Fiscal 2015 in Review

Consolidated Results

Omron Group net sales for fiscal 2015 amounted to ¥833.6 billion, a 1.6% decline compared to fiscal 2014. Operating income amounted to ¥62.3 billion, a decline of 28.1%. Operating income margin fell to 7.5% (2.7-point decline), while net income attributable to shareholders amounted to ¥47.3 billion, a 23.9% drop-off.

The global economy benefited during the first half of fiscal 2015 from strong demand for capital investment, particularly in the U.S. and the EU. During the second half of the year, however, the Chinese economic slowdown and rapid appreciation of the yen led to concerns about the future direction of world economics. Reflecting this environment, our Industrial Automation Business, Automotive Electronic Components Business, and Healthcare Business recorded ongoing revenue growth. On the other hand, we experienced significant revenue declines in our Other Businesses segment. Looking toward long-term, sustainable growth, our mainstay Industrial Automation Business acquired two companies during the year. We believe these companies will provide a springboard for future expansion. At the same time, the segment incurred higher R&D expenses and other costs related to up-front investments for the future. These transactions had an impact on overall profits for the Group. This performance marked a year-on-year decline in revenues and profits for the first time in seven years.

Review of Consolidated Statement of Income

Net Sales

Omron Group net sales for fiscal 2015 fell to ¥833.6 billion, down ¥13.6 billion from the prior year (1.6%). This decrease was due to several dramatic changes in the business environment, including slowing demand in the solar power and smartphone markets and weak growth in the Chinese economy. By region, net sales in Greater China amounted to ¥162.5 billion, an ¥18.4 billion (10.2%) decrease. This decline was a significant drag on overall Group revenues. On the other hand, stable growth in the Americas led to strong demand for capital investment in the automobile and other industries. Southeast Asia and other emerging economies also showed strengthening demand for capital investment, as well as ongoing growth in markets for healthcare and medical devices. The strength in these regions combined to support overall revenue performance throughout the year.

Gross Profit Margin, SG&A Expenses and R&D Expenses

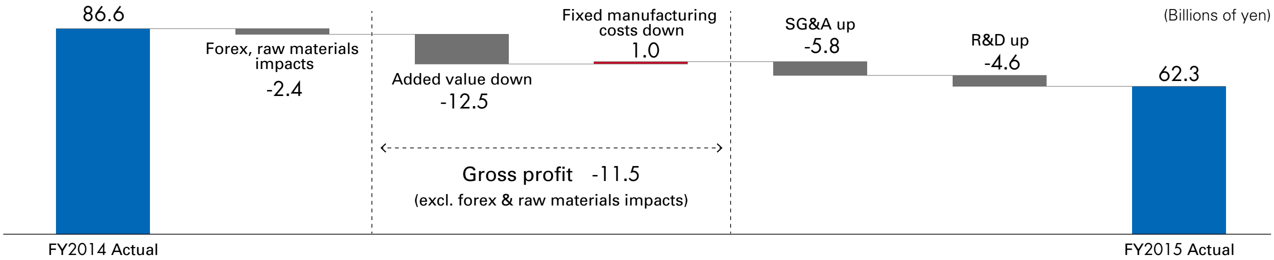
Gross profit margin for fiscal 2015 was down 0.8 point to 38.5%. This decline was mainly due to the impact of a stronger U.S. dollar, a weaker Euro, and weaker currencies among emerging economies. Controlling for these variables, raw materials costs, and other external factors shows that gross profit margin would have actually improved year-on-year. Selling, general and administrative expenses were ¥205.7 billion, up ¥7.6 billion from the prior year (1.3-point increase in comparison to net sales). This increase was mainly due to acquisitions and post-acquisition costs incurred to integrate these new entities into the Omron Group. R&D expenses amounted to ¥52.8 billion, up ¥4.9 billion (0.6-point increase in comparison to net sales). This increase was mainly due to up-front investment for future growth on the part of the Industrial Automation Business.

Operating Income, Income before Income Taxes, and Net Income Attributable to Shareholders

Omron Group operating income for the year was ¥62.3 billion (28.1% decrease), with avn operating income margin of 7.5% (2.7-point decrease).

Income before income taxes amounted to ¥65.7 billion (24.8% decrease), while net income attributable to shareholders came in at ¥47.3 billion for the year (23.9% decrease).

Consolidated Operating Income Analysis (YoY)



Note: SG&A and R&D expenses do not reflect foreign exchange or material costs. Accordingly, these figures do not match prior-year comparative figures on P84.

