Fiscal 2016 in Review

Consolidated Earnings

Fiscal 2016 was the final year of EARTH-1 STAGE. During the year, our goals were to rebuild our earnings structure and to create an engine for self-driven growth. During the year, we worked to rebuild our earnings structure, as well as to generate businesses and innovations that drive growth. Fiscal 2016 net sales decreased 4.7% year on year to ¥794.2 billion. In addition to growth in our mainstay Industrial Automation Business, we also made strides in improving our company-wide ability to generate earnings.

This improvement resulted in operating income of ¥67.6 billion (8.5% increase year on year) and operating income margin of 8.5% (1.0-point increase).

Net income attributable to OMRON shareholders amounted to ¥46.0 billion, which was 2.8% lower than prior year. This decrease was primarily due to restructuring in our Backlights Business.

Consolidated Statement of Income

Net Sales

OMRON Group net sales for fiscal 2016 fell to ¥794.2 billion, down 4.7% from the prior year. This decrease owed in part to the negative impact of yen appreciation. Overseas net sales amounted to ¥463.8 billion, a ¥39 billion (7.8%) decrease. Our divestment of a oil-related business in the Americas and the impact of lower Backlights Business sales in Greater China were the major factors that combined to drive sales down. OMRON recorded ¥330.4 billion in net sales in Japan, a slight decrease of 0.1%.

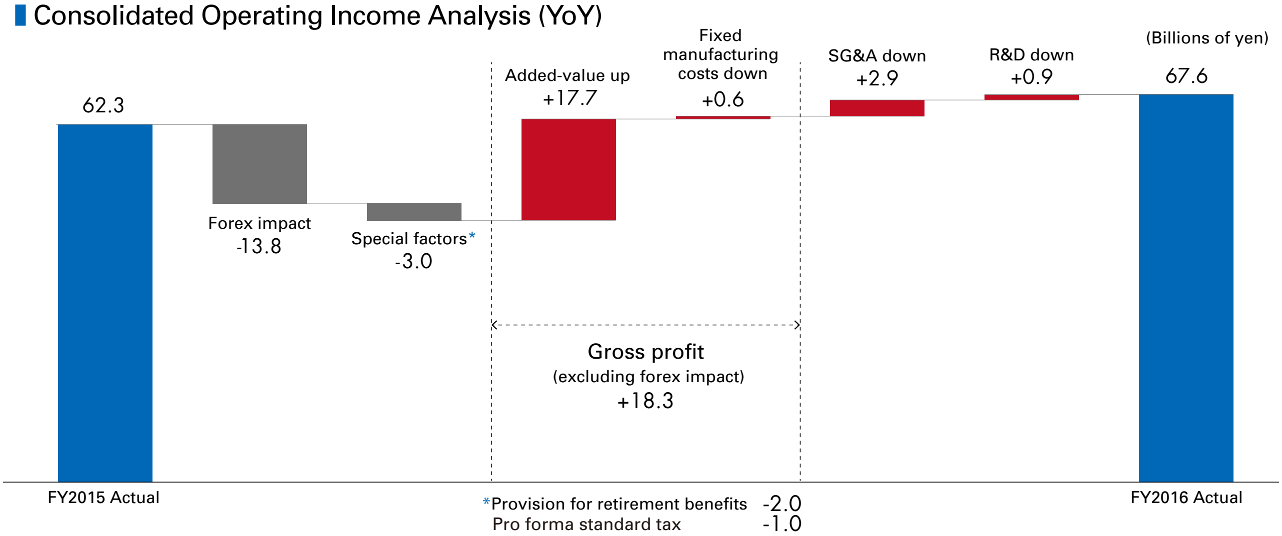
Gross Profit Margin, SG&A Expenses, and R&D Expenses

Gross profit margin for fiscal 2016 was 39.3%, a 0.8-point increase compared to the prior fiscal year. This improvement was mainly due to ongoing efforts to improve variable cost ratios and lower fixed manufacturing costs. Selling, general and administrative expenses were ¥193.5 billion, down 5.9% from the prior year. Research and development expenses amounted to ¥50.7 billion, down 4.0%.

Operating Income, Income before Income Taxes and Equity in Earnings of Affiliates, and Net Income Attributable to OMRON Shareholders

OMRON Group operating income for the year was ¥67.6 billion (8.5% increase), while our operating income margin was 8.5% (1.0-point increase). Non-operating expenses, including impairments and restructuring in our Backlights Business, drove income before income taxes and equity in earnings of affiliates down 0.3% to ¥65.5 billion. Net income attributable to OMRON shareholders amounted to ¥46.0 billion, down 2.8%.

