Fiscal 2014 Management's Discussion and Analysis

Market Environment

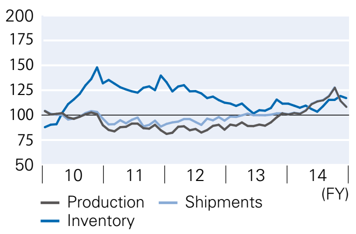
Many economies around the world appear to be in recovery to one degree or another. The Japanese economy continued to improve throughout the fiscal year, despite the negative impact of higher consumption taxes on certain sectors. The European economy was essentially flat for the year, while the U.S. continued to recover, showing greater corporate activity and higher personal consumption. China remains a powerhouse of capital investment, mainly in the electronics components industry. Both Thailand and Indonesia trended to a moderate recovery, with the economy of Korea likewise in recovery.

The Omron Group deals in many major markets around the world. During fiscal 2014, the global automobile market experienced strong capital investment particularly so for components in markets outside Japan. The machine tools and the smartphone markets continue to grow, driving recovery in demand for capital investment in these sectors, as well as for semiconductors. We have also seen a gradual recovery in capital investment for the consumer electronics and electronic components markets, and strong demand for related components in the world's emerging economies. While the medical devices market has struggled somewhat due to the slowdown in the Russian economy, demand from other emerging economies remains strong.

Turning toward the currency markets, we saw that the weakened yen contributed to the Group's revenue growth for the year. The average exchange rate for the fiscal year was ¥110.0 to the U.S. dollar (a ¥9.9 increase), and ¥138.7 to the Euro (¥4.7 increase). The average per-kilo price for silver was ¥65,260, a ¥5,395 decrease compared to the prior fiscal year. Copper cost an average of ¥766 per kilo, which was a ¥9 increase compared to the prior fiscal year.

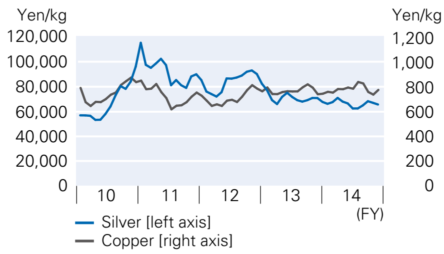
Index of Electronic Parts and Devices

(Seasonally adjusted indices, 2010 average = 100)

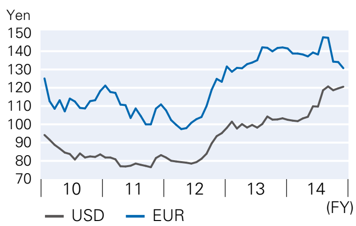


Source: Ministry of Economy, Trade and Industry

Silver and Copper Prices



Exchange Rates



Overview of Consolidated Results and Financial Condition

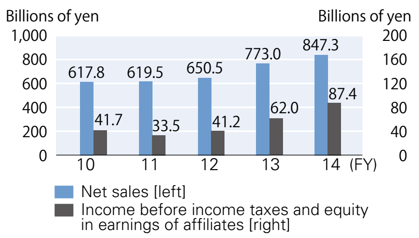
Note: Segment operating income is prepared using the single-step method (which does not show individual income levels) based on U.S. GAAP. For inter-company comparison, we have defined operating income as gross profit minus selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

The Omron Group recorded consolidated net sales of ¥847.3 billion for the fiscal year ended March 2015. This represented a 9.6% year-on-year increase, mainly driven by significant revenue gains in our Industrial Automation Business. Operating income improved 27.2% year on year, reaching ¥86.6 billion. This increase was again mainly due to Industrial Automation Business revenues and higher added value ratio. The Group reported income before income taxes and equity in earnings of affiliates of ¥87.4 billion (40.9% higher year on year) and net income attributable to shareholders of ¥62.2 billion (34.6% increase). In all, the Omron Group marked a third consecutive year of revenue and profit gains, as well as a second consecutive year of record earnings.

