

Special Feature: 2 Manufacturing Capability

Linking Strong Manufacturing Capability to Sustainable Gross Profit Margin Growth

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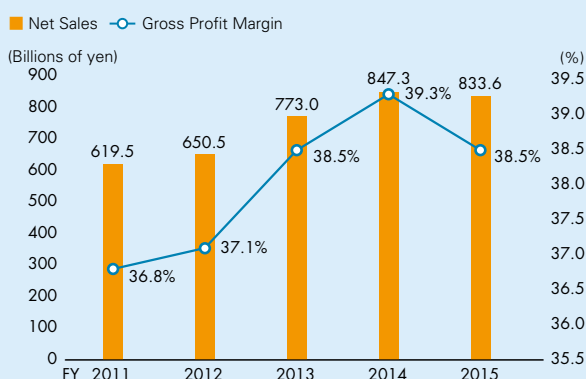
Managing Executive Officer
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We view gross profit margin (a measure of our ability to earn) as one of our most important key performance indicators. We implemented cost reduction activities and other internal measures between fiscal 2011 and 2014 to improve our gross profit margin. Owing to these measures and favorable foreign exchange, we raised our gross profit margin to 39.3%. Unfortunately, gross profit margin decreased to 38.5% for fiscal 2015, mainly due to a slowing Chinese economy, foreign exchange fluctuations, and other external

factors that drove down revenues. To achieve our VG2020 goals for fiscal 2020, we must be able to withstand external influences to create sustainable growth in gross profit margin. Here, we plan to improve our overall Group business mix, restructure variable costs, restructure fixed manufacturing costs, and strike a balance in our currency composition. As the lead of Omron manufacturing, we believe that stronger manufacturing capabilities translate directly to an improved ability to earn.

Net Sales, Gross Profit Margin



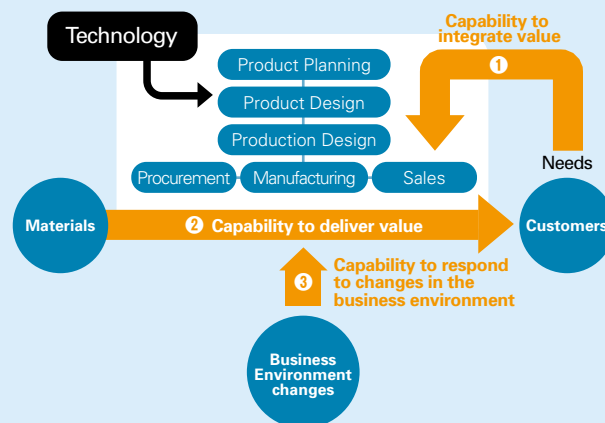
Major Initiatives for Improving Gross Profit Margin

Improve Business Mix	<ul style="list-style-type: none"> Accelerate growth of highly profitable businesses Portfolio management
Restructure Variable Costs	<ul style="list-style-type: none"> Promote component standardization
Restructure Fixed Manufacturing Costs	<ul style="list-style-type: none"> Improve productivity at overseas production bases
Balance Currency Composition	<ul style="list-style-type: none"> Balance currency composition to sales, purchase costs

1. Strong Manufacturing Capabilities

At Omron, we have a three-part definition for strong manufacturing capabilities: (1) Capability to integrate value; (2) Capability to deliver value; and (3) Capability to respond to changes in the business environment. As our businesses grow globally, we believe that our capability to deliver value to our customers is particularly important. We do this through optimal procurement of components and materials, optimal manufacturing processes, and optimal logistics. We have two specific measures to increase our capability in these areas. The first is to restructure our variable costs, mainly through standardized components. The second is to restructure our fixed manufacturing costs to improve productivity for optimal production processes and logistics. These

Strong Manufacturing Capabilities



measures will allow us to strengthen our capability to deliver value, improving our gross profit margin at the same time.

2. Restructuring Variable Costs

Improving Component Standardization

To date, we have made progress in standardizing parts, mainly in general electronic components. In the future, we plan to adopt standardization for more components in other product lines for resin molded components, printed circuit boards, and more. Naturally, we select standard components based on cost and quality. However, we also promote standardization by using the Omron Master Guide. This guide provides rules enforced during the design phase, as well as guidelines for component specifications. Under these measures, we are at nearly 100% adoption of standard components for new products. As our products advance along their lifecycles, we project an increase in purchases of standard components (as a percentage of materials costs) to rise from

15% in fiscal 2015 to 60% by fiscal 2020. We plan to accelerate corporate-wide initiatives to achieve this goal by working closely with our business divisions, convincing them of the importance of this target.

Costs and quality are not the only factors that influence our decision when selecting standard components. Our first priority is to determine whether the supplier is a potential long-term partner for Omron. Once that decision is made, then we look at cost and quality. Standard components offer several advantages compared to non-standard components. These advantages include cost savings, lower defect rates, and higher on-time delivery, among others. We also find another number of benefits by working

Benefits of Standard Materials/Components

	Indicator	Standard Components	Non-Standard Components
Cost	Cost Reduction Ratio	High	Low
Quality	Defect Rate	Low	High
Delivery	On-Time Delivery Rate	High	Low
Environment	Regulated Chemicals/Environmental Management	Reduce environmental risk based on guarantees related to environmentally hazardous substances	
Services	Payment Terms	Cash flow improvement through standard payment terms	
Technology	Advanced Technology Exchange	Coordinate technology road maps, perform joint development	

closely in partnership with our suppliers. Strong relationships reduce environmental risk by promoting the proper management of regulated chemical substances, improve cash flow based

on standard payment terms, and allow joint development through sharing the latest technologies.

