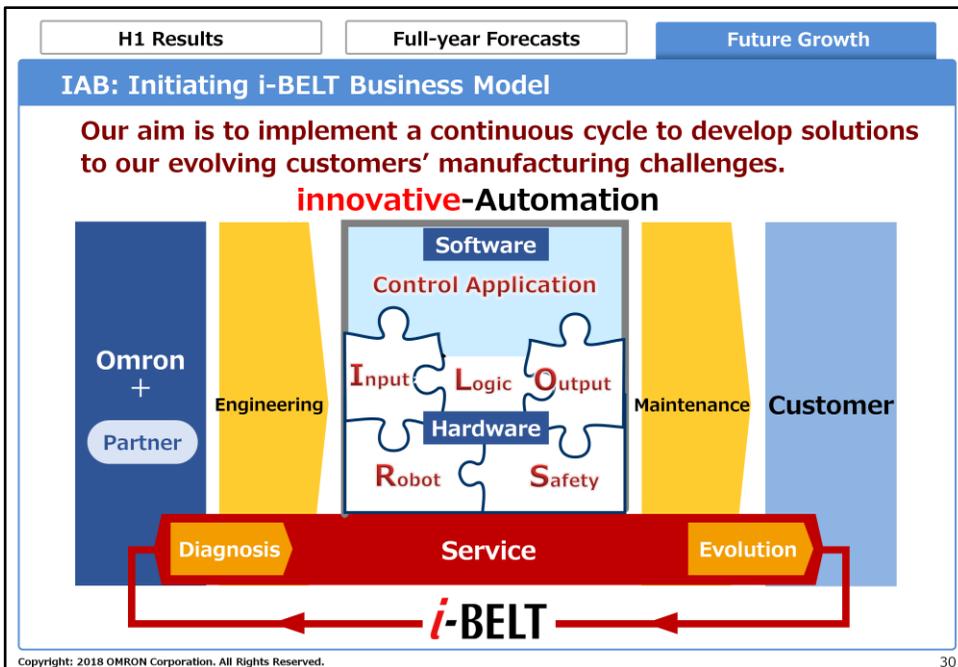
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OMRON worked with leading companies in the key industries to assess this model.

Based on these assessments, we launched the first service, which predicts abnormalities in the manufacturing process, in July.

In October, the second service, a visualization and analytics service, was rolled out.



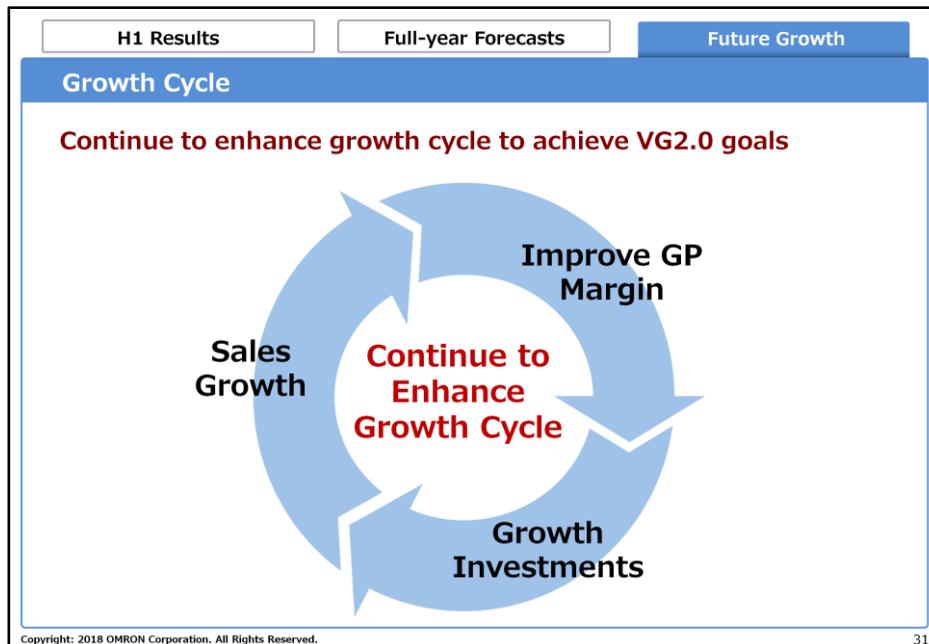
The i-BELT service is a business model predicated on continued direct collaboration, which allows both OMRON and our customers to evolve over time.

We start from a diagnosis of the manufacturing challenges of our customers. We then implement revolutionary applications to address the issues. By following through with maintenance work, OMRON is able to identify new, emerging challenges for our customers which we then seek to resolve. Through this process, we charge a fee for the visualization of issues and analysis.

By creating an iterative cycle to address our customers' issues on an ongoing basis, we can continuously evolve our solutions as well. This cycle of constant evolution is the core concept of the i-BELT model.

The i-BELT model allows OMRON to develop a deep knowledge of our customers' issues and accumulate significant expertise. We aim to package the new revolutionary applications we develop as a result of i-BELT into solutions that can then be sold to other customers. We believe it will also contribute to improved sales of our broad product lineup of ILOR+S. We have already received orders for the i-BELT model from more than 10 companies, all leading companies in their respective industries.