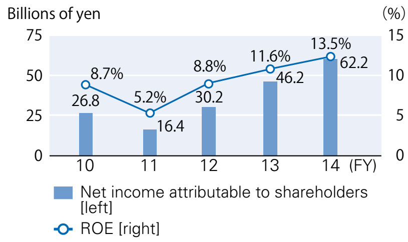
Total assets at the end of the period amounted to ¥711.0 billion, which was 8.6% higher compared to the end of the prior fiscal year. This increase was mainly due to increases in cash and cash equivalents, inventories, and other current assets. Acquisitions of property, plant and equipment also contributed to this total. Total shareholders' equity was ¥489.8 billion at the end of the period, up 13.8%. This increase was mainly due to significant gains in net income attributable to shareholders and fluctuations in foreign currency translation adjustments. Our shareholders' equity ratio rose 3.1 points to 68.9% for the year-end.

Return on equity rose nearly 2 points, from 11.6% to 13.5%, while return on invested capital improved from 11.3% to 13.4%.

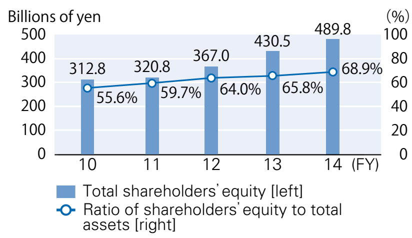
▌Net Sales and Income before Income Taxes and Equity in Earnings of Affiliates



▌Net Income Attributable to Shareholders and ROE



▌Total Shareholders' Equity and Ratio of Shareholders' Equity to Total Assets



Review and Analysis of Consolidated Statements of Income

Net Sales

The Omron Group recorded ¥847.3 billion in net sales for the year, which represented a ¥74.3 billion (9.6%) gain year on year. Among the goals we set in our EARTH-1 STAGE medium-term business plan, we made particularly notable progress in the Existing Business Strategy (strengthening of IA business), the Super-Global Growth Strategy, and the New Business Strategy for Optimization Society.

Looking at our performance by region, we see that Greater China once again reported the greatest gains in net sales and operating income. Japan struggled to a 2.1% year-on-year decrease, mainly due to the impact of higher consumption taxes on first-half performance. On the other hand, the Americas, Europe, Greater China, and Asia Pacific all reported higher revenues, with year-on-year gains of 22.3%, 7.4%, 27.0%, and 14.9%.

Cost of Sales and SG&A Expenses

The Omron Group saw cost of sales rise 8.2% for the fiscal year. This increase was mainly in line with revenue gains, coming in at 60.7% in cost of sales ratio, just 0.8-points lower than the prior fiscal year. The average per-kilo price of silver fell to ¥65,260 (compared to ¥70,655 for the prior year), while copper prices averaged ¥766 per kilo (compared to ¥757 for the prior year).

Selling, general, and administrative expenses rose ¥16.9 billion (9.3%) year on year. However, this increase was generally in proportion to net sales when compared to the prior year (23.4% for fiscal 2014 vs. 23.5% for fiscal 2013). R&D expenses were level year on year, falling to 5.7% of net sales, compared to a 6.2% mark for the prior fiscal year.

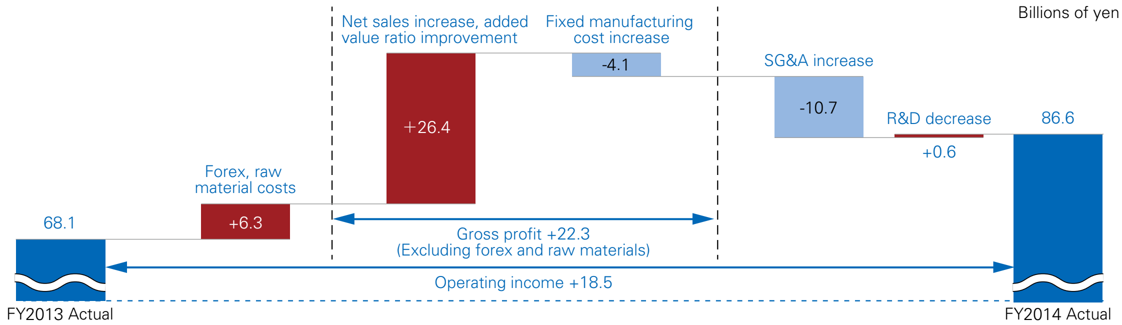
Other Expenses (Income)

The Omron Group recorded a net amount of ¥0.8 billion in other income, mainly from the sale of investment securities. This was a ¥6.8 billion decrease year on year.