3. Restructuring Fixed Manufacturing Costs

Improving Global Productivity

Today we produce 40% of our total in Japan, 30% in China, 10% in Southeast Asia, and 20% in Europe, the Americas, and other regions. We are making advances in automating our own production floors, particularly in China and Southeast Asia. However, soaring labor costs mean that improving productivity is still an urgent issue for us (and every manufacturer). To address this issue, we plan to accelerate restructuring of fixed manufacturing costs, focusing our efforts mainly in China. Specifically, we are working toward improving productivity through three initiatives:

1 Quality Assurance in Manufacturing Processes

We plan to move away from quality assurance based on manual post-process inspection to a system that ensures quality has been built into the process from the beginning. Standardizing components is one way that will help us be more efficient in receiving inspections. We will use information technology to share data with our supply partners for greater visibility and stronger relationships. We also plan to bring more visibility to inspection data and manufacturing process changes that affect quality. We will incorporate more information technology into our own production lines to

visualize data related to process quality, quickly identifying changes in quality on the production floor and repeating the cycle of improvement to continually raise the level of our manufacturing processes.

2 Standardizing Manufacturing Technology Processes

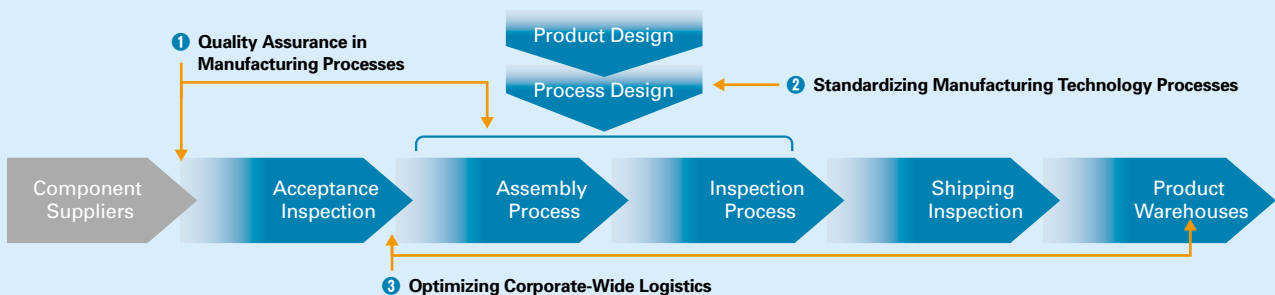
We will reduce the time needed to launch mass production by standardizing our manufacturing technology processes in all stages, from design to mass production. We also plan to accelerate visibility to the production line, allowing production floor leaders to proactively manage equipment maintenance and other operations.

3 Optimizing Corporate-Wide Logistics

Working from a corporate-wide perspective, we plan to optimize the logistics networks for products and components developed separately under each business and division. We will also drive greater efficiencies in warehouse management operations as we convert from manual processes to a digital format.

Moving forward, we will continue to strengthen our capability to integrate value, our capability to deliver value, and our capability to respond to changes in the business environment. We also plan to improve gross profit margins not impacted by factors in the external environment.

Initiatives for Productivity Improvements



Manufacturing Policy

During fiscal 2015, we created the Omron Manufacturing Policy. This policy formalized guidelines for practicing the Omron Principles in our manufacturing activities. As every employee involved in manufacturing learns and practices this policy, we will create greater value for customers and better solutions to social issues. And, as we communicate our policy to customers, suppliers, and partners, we will create a foundation of mutual trust and understanding. These long-term mutually cooperative relationships we build will lead to even greater advancements in our manufacturing capabilities.

1 ▶ Quality first

Our top priority is delivering products to customers at the promised levels of quality. The accepted convention is that a trade-off exists between cost and quality. At Omron, we don't believe in trade-offs; we believe in keeping our promises and delivering products of the highest quality to our customers.

2 ▶ 3F (Front-loading, Flowing & Flexible)

By front-loading, we mean integrating customers' demands for value into our earliest stages of product development. We imbue our products and services with this value, delivering what our customers need, in the volumes they need, when they need it (Flowing & Flexible).

3 ▶ H&E (Human-oriented & Eco-manufacturing)

We conduct Human-oriented manufacturing, rather than the type of manufacturing in which people become subservient to machines. By seamlessly integrating the relationship between human and machine, we create higher levels of productivity and an advanced production floor in which everyone involved in manufacturing can contribute their talents, intuition, and experience. Materials, water, electricity, land, buildings, and other resources are in finite supply. Omron believes in sustainable Eco-manufacturing that uses these resources with respect. Omron Eco-manufacturing technology provides the world with an example of how to conserve materials and energy, while producing high-quality products.