We hope you will hold high expectations for the new i-BELT business model going forward.



This completes my presentation but I would like to take this opportunity to highlight OMRON's growth cycle strategy.

We aim to improve our ability to generate profits. The resulting increase in profits will fund our growth investments. These investments, in turn, drive further sales growth. Our aim is to rigorously adhere to this cycle and to do so at speed. The three key areas for investment are: IAB, HCB, and enhancing our technological expertise in Sensing & Control + Think.

As covered in my presentation today, we expect the H2 operating environment will continue to be challenging for OMRON. As such, we have factored in a number of potential risks, and have chosen to revise down our full-year forecasts. That said, we continue to make solid progress in enhancing the competitiveness of IAB and HCB; we continue to enjoy sales growth.

We believe we are on the right track with the strategies we are currently implementing. I believe our ability to drive the growth cycle is steadily improving.

If we look to the markets, growth prospects for social needs over the longer-term remain unchanged. We will continue to focus on enhancing the growth cycle in order to achieve the targets set out in VG2.0, our medium-term business plan, and achieve sustainable growth.

I humbly ask for the continued support of our shareholders and investors. This completes my remarks. Thank you.

**OMRON**



# Reference

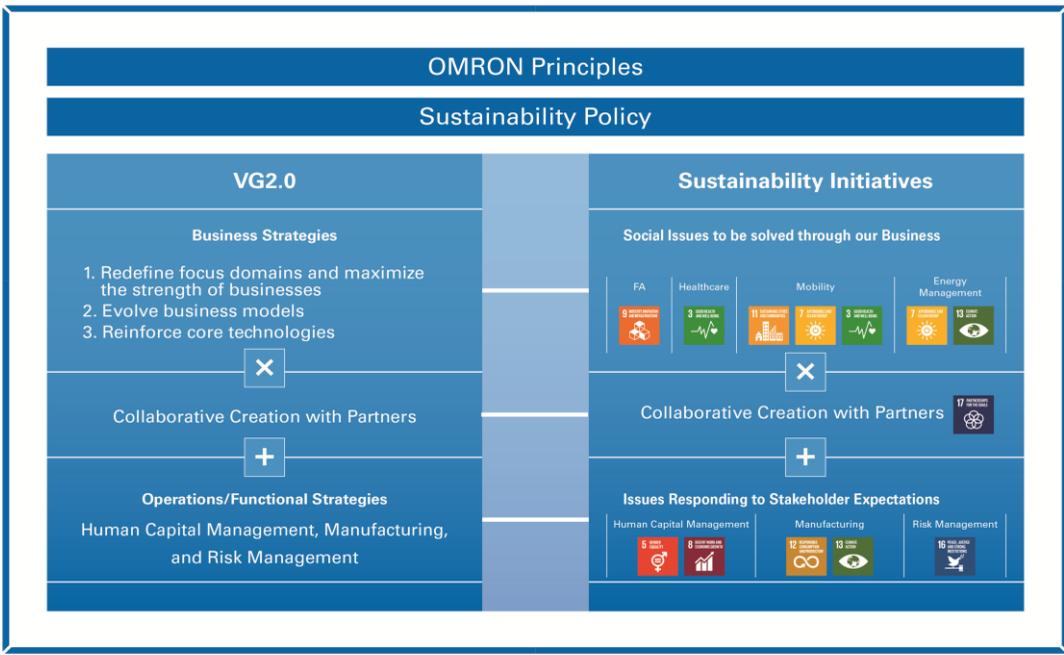


## FY2018 Assumptions: Exchange Rates

	FY2018	Impact of ¥1 fluctuation (full-year, approx.)	
		Sales	OP
USD	H1: ¥107 H2: ¥110	¥3.9bn	¥0.6bn
EUR	H1: ¥131 H2: ¥127	¥1.0bn	¥0.5bn

\*If emerging-market currency trends diverge from USD and/or EUR contrary to our expectations, sensitivities will be impacted.

# VG2.0 and Sustainability Policy are Linked



## OMRON Included in Major ESG Indices (As of October 2018)

### ESG Indices which include OMRON

- ✓ DJSI – World
- ✓ FTSE4Good Index Series
- ✓ MSCI ESG Leaders Indexes
- ✓ MSCI SRI Indexes
- ✓ STOXX Global ESG Leaders indices
- ✓ CDP
- ✓ MS-SRI
- ✓ FTSE Blossom Japan Index
- ✓ MSCI Japan ESG Select Leaders Index
- ✓ MSCI Japan Empowering Women Index
- ✓ S&P/JPX Carbon Efficient Index

MEMBER OF  
**Dow Jones**  
**Sustainability Indices**  
In Collaboration with RobecoSAM   FTSE4Good