Income before Income Taxes and Equity in Earnings of Affiliates, Net Income Attributable to Shareholders, and Profit Distribution

The Omron Group reported income before income taxes and equity in earnings of affiliates of ¥87.4 billion, representing a ¥25.4 billion gain year on year. Net income attributable to shareholders amounted to ¥62.2 billion, a ¥16.0 billion increase compared to the prior fiscal year.

▌Consolidated Operating Income Analysis (YoY)

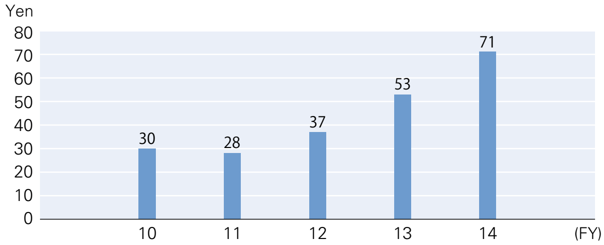


Per-share net income attributable to shareholders amounted to ¥283.9, an increase of ¥74.1 compared to the prior fiscal year.

The Company's basic policy for dividend payments is to secure sufficient internal capital resources for future growth while at the same time providing consistent shareholder returns. More specifically, our target for fiscal 2014 was a dividend payout ratio of 25% or greater. The Group has moved the fiscal 2016 payout ratio goal of 30% up by one year to fiscal 2015. We have left our target ratio for dividend on equity unchanged at 2%.

Given these policies, the Group was pleased to report an annual dividend of ¥71 for fiscal 2014, ¥18 per share higher than the prior fiscal year. Our consolidated dividend payout ratio was 25.0%, with a dividend on equity result of 3.4%. We project a ¥92 per share divided for fiscal 2015.

Dividends per Share



Costs, Expenses, and Income as Percentages of Net Sales

	FY2010	FY2011	FY2012	FY2013	FY2014
Net sales	100.0%	100.0%	100.0%	100.0%	**100.0%**
Cost of sales	62.5	63.2	62.9	61.5	**60.7**
Gross profit	37.5	36.8	37.1	38.5	**39.3**
Selling, general and administrative expenses	23.0	23.5	23.4	23.5	**23.4**
Research and development expenses	6.7	6.8	6.7	6.2	**5.7**
Other expenses (income), net	1.1	1.1	0.7	0.8	**(0.1)**
Income before income taxes and equity in earnings of affiliates	6.7	5.4	6.3	8.0	**10.3**
Income taxes	2.3	2.9	2.2	2.5	**3.4**
Net income attributable to shareholders	4.3	2.6	4.6	6.0	**7.3**

Segment Information

Note: Operating income

Segment operating income is prepared using the single-step method (which does not show individual income levels) based on U.S. GAAP. For inter-company comparison, we have defined operating income as gross profit minus selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

Note: Inter-segment transactions

The sales figure within segment information represents sales to external customers and excludes inter-segment transactions. Conversely, operating income includes income from inter-segment transactions before deductions of headquarters expenses and other non-allocable amounts.

1. Review of Operations by Business Segment

Industrial Automation Business (IAB)

Our Industrial Automation Business recorded net sales of ¥331.8 billion for fiscal 2014, a 13.7% gain year on year. Higher revenues and production efficiencies resulted in a 40.9% increase in operating income, up to ¥54.6 billion.

Japan experienced a gradual economic recovery throughout the year, with demand particularly strong for capital investment in the automobile and electronics components fields. Overseas, the weakened yen contributed to greater sales in every region. Of particular note was the growth in the Americas, supported by strong demand in automobiles and oil and gas. Greater China proved again to be a strong growth market for electronics components. The segment experienced a gradual recovery in Europe, while demand for electronics components in Asia was strong, driven in part by the devalued yen.