Review of Operations by Business Segment

Industrial Automation Business (IAB)

Our Industrial Automation Business recorded domestic net sales of ¥130.5 billion for fiscal 2015, a 2.9% gain year on year. This growth was mainly due to strong demand for capital investment in the automobile and electronic components fields. Revenues were lower overseas, primarily due to lower demand in the petroleum industry of the Americas. Europe reported revenue gains based on slightly improving business conditions in the region. The slowdown of the Chinese economy during the second half of the year resulted in overall sluggish demand. However, the positive impact of foreign exchange rates led to higher sales in the region. Weakening market conditions and currency weakness in Asia led to revenue declines in the ASEAN markets. Korea, however, experienced strong demand for electronic components, pushing revenues higher in that nation. As a result, overseas net sales amounted to ¥205.5 billion, an increase of 0.2% compared to fiscal 2014. While the segment reported higher revenues as a whole, investments for future growth resulted in increased R&D expenses, driving operating income down to ¥47.9 billion (12.2% year-on-year decline) for the year.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	270.8	263.0	291.7	331.8	336.0	336.0
Japan	123.1	116.3	119.4	126.7	130.5	136.0
Overseas	147.7	146.7	172.3	205.1	205.5	200.0
Americas	29.3	31.6	36.9	47.6	40.4	37.5
Europe	55.3	50.4	61.9	67.8	69.3	71.0
Greater China	36.8	39.4	43.8	55.0	58.3	55.0
Asia Pacific	25.3	24.7	28.9	34.1	36.9	36.0
Direct Exports	1.0	0.6	0.8	0.7	0.6	0.5
Operating income	35.4	31.3	38.8	54.6	47.9	46.5
Operating income margin	13.1%	11.9%	13.3%	16.5%	14.3%	13.8%
R&D expenses	15.4	16.5	15.7	15.3	18.2	
Depreciation and amortization	4.2	3.5	3.6	3.5	4.0	
Capital expenditures	3.8	2.8	3.3	4.2	5.3	

Electronic and Mechanical Components Business (EMC)

Domestic net sales for the segment were down 2.8% to ¥23.2 billion. Despite strong demand in the Japanese consumer and commercial product markets, the April 2015 tax hike on mini vehicles (*kei* cars) had a negative impact on the automobile industry. Overseas net sales rose 0.5% to ¥80.4 billion. The Americas, with strong demand in the automobile industries, and Europe, with strong demand in the consumer and commercial product industries, drove overseas revenue performance.

The increasing economic slowdown in China led to weak demand in the automobile and consumer and commercial products industries, resulting in lower revenues in that region. However, the added factors of a strong U.S. dollar and the positive impact of exchange rates for the Chinese yuan contributed to overall revenue growth overseas. While segment net sales were level with the prior year as a whole, investments in productivity improvements drove operating income down 16.5% to ¥8.5 billion.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	83.0	84.1	97.7	103.9	103.7	100.0
Japan	25.3	26.7	28.1	23.9	23.2	23.5
Overseas	57.7	57.4	69.6	80.0	80.4	76.5
Americas	13.2	13.1	16.6	18.1	19.9	18.0
Europe	12.9	11.3	14.7	15.9	16.1	15.5
Greater China	22.7	24.6	28.7	35.0	33.6	32.0
Asia Pacific	7.6	7.1	8.7	10.1	10.4	11.0
Direct Exports	1.3	1.4	0.9	0.9	0.5	0.0
Operating income	5.1	4.4	8.7	10.2	8.5	10.0
Operating income margin	6.2%	5.2%	8.9%	9.8%	8.2%	10.0%
R&D expenses	5.5	5.2	6.0	5.4	4.9	
Depreciation and amortization	7.2	7.4	7.8	8.0	8.3	
Capital expenditures	9.9	8.9	10.9	9.5	8.9	

Automotive Electronic Components Business (AEC)

Domestically, net sales were down 18.5% to ¥21.1 billion. This was mainly the result of the tax hike on mini vehicles resulting in significantly lower auto production. Overseas sales amounted to ¥118.9 billion, which was a 6.1% increase year on year. While inventory adjustments among our Chinese customers resulted in lower demand, favorable business conditions in North America drove continued growth in demand, raising overseas segment net sales. Overall segment operating income was down 20.5% on the year to ¥7.3 billion. Despite growth in overseas revenues, lower domestic sales and higher R&D expenses combined for this result.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	85.0	97.6	126.6	137.9	140.0	130.0
Japan	28.9	30.2	28.4	25.9	21.1	17.5
Overseas	56.1	67.4	98.2	112.0	118.9	112.5
Americas	21.5	25.0	33.3	39.3	47.6	44.5
Europe	2.4	2.8	3.3	3.6	4.6	4.0
Greater China	9.5	13.9	25.4	29.9	27.4	27.0
Asia Pacific	16.2	19.5	29.2	32.2	31.9	30.5
Direct Exports	6.5	6.2	7.2	7.1	7.3	6.5
Operating income	2.7	5.0	9.1	9.2	7.3	6.5
Operating income margin	3.2%	5.1%	7.2%	6.7%	5.2%	5.0%
R&D expenses	6.6	7.0	8.2	8.5	9.3	
Depreciation and amortization	2.1	2.4	3.4	4.7	5.3	
Capital expenditures	5.2	5.5	6.7	6.5	6.9	