Consolidated Operating Income Analysis (YoY)



Review of Operations by Business Segment

Industrial Automation Business (IAB)

Our Industrial Automation Business recorded domestic net sales of ¥133.5 billion for fiscal 2016, a 2.3% increase year on year. This result was mainly due to higher sales in our digital and other focus sectors. Sales were lower overseas, mainly due to the divestment of an oil-related business in the Americas. At the same time, however, demand was solid in the automobile-related industries. Sales increased in Europe year on year, due to the contributions of a U.S.-based subsidiary acquired by the OMRON Group. The weak euro also led to strong demand for export company products. In Greater China, demand was strong in the digital, infrastructure, and environmental-related industries. Increased digital industry investment in South Korea helped spur greater sales in Asia. However, the negative impact of foreign exchange and other factors resulted in overseas net sales falling 3.9% year on year to ¥197.5 billion. While the segment reported lower sales of ¥331.0 billion (1.5% decrease) as a whole, ongoing efforts to add more value to products resulted in higher gross profit margin, leading to an 8.5% increase in operating income at ¥52.0 billion.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	263.0	291.7	331.8	336.0	331.0	350.0
Japan	116.3	119.4	126.7	130.5	133.5	140.0
Overseas	146.7	172.3	205.1	205.5	197.5	210.0
Americas	31.6	36.9	47.6	40.4	30.3	32.0
Europe	50.4	61.9	67.8	69.3	65.6	69.0
Greater China	39.4	43.8	55.0	58.3	59.6	64.0
Asia Pacific	24.7	28.9	34.1	36.9	41.3	45.0
Direct exports	0.6	0.8	0.7	0.6	0.6	0.0
Operating income	31.3	38.8	54.6	47.9	52.0	56.0
Operating income margin	11.9%	13.3%	16.5%	14.3%	15.7%	16.0%
R&D expenses	16.5	15.7	15.3	18.2	16.4	
Depreciation and amortization	3.5	3.6	3.5	4.0	4.2	
Capital expenditures	2.8	3.3	4.2	5.3	4.5	

Electronic and Mechanical Components Business (EMC)

Domestic net sales for the segment decreased by 3.4% to ¥22.5 billion. This decrease was mainly due to declining demand in the amusement industry. Overseas, inventory adjustments among our customers in the automotive-related industries in the Americas resulted in lower demand. In Europe, demand in automotive-related industries was strong. In Greater China, demand in the consumer and commercial products industries decreased while demand was solid in the automotive-related industries. In Asia, demand was robust in both the consumer and commercial product industries and the automobile-related industries. Owing in part to the strong yen, overseas net sales fell 11.1% to ¥71.5 billion, while the segment as a whole recorded net sales of ¥93.9 billion, a 9.4% decrease. Profits improved over the prior fiscal year, mainly due to productivity improvements enacted during fiscal 2015. Fiscal 2016 operating income amounted to ¥9.4 billion, a gain of 11.0%.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	84.1	97.7	103.9	103.7	93.9	94.0
Japan	26.7	28.1	23.9	23.2	22.5	21.5
Overseas	57.4	69.6	80.0	80.5	71.4	72.5
Americas	13.1	16.6	18.1	19.9	16.3	15.5
Europe	11.3	14.7	15.9	16.1	14.8	14.5
Greater China	24.6	28.7	35.0	33.6	29.0	30.0
Asia Pacific	7.1	8.7	10.1	10.4	11.3	12.5
Direct exports	1.4	0.9	0.9	0.5	0.1	0.0
Operating income	4.4	8.7	10.2	8.5	9.4	9.0
Operating income margin	5.2%	8.9%	9.8%	8.2%	10.0%	9.6%
R&D expenses	5.2	6.0	5.4	4.9	4.6	
Depreciation and amortization	7.4	7.8	8.0	8.3	7.9	
Capital expenditures	8.9	10.9	9.5	8.9	6.5	

Automotive Electronic Components Business (AEC)