 2018 Constituent  
MSCI ESG  
Leaders Indexes

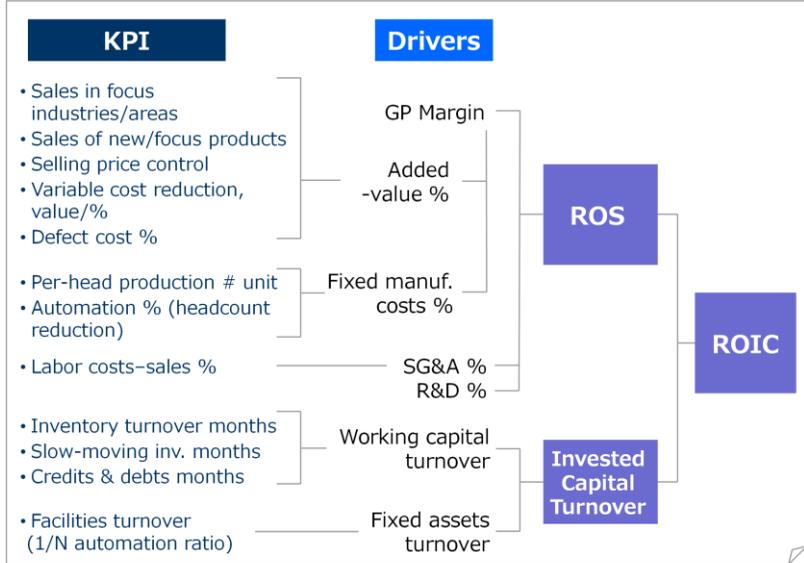
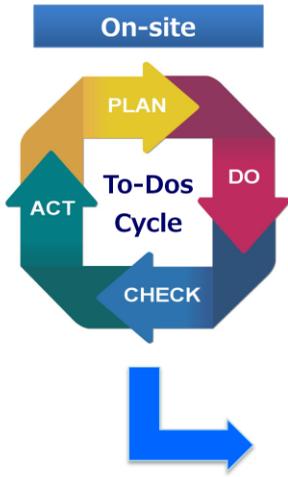
 Member: 2016/2017  
**STOXX**  
ESG LEADERS INDICES  **CDP**  
DRIVING SUSTAINABLE ECONOMIES

 **MS-SRI** | モーニングスター社会的責任投資株優指数  
Morningstar Socially Responsible Investment Index

  2018 Constituent  
MSCI Japan ESG  
Select Leaders Index

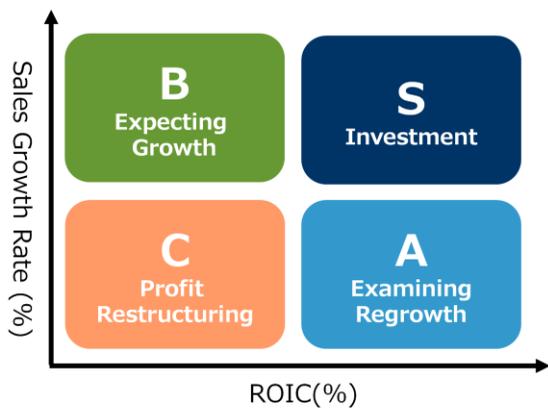
  2018 Constituent  
MSCI Japan Empowering  
Women Index (WIN)

# Down-Top ROIC Tree

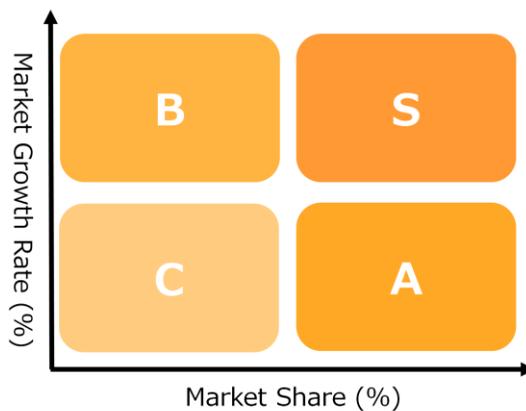


# Portfolio Management

## Assessing Economic Value



## Assessing Competitiveness



## ROIC Definition

<Consol. B/S>

LIABILITIES	
Current liabilities:	
Short-term debt	[Red dashed box highlights this section]
Notes and accounts payable — trade	
Accrued expenses	
Income taxes payable	
Other current liabilities	
Deferred income taxes	
Termination and retirement benefits	
Other long-term liabilities	
Total liabilities	
NET ASSETS	
Shareholders' equity	
Common stock	[Red dashed box highlights this section]
Capital surplus	
Legal reserve	
Retained earnings	
Accumulated other comprehensive income (loss)	
Foreign currency translation adjustments	
Minimum pension liability adjustments	
Net unrealized gains on available-for-sale securities	
Net losses on derivative instruments	
Treasury stock	
Noncontrolling interests	
Total net assets	
Total liabilities and net assets	

$$\text{ROIC} = \frac{\text{Net income attributable to shareholders}}{\text{Invested capital}}$$

### Invested capital\*

$$= \text{Net assets} + \text{Interest-bearing debt}$$

\*The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year.

**Capital cost forecast at 6%  
for FY2017 - 2020**



## **Notes**

1. The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.
3. The presentation slides are based on "Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019 (U.S. GAAP)."  
Figures rounded to the nearest million JPY and percentage to one decimal place.

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