Social Systems, Solutions and Service Business (SSB)

Total segment net sales amounted to ¥77.5 billion for the year (3.6% decrease), while operating income was ¥3.2 billion (36.0% decrease). The public transportation business reported significantly higher sales for the year, driven mainly by demand for updated station equipment. Our traffic and road management system business also experienced significant growth, mainly due to strong capital investment resulting in higher volumes of sales in terminals for use in traffic-related applications. Meanwhile, slow demand for solar power and related markets led to significantly lower revenues in our environmental solutions business products and services.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	57.2	68.8	82.7	80.4	77.5	70.0
Japan	56.9	68.5	82.4	79.1	75.7	69.0
Overseas	0.3	0.3	0.3	1.3	1.8	1.0
Americas	0.0	0.0	0.0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	0.0	0.0	0.0
Greater China	0.0	0.1	0.2	0.3	0.6	0.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct Exports	0.3	0.2	0.1	1.1	1.2	0.5
Operating income	0.1	2.9	5.6	5.0	3.2	4.0
Operating income margin	0.2%	4.2%	6.7%	6.2%	4.1%	5.7%
R&D expenses	2.2	2.2	2.5	2.1	2.2	
Depreciation and amortization	1.1	1.1	1.2	1.4	1.2	
Capital expenditures	0.9	15	1.5	1.7	1.5	

Healthcare Business (HCB)

Net sales for the Healthcare Business segment amounted to ¥108.1 billion, representing an increase of 7.5%. Operating income was up 11.9% to ¥7.3 billion. Domestic net sales fell slightly to ¥31.1 billion (1.0% decrease). We reported sales growth for home-use healthcare and medical devices. This growth came mainly from captured inbound tourist demand, the introduction of new blood pressure monitors and other new products, and stronger in-store promotions of massagers and other products. On the other hand, slack capital investment among medical institutions led to lower demand for institutional equipment. Overseas sales increased by a significant margin, up 11.3% to ¥77.0 billion. Sales in the Americas were driven by synergies with one of our Brazilian subsidiaries acquired in fiscal 2014 and strong demand for nebulizers (inhalers to treat respiratory diseases) in South America. At the same time, demand for medical devices continued to grow in China and Asia.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	62.4	71.5	89.3	100.6	108.1	108.0
Japan	27.2	29.5	30.8	31.4	31.1	32.5
Overseas	35.2	42.0	58.5	69.2	77.0	75.5
Americas	9.8	10.8	14.3	18.6	23.1	22.0
Europe	13.0	15.9	21.0	21.2	19.2	19.0
Greater China	8.6	11.1	17.3	22.4	25.4	25.0
Asia Pacific	2.9	3.5	5.5	6.6	8.9	9.0
Direct Exports	0.9	0.7	0.4	0.5	0.5	0.5
Operating income	2.9	4.4	7.5	6.5	7.3	8.0
Operating income margin	4.7%	6.2%	8.5%	6.5%	6.7%	7.4%
R&D expenses	5.1	5.0	5.2	5.5	6.1	
Depreciation and amortization	1.5	1.9	2.3	3.3	3.7	
Capital expenditures	2.8	3.1	3.9	3.9	2.8	

Other Businesses

The Other Businesses segment recorded net sales of ¥63.0 billion, down 27.9% year on year. The segment recorded an operating loss of ¥4.1 billion. With the decrease in demand in the Chinese smartphone market, revenues for the Backlights Business decreased by a significant margin. In the meantime, slow demand in the solar power market drove revenues down in our Environmental Solutions Business. Net sales in our Electronic Systems and Equipment Business outperformed the prior year, driven higher by strong demand for uninterruptible power supply units and development/contract production services for electronic devices. On the other hand, revenues were lower in our Micro Devices Business due to slow demand for smartphone microphones.

(Billions of yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016 (Forecast)
Net sales	53.5	59.2	78.9	87.4	63.0	71.0
Japan	29.5	41.4	51.0	45.8	44.0	42.0
Overseas	24.0	17.8	27.9	41.6	19.0	29.0
Americas	0.0	0.0	0 .0	0.0	0.0	0.0
Europe	0.0	0.0	0.0	0.0	0.0	0.0
Greater China	22.6	16.3	25.6	38.2	17.1	25.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct Exports	1.4	1.5	2.3	3.4	1.9	3.5
Operating income	(3.6)	2.5	8.7	8.4	(4.1)	1.5
Operating income margin	–	4.3%	11.0%	9.6%	–	2.1%
R&D expenses	2.8	3.0	4.3	5.5	4.6	
Depreciation and amortization	0.9	1.4	2.0	2.5	3.1	
Capital expenditures	2.1	2.5	4.0	6.9	5.3	