In Japan, net sales decreased 10.0% to ¥19.0 billion. This was mainly the result of declining production of mini vehicles (*Kei* cars). Overseas sales amounted to ¥113.1 billion, a decrease of 4.9%. Economic growth in the U.S. drove demand growth in the Americas. At the same time, government tax breaks in Greater China resulted in strong sales and demand for automobile-related products in that region. Despite these positive factors, the appreciation of the yen had a major negative impact on overseas results. As a result, sales for the segment as a whole fell to ¥132.1 billion, down 5.6% for the year. Operating income fell 2.9% to ¥7.1 billion, mainly due to lower sales for the segment.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	97.6	126.6	137.9	140.0	132.1	131.0
Japan	30.2	28.4	25.9	21.1	19.0	15.5
Overseas	67.4	98.2	112.0	118.9	113.1	115.5
Americas	25.0	33.3	39.3	47.6	43.9	42.0
Europe	2.8	3.3	3.6	4.6	3.9	3.0
Greater China	13.9	25.4	29.9	27.4	28.0	30.0
Asia Pacific	19.5	29.2	32.2	31.9	30.1	32.5
Direct exports	6.2	7.2	7.1	7.3	7.2	8.0
Operating income	5.0	9.1	9.2	7.3	7.1	6.5
Operating income margin	5.1%	7.2%	6.7%	5.2%	5.4%	5.0%
R&D expenses	7.0	8.2	8.5	9.3	9.2	
Depreciation and amortization	2.4	3.4	4.7	5.3	4.9	
Capital expenditures	5.5	6.7	6.5	6.9	5.2	

Social Systems, Solutions and Service Business (SSB)

Sales in our public transportation business declined significantly compared to the prior year, as the demand cycle for upgrading station equipment reached a low point during fiscal 2016. Demand for both upgrades to traffic-related terminals and investment in expressways was weak. As a result, sales in the traffic and road management system business also decreased compared with the previous fiscal year. Further, demand fell in the solar power and related markets, driving down performance in the environmental solutions business significantly. As a result, segment net sales fell 13.4% to ¥67.1 billion. Despite lower sales for the year, fiscal 2016 operating income was significantly higher, increasing 25.3% to ¥4.0 billion. This result was mainly due to productivity improvement initiatives.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	68.8	82.7	80.4	77.5	67.1	63.5
Japan	68.5	82.4	79.1	75.7	66.5	62.0
Overseas	0.3	0.3	1.3	1.8	0.6	1.5
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	0.1	0.2	0.3	0.6	0.3	0.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct exports	0.2	0.1	1.1	1.2	0.3	1.0
Operating income	2.9	5.6	5.0	3.2	4.0	4.0
Operating income margin	4.2%	6.7%	6.2%	4.1%	6.0%	6.3%
R&D expenses	2.2	2.5	2.1	2.2	1.8	
Depreciation and amortization	1.1	1.2	1.4	1.6	1.4	
Capital expenditures	1.5	1.5	1.7	1.5	1.4	

† We have revised our business classification, reclassifying certain operations under SSB to the Other Business segment beginning with fiscal 2017.

Healthcare Business (HCB)

Despite steady growth in sales of online home-use healthcare equipment in Japan, demand for these products was weak at big home appliance retailers in suburban areas. Sales of institutional equipment decreased, primarily due to the transfer of shares of a medical equipment subsidiary. As a result, sales in Japan fell to ¥28.9 billion, a decrease of 7.1% for the year. Overseas, sales of blood pressure monitors in Brazil were strong. In addition to sales of new blood pressure monitor products in Russia, the expansion of dealer networks throughout Europe contributed to ongoing solid performance throughout the region. In Greater China, the online market continued to expand while demand in pharmacies and other store channels was weak. Demand was strong in Asia. Despite these positive factors, the strong yen had a major negative impact on overseas results, driving sales down 6.0% for the year to ¥72.4 billion. Segment sales amounted to ¥101.3 billion, down 6.3%. However, productivity improvements and other initiatives combined for significant profit gains. As a result, operating income amounted to ¥8.5 billion, up 17.2%.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	71.5	89.3	100.6	108.1	101.3	1,05.0
Japan	29.5	30.8	31.4	31.1	28.9	27.0
Overseas	42.0	58.5	69.2	77.0	72.4	78.0
Americas	10.8	14.3	18.6	23.1	21.7	22.5
Europe	15.9	21.0	21.2	19.2	18.3	18.5
Greater China	11.1	17.3	22.4	25.4	23.1	25.5
Asia Pacific	3.5	5.5	6.6	8.9	9.0	11.0
Direct exports	0.7	0.4	0.5	0.5	0.3	0.5
Operating income	4.4	7.5	6.5	7.3	8.5	9.5
Operating income margin	6.2%	8.5%	6.5%	6.7%	8.4%	9.0%
R&D expenses	5.0	5.2	5.5	6.1	6.2	
Depreciation and amortization	1.9	2.3	3.3	3.8	3.3	
Capital expenditures	3.1	3.9	3.9	2.8	2.2	

Other Businesses

Sales decreased significantly for the year, mainly due to performance in our Backlights Business, affected by falling prices in the smartphone market and weak demand for high-end smartphones in Greater China. While our Environmental Solutions Business continued to experience weak demand in the solar power generation-related market, expanded product offerings in storage batteries contributed to year-on-year sales gains. In our Electronic Systems and Equipment Business, demand was strong for uninterruptible power supply units and contract services for the development and production of electronic devices. Accordingly, sales increased compared to the prior fiscal year. Due to weak demand for smartphone microphones, sales in our Micro Devices Business fell year on year. The Other Businesses segment as a whole, recorded ¥63.3 billion in net sales, an increase of 0.4% year on year. The segment recorded an operating loss of ¥2.1 billion, narrowing losses compared to the prior year, primarily due to more effective controls over fixed costs.