Electronic and Mechanical Components Business (EMC)

The Electronic and Mechanical Components Business recorded net sales of ¥103.9 billion, representing a 6.4% year-on-year gain. Operating income was higher by 17.5% year on year, reaching ¥10.2 billion.

In Japan, demand in the consumer electronics market and automobile industries was slow due to the increase in consumption tax rates. While demand in the consumer and commercial product industries other than consumer electronics remained level with the prior year, net sales decreased. Meanwhile, the weakened yen helped push net sales overseas significantly higher. In the Americas and Europe, demand for consumer and commercial products was strong, while new customers in Greater China—and our growth in consumer electronics in that market in particular—led to overall favorable results for the segment. In Asia as well, we saw growth in demand in the automobile-related industries.

Automotive Electronic Components Business (AEC)

The Automotive Electronics Components Business recorded net sales of ¥137.9 billion, an 8.9% year-on-year gain. Operating income grew 1.6% to ¥9.2 billion.

Domestically, higher consumption tax rates and slow sales among certain customers combined to drive sales lower year on year. Meanwhile, the weaker yen contributed to revenue gains overseas. In particular, the Americas reported strong sales growth, supported by the healthy U.S. economy, most notably during the fourth quarter. Asia and Greater China, where we continue to build market share, also reported strong sales for the year.

Social Systems, Solutions and Service Business (SSB)

The Social Systems, Solutions and Service Business recorded ¥80.4 billion in net sales for fiscal 2014, representing a 2.8% year-on-year decrease. Operating income experienced a 10.1% decrease to ¥5.0 billion.

Our railway infrastructure business delivered strong results due to railway infrastructure equipment facility upgrades, despite the lull in sales following the rush of purchases during the prior year in advance of consumption tax increases. Meanwhile, our traffic control and road control systems business underperformed the prior year due to the lack of capital investment in traffic control systems and other systems. Despite a decline in customer demand during the second half of the year, the Environmental Solutions Business was able to show overall sales gains, buoyed by demand for solar power generation system-related products.

Healthcare Business (HCB)

The Healthcare Business reported a 12.7% year-on-year gain in net sales, recording ¥100.6 billion in revenues. Meanwhile, operating income fell 13.7% to ¥6.5 billion. This decline was mainly due to our advance investments overseas, as well as to dramatic fluctuations in the currency trading markets during the second half of the year.

In Japan, higher consumption taxes and a revision in the medical payments system combined to place downward pressure on demand for institutional medical devices. However, successful in-store promotions and the introduction of new products such as massagers served to drive higher sales for our home-use healthcare and medical devices. Overseas, a slowing Russian economy and the political instability in Ukraine placed a drag on sales growth in Europe. Sales of new products, such as TENS, in the Americas helped drive earnings, as did strong performance of healthcare and medical devices in China, India, and other emerging countries.

Other Businesses

Other Businesses reported net sales of ¥87.4 billion, a year-on-year increase of 10.7%. Operating income came in at ¥8.4 billion, which was a decrease of 3.6% year on year, mainly due to investment activity.

Despite falling demand among certain Environmental Solutions Business customers during the second half of the year, increasing interest in renewable energy pushed domestic demand for PV inverters higher, resulting in strong demand during the year overall. The Electronic Systems & Equipment Business experienced demand for uninterruptible power supply units, industrial-use computers, and development and contract production services for electronic devices. Strong markets for smartphone microphones also helped drive earnings growth in our Micro Devices Business. A growing market for smartphones in Greater China has driven demand for thin, high-performance backlights in our Backlights Business.

Growth in Net Sales by Business Segment

	FY2012	FY2013	FY2014
IAB	(2.9)%	10.9%	**13.7%**
EMC	1.3	16.2	**6.4**
AEC	14.8	29.7	**8.9**
SSB	20.2	20.3	**(2.8)**
HCB	14.5	24.8	**12.7**
Other	10.7	33.3	**10.7**

Composition of Net Sales by Business Segment

	FY2012	FY2013	FY2014
IAB	40.4%	37.7%	**39.2%**
EMC	12.9	12.6	**12.3**
AEC	15.0	16.4	**16.3**
SSB	10.6	10.7	**9.5**
HCB	11.0	11.5	**11.9**
Other	9.1	10.2	**10.3**

Note: The composition of net sales is based on the classifications reported under Six-Year Summary on P. 79.