Review of Financial Condition

Total assets at the end of the period amounted to ¥683.3 billion, which was ¥27.7 billion lower than the end of the prior fiscal year. This decrease was mainly due to decreases in cash and cash equivalents used for share buybacks. In addition, we established a retirement benefit trust designed for more efficient pension reserves. As we have transferred a portion of investment securities to this retirement benefit trust, the balance of investment securities decreased ¥20.1 billion compared to the end of the prior fiscal year. Total liabilities amounted to ¥236.3 billion, which was a ¥17.4 billion increase. The main factor in this increase was a ¥31.9 billion increase in allowance for retirement benefits due to a major reduction in the discount rate used for calculating benefit obligations. Total net assets amounted to ¥447.0 billion, which was a decrease of ¥45.1 billion. Pension liability adjustments, affected by low interest rates, and foreign currency translation adjustments, impacted by a strong yen, contributed to other comprehensive loss of ¥50.2 billion. This decreased shareholders' equity by ¥45.1 billion compared to the end of the prior fiscal year. Shareholders' equity ratio fell by 3.8 points to 65.1%, while the debt equity ratio increased 0.08 points to 0.53.

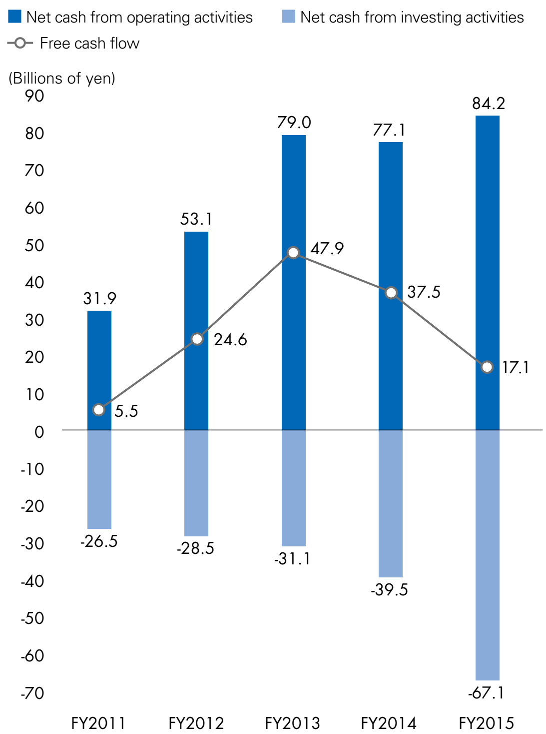
Capital Expenditures

During fiscal 2015, the Omron Group made a total capital investment of ¥36.9 billion, which was a 3.4% decrease compared to fiscal 2014. Our Industrial Automation Business engaged in active capital investment in infrastructure and productivity improvements to serve as the basis for future growth. On the other hand, the Other Businesses segment revised its investments in response to dramatic changes in the external environment. As a whole, the Group spent ¥1.3 billion less in capital investment than the prior year.

Cash Flows

Cash and cash equivalents at the end of fiscal 2015 amounted to ¥82.9 billion, a decrease of ¥19.7 billion compared to the end of the prior fiscal year. Net cash provided by operating activities amounted to ¥84.2 billion for fiscal 2015. This was an increase of ¥7.2 billion over the prior year, resulting mainly from increased depreciation and amortization and decreases in accounts receivable and inventories. Net cash used in investing activities amounted to ¥67.1 billion, an increase of ¥27.6 billion year over year. While we maintained capital expenditures (¥37.9 billion) at the same level as fiscal 2014, we also spent ¥33.4 billion in cash for mergers and acquisitions. Free cash flow based on net cash provided by operating activities and used in investing activities amounted to ¥17.1 billion, which was a decrease of ¥20.4 billion. Net cash used in financing activities increased ¥2.2 billion over the prior year, reaching ¥31.6 billion. The Omron Group paid ¥16.1 billion in dividends (¥3.1 billion increase over fiscal 2014) and ¥15.0 billion for stock buybacks (nearly level with prior year).

Cash Flows



Capital Policies (Dividends, Share Buybacks and Cancellations)

Our policy for profit distribution is to secure sufficient internal capital for future growth, while at the same time providing consistent shareholder returns. In fiscal 2015, we applied our medium-term business plan target for fiscal 2016 of a payout ratio of 30% a year earlier. Our actual payout ratio for fiscal 2015 was 31.1% (6.1-point increase compared to fiscal 2014), which translated into a ¥68 per share dividend for the year. Our dividend on equity ratio was 3.1%, which was a 0.3-point decrease compared to the prior year.