(Billions of yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (Forecast)
Net sales	59.2	78.9	87.4	63.0	**63.3**	**60.0**
Japan	41.4	51.0	45.8	44.0	**55.0**	**53.5**
Overseas	17.8	27.9	41.6	19.0	**8.3**	**6.5**
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	16.3	25.6	38.2	17.1	**7.3**	**6.0**
Asia Pacific	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Direct exports	1.5	2.3	3.4	1.9	**1.0**	**0.5**
Operating income (loss)	2.5	8.7	8.4	(4.1)	**(2.1)**	**(1.0)**
Operating income margin	4.3%	11.0%	9.6%	—	—	—
R&D expenses	3.0	4.3	5.5	4.6	**3.7**	
Depreciation and amortization	1.4	2.0	2.5	3.1	**1.7**	
Capital expenditures	2.5	4.0	6.9	5.3	**1.4**	

† We have revised our business classification, reclassifying certain operations under SSB to the Other Business segment beginning with fiscal 2017.

Review of Financial Condition

Total assets at the end of fiscal 2016 amounted to ¥697.7 billion, an increase of ¥14.4 billion compared to the end of the prior fiscal year. This increase stems from an increase in cash and cash equivalents of ¥43.1 billion.

Total liabilities decreased ¥9.3 billion to ¥226.9 billion. While current liabilities increased ¥9.4 billion compared to the end of the prior fiscal year, termination and retirement benefits decreased by ¥18.6 billion.

Net assets increased ¥23.7 billion to ¥470.8 billion. Net income attributable to OMRON shareholders and other factors led to an increase in retained earnings of ¥28.8 billion. As a result, shareholders' equity amounted to ¥469.0 billion (year-on-year increase of ¥24.3 billion), while shareholders' equity ratio increased 2.1 points to 67.2%. This decrease in liabilities and increase in shareholders' equity resulted in a debt-equity ratio of 0.48, an improvement of 0.05 points.

Capital Expenditures

The OMRON Group made ¥25.7 billion in total capital investments during fiscal 2016, representing a 30.3% decrease compared to the prior fiscal year. The Group engaged in a deliberate approach to investment, performing due diligence of each project in light of the negative impact of yen appreciation and other factors contributing to an uncertain business environment.

Cash Flows

Cash and cash equivalents as of the end of fiscal 2016 amounted to ¥126.0 billion, an increase of ¥43.1 billion compared to the end of the prior fiscal year. Net cash provided by operating activities amounted to ¥77.9 billion. This was a decrease of ¥6.3 billion compared to the prior fiscal year, mainly due to decreases in net income (¥46.3 billion, decrease of ¥1.4 billion year on year) and depreciation and amortization (¥29.0 billion, decrease of ¥2.5 billion). Net cash used in investing activities amounted to ¥15.0 billion. This was a decrease of ¥52.1 billion in outlays, mainly due to lower capital expenditures (¥25.8 billion, decrease of ¥12.1 billion year on year), the sale of a Group business (¥7.2 billion), and other factors. Free cash flow (total of net cash provided by operating activities and net cash used in investing activities) amounted to ¥62.8 billion, increased ¥45.7 billion versus the prior fiscal year. Net cash used in financing activities amounted to ¥15.0 billion, a decrease in outlays of ¥16.5 billion. The OMRON Group paid ¥14.5 billion in dividends (¥1.5 billion decrease compared to fiscal 2015).

Dividend Policy

Our policy for profit distribution is to prioritize investment in R&D necessary for ongoing corporate value improvement, capital expenditures, and M&A. At the same, we strive for stable, consistent returns for our shareholders. Our medium-term business plan through fiscal 2016 called for raising our payout ratio to 30%. We achieved this goal one year ahead of plan in fiscal 2015. Our payout ratio for fiscal 2016 was 31.6%, a 0.5-point increase compared to the prior fiscal year. Our dividend on equity ratio was 3.2%, which was a 0.1-point increase compared to the prior fiscal year.