2. Review of Operations by Region

Japan

Total net sales for Japan came in at ¥337.7 billion, representing a 2.1% year-on-year decline. Operating income, however, grew a healthy 17.2% to ¥55.6 billion, due mainly to productivity and added value ratio improvements.

During the fiscal year, the Japanese market experienced strong demand for capital investment in the automobile and electronic components sectors. This demand helped push earnings growth in our Industrial Automation Business. In our Healthcare Business, sales of home-use healthcare and medical devices and other new products made a significant contribution to earnings. Meanwhile, the impact of higher consumption taxes was seen widely across our businesses in Japan, causing challenges in growing our Electronic and Mechanical Components Business, Automotive Electronic Components Business, and our Social Systems, Solutions and Service Business.

Americas

Our businesses in the Americas reported net sales of ¥123.5 billion, a 22.3% improvement year on year. Operating income was 713.5% higher, reaching ¥1.7 billion.

The Americas are in an overall recovery economically. Greater corporate activity, higher employment, and rising payrolls are all indicators pointing to a clear recovery in the United States. Strength in automobile demand in the Americas drove significantly improved earnings for our Industrial Automation Business and Automotive Electronic Components Business. At the same time, growth in the oil and gas sectors pushed demand for our Industrial Automation Business, while consumer and commercial product demand resulted in gains for our Electronic and Mechanical Components Business. Recovering consumer spending supported growth in our Healthcare Business during the fiscal year.

Europe

In Europe, our businesses reported net sales of ¥108.4 billion, representing a 7.4% increase year on year. Operating income came in 51.8% higher at ¥5.9 billion.

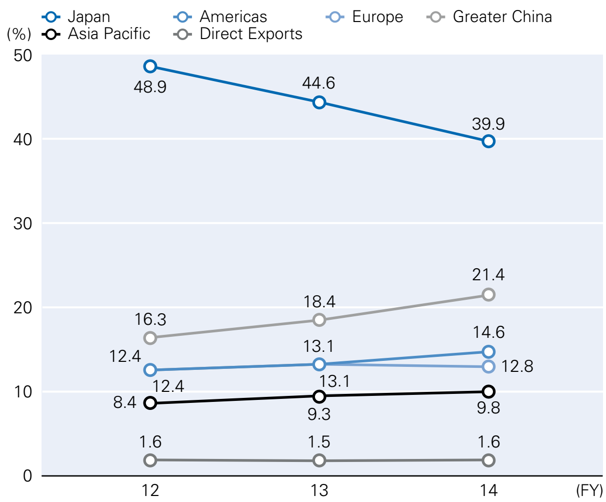
Despite the slowdown in the Russian economy and political instability in Ukraine, the European economy overall showed indications of a gradual recovery, with demand essentially level with the prior fiscal year. While our Healthcare Business in Russia and surrounding regions had been growing, we experienced slower growth in this region this year. However, earnings were supported by strong demand for products in our Industrial Automation Business and Electronic and Mechanical Components Business.

Greater China

Our businesses in Greater China reported net income of ¥181.0 billion, 27% higher than the prior fiscal year. Operating income amounted to ¥19.7 billion, representing 9.8% year-on-year growth. This result for revenues and profits was the highest of any of our regions.

Experts cited concerns of a slowdown in certain sectors of the Chinese economy during the fiscal year. Even so, we experienced significant earnings growth for our Industrial Automation Business, driven by higher demand in the electronic components market and steady capital investment. This region is demonstrating growing interest in mobile communications, home electronics, and electronic components for automobiles. As well, rising interest in personal health has spurred growth is sales of our health and medical equipment.

Sales Breakdown by Region



Asia Pacific

Our businesses in Asia Pacific reported net sales of ¥83.1 billion, 14.9% higher year on year. Operating income came in at ¥7.9 billion, representing an 11% gain.

