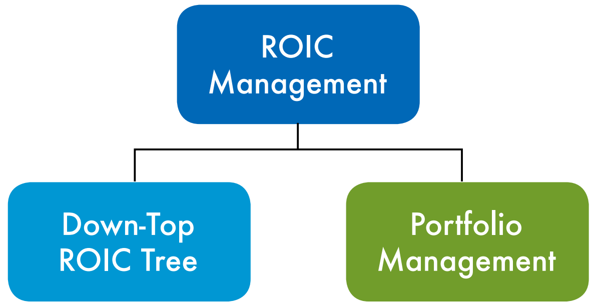
ROIC Management

OMRON has selected ROIC as a key performance indicator for our business. We stress ROIC management throughout our organization to encourage further improvement. Our new VG2.0 medium-term management plan emphasizes ROIC management, which we will use to reach a new level of growth.

Why ROIC?

OMRON encompasses a number of business divisions with varied characteristics. We believe ROIC is an excellent measure for assessing business performance fairly for each business. Using operating income or operating income margin as an indicator doesn't account for variances due to the nature or scope of a business. ROIC, on the other hand, measures return on invested capital, providing a fair assessment. Under VG2.0, we have defined four focus domains. ROIC is an indispensable tool as we continue to grow our unique business portfolio.

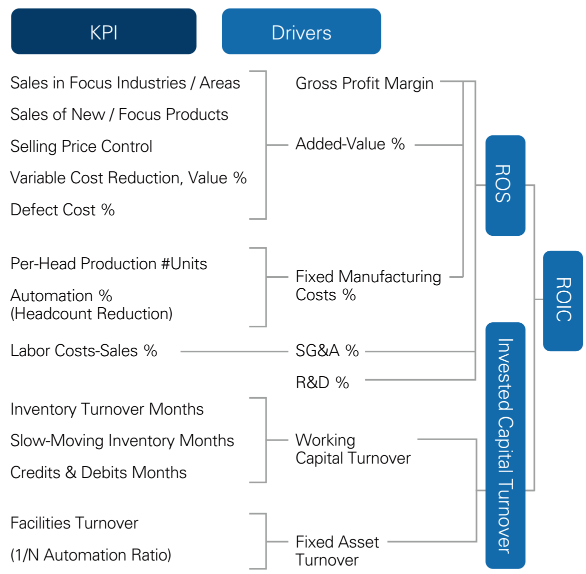
More specifically, ROIC management consists of Down-Top ROIC Tree and Portfolio Management.



Down-Top ROIC Tree

Down-Top ROIC Tree breaks ROIC into key performance indicators for each department, allowing us to improve ROIC at the most basic operating level. Using simple ROS or invested capital turnover as ROIC indicators are ineffective, since they do not relate directly to front-line operations. On-site managers would have trouble thinking of ways to improve ROIC using these indicators. However, we can break ROIC down into automation / head count reduction or facilities turnover as KPIs of manufacturing departments. With these indicators, managers can finally see how their goals tie directly to ROIC improvement initiatives. At OMRON, one of our greatest strengths is our unified approach to improving ROIC from the ground level up.

Down-Top ROIC Tree

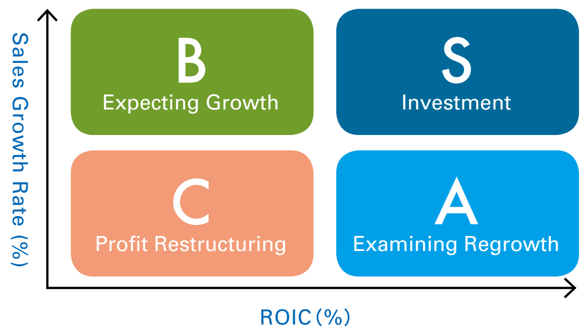


Portfolio Management

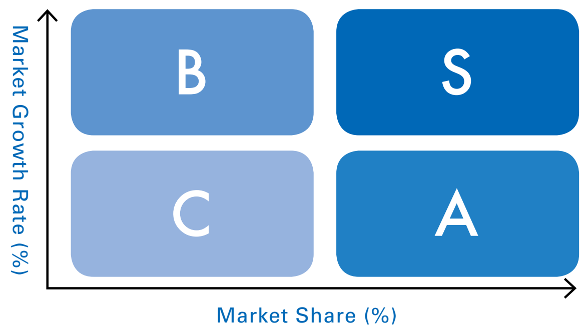
OMRON consists of approximately 90 business units, each subject to a portfolio management system that assesses the economic value of the unit according to (1) ROIC and (2) sales growth rate. In this way, OMRON management can make proper and timely decisions related to new business entry, growth acceleration,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

We consider both the economic value and the market competitiveness of a business to allocate limited resources in an optimal manner. This assessment system allows us to identify the growth potential of each business unit, making an optimal allocation of our resources.

Assessing Economic Value



Assessing Competitiveness

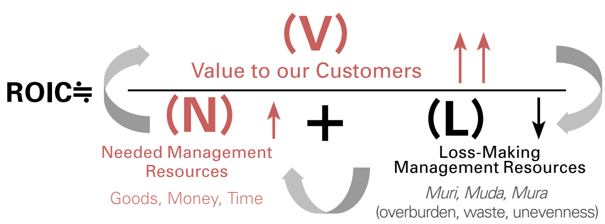


Embracing ROIC Management

To promote ROIC management more widely, we introduced *ROIC Management 2.0* in 2015. *ROIC Management 2.0* incorporates a qualitative interpretation of ROIC. The interpreted formula tells us to add needed management resources (N) and generate greater levels of value to our customers (V), while reducing loss-making management resources (L). Using this simple interpreted formula, our employees in charge of sales or development functions who may be unfamiliar with financial statement concepts are able to envision ROIC improvement measures in their day-to-day work.

Staff in charge of business unit accounting and finance act as ambassadors responsible for promoting *ROIC Management 2.0*. Ambassadors provide simple case studies of successful *ROIC Management 2.0* initiatives to raise awareness of ROIC on the front lines of our businesses around the world.

ROIC Translation under ROIC Management 2.0



① Actively invest needed management resources (N) in order to create value

② Realize value to our customers (V) more than the investment amount (↑↑>↑)

③ Reduce loss-making management resources (L) and shift / invest it to (N)