Despite currency weaknesses, the economies of Thailand, Indonesia, and Korea were generally strong throughout the year. Our Industrial Automation Business was supported by strong demand in the electronic components industry. Electronic components for automobiles and consumer health and medical equipment likewise experienced strong demand.

Financial Condition

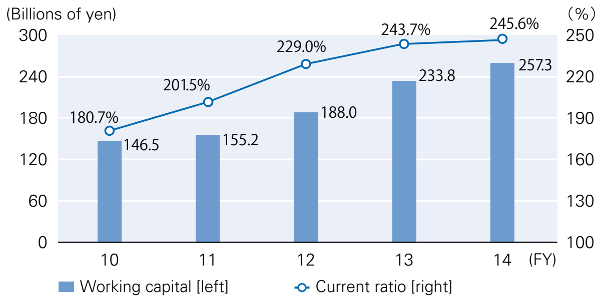
Assets

Total assets at the end of the period amounted to ¥711.0 billion, which was ¥56.3 billion (8.6%) higher compared to the end of the prior fiscal year. This increase was mainly due to increases in cash and cash equivalents, inventories, and other current assets. Acquisitions of property, plant and equipment also contributed to this total.

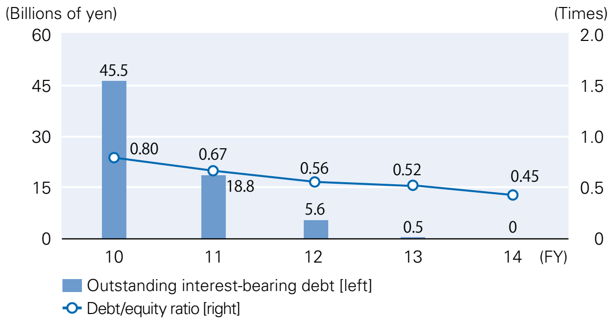
Liabilities and Shareholders' Equity

Total liabilities amounted to ¥218.9 billion, which was a ¥3.0 billion (1.4%) decrease compared to the end of the prior fiscal year. This decrease was mainly due to a reduction in allowance for retirement benefits. Shareholders' equity amounted to ¥489.8 billion, an increase of ¥59.3 billion (13.8%). This increase was mainly due to significantly higher net income attributable to shareholders, fluctuations in foreign currency translation adjustments associated with a weaker yen on the foreign exchange markets, and a decrease in treasury stock. As a result, shareholders' equity ratio improved 3.1-points compared to the prior fiscal year, up to 68.9%. Our debt/equity ratio likewise improved to 0.45 versus 0.52 in the prior year. Shareholders' equity per share was ¥2,254.37 compared to ¥1,956.06 in the prior year.

Working Capital and Current Ratio



Outstanding Interest-Bearing Debt and Debt/Equity Ratio



Cash Flows

Cash and cash equivalents at the end of the fiscal year amounted to ¥102.6 billion, an increase of ¥12.4 billion compared to the end of the prior fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥77.1 billion for year, down ¥2.0 billion compared to the prior fiscal year. This decrease was mainly due to a lower allowance for retirement benefits stemming from contributions to employee pension funds.

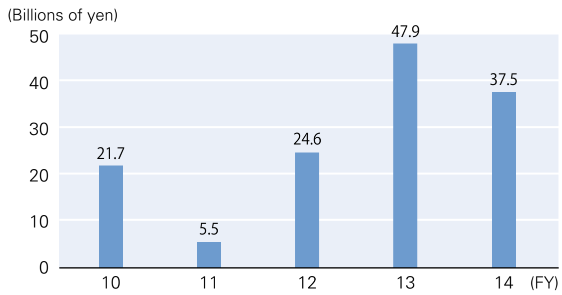
Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥39.5 billion for the year, an increase of ¥8.4 billion over the prior year. This increase was mainly due to investments in production and other facilities, as well as our acquisition of a nebulizer manufacturing and sales company in Brazil.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥29.3 billion, an increase of ¥13.0 billion compared to the prior fiscal year. This result was mainly due to payments of dividends and stock repurchases.

Free Cash Flow



About Omron
Where We're Headed
Corporate Value Initiatives
Corporate Value Foundation
Financial Section