Financial Results

Fiscal 2017 in Review

Consolidated Earnings

Fiscal 2017 was our first year operating under VG2.0. We defined our basic policy for the year as *Start up VG2.0: A Firm First Step Toward Innovation*. During the year, we took on three key initiatives: (1) Group growth driven by focus domains (Industrial Automation Business, Healthcare Business); (2) Profit creation through improved group-wide earnings; and (3) Stronger investment in growth fields and technologies.

Fiscal 2017 results were significantly higher compared to the prior fiscal year. Net sales rose 8.3% to ¥860.0 billion, while operating income was up 27.1% at ¥85.9 billion and operating income margin rose 1.5 points to 10.0%. Net income attributable to OMRON shareholders amounted to ¥63.2 billion, an increase of 37.3%.

Consolidated Statement of Income

Net Sales

The OMRON Group set a record high for net sales in fiscal 2017, driven by strong performance in our core Industrial Automation Business and Healthcare Business. Overseas sales were largely responsible for group earnings, amounting to ¥531.5 billion, ¥67.7 billion (14.6%) higher than the prior fiscal year. Our operations in Greater China and Southeast Asia delivered particularly significant growth. We recorded ¥328.5 billion in sales in Japan, a slight decrease of 0.6% year on year.

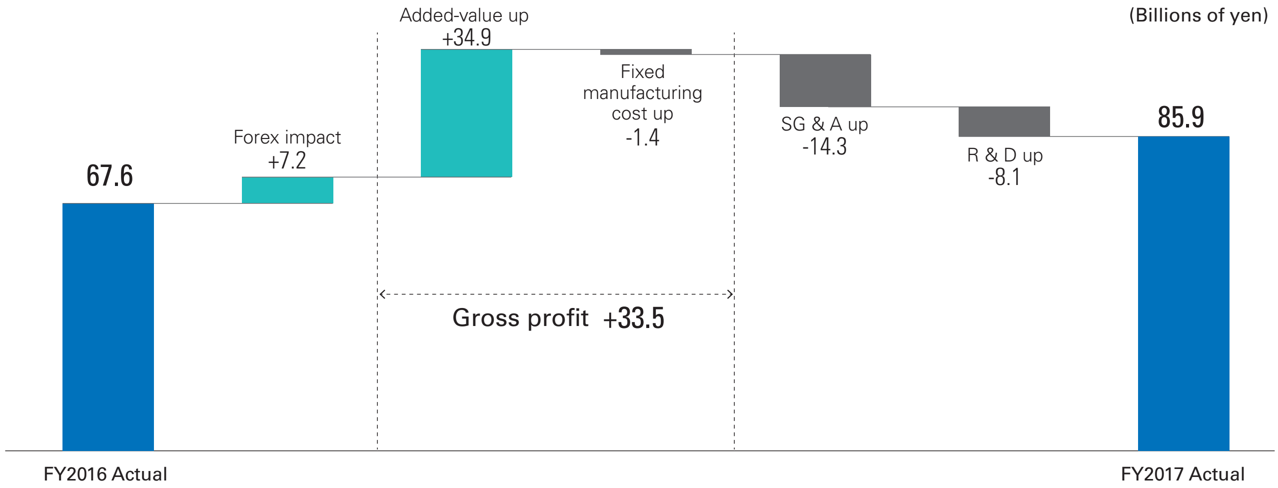
Gross Profit Margin, SG&A Expenses, and R&D Expenses

Gross profit margin for fiscal 2017 was 41.6%, a 2.3-point increase compared to the prior fiscal year and an all-time high for the OMRON Group. This improvement was mainly due to a stronger earnings structure that drove gross profit margin higher, a result of closer coordination among our production, sales, development, and planning groups. Selling, general and administrative expenses amounted to ¥212.6 billion, a ¥19.1 billion (9.9%) increase, mainly in connection with stronger revenue performance. Research and development expenses rose ¥8.4 billion (16.6%) to ¥59.1 billion for the year.

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 ¥85.9 billion (27.1% increase), while our operating income margin was 10.0% (1.5-point increase). Income before income taxes (excluding other income) amounted to ¥83.4 billion (27.3% increase), while net income attributable to OMRON shareholders came in at ¥63.2 billion (37.3% increase).

Consolidated Operating Income Analysis (YoY)



Review of Operations by Business Segment

Industrial Automation Business (IAB)

Our Industrial Automation Business recorded domestic net sales of ¥152.0 billion for fiscal 2017, an increase of 13.8% year on year. This result was mainly due to higher investment demand in the global automobile and digital markets, as well as our own progress in our ability to propose solutions to our customers. Overseas net sales rose 23.7% to ¥244.2 billion, reflecting positive developments across the world. The Americas experienced strong investments in semiconductor-related markets and firm investment demand in automobile markets. Meanwhile, a more settled political situation and gradual economic recovery in Europe, accompanied by strong machinery exports, led to greater demand, particularly in the food industry. Greater China and Asia experienced increases in both pace and scale of investment in the digital industries (semiconductors and smartphones) throughout the year. In total, the IAB segment recorded net sales of ¥396.1 billion (19.7% increase). An extensive product lineup and improved skills in selling solutions led to a sharp rise in operating income, up 42.3% to ¥74.0 billion.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	291.7	331.8	336.0	331.0	396.1	428.0
Japan	119.4	126.7	130.5	133.5	152.0	163.0
Overseas	172.3	205.1	205.5	197.5	244.2	265.0
Americas	36.9	47.6	40.4	30.3	35.3	38.0
Europe	61.9	67.8	69.3	65.6	77.7	83.5
Greater China	43.8	55.0	58.3	59.6	77.7	85.5
Asia Pacific	28.9	34.1	36.9	41.3	53.1	57.5
Direct exports	0.8	0.7	0.6	0.6	0.4	0.5
Operating income	38.8	54.6	47.9	52.0	74.0	82.0
Operating income margin	13.3%	16.5%	14.3%	15.7%	18.7%	19.2%
R&D expenses	15.7	15.3	18.2	16.4	21.0	
Depreciation and amortization	3.6	3.5	4.0	4.2	5.2	
Capital expenditures	3.3	4.2	5.3	4.5	9.3	

Electronic and Mechanical Components Business (EMC)

Our Electronic and Mechanical Components Business recorded domestic net sales of ¥22.8 billion for fiscal 2017, up 1.4% year on year. This increase was mainly due to an increase in inquiries from the automotive industry and strong sales of new vehicles among our customers. Overseas net sales rose 12.0% to 80.1 billion due to several factors. Performance was strong in the Americas and Europe, as we captured demand for consumer and commercial products in this growing market. Sales were strong in Greater China, supported by higher incomes and improving living standards in inland regions, which led to higher demand in the high-function appliances market. Last, sales rose in Asia, owing to higher demand for motorcycles and an increasing number of our products being used in home appliances. Total fiscal 2017 net sales for the EMC segment rose 9.5% to ¥102.8 billion, while operating income amounted to ¥12.1 billion, up 28.7%, due in part to higher revenues and internal sales to the Industrial Automation Business.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	97.7	103.9	103.7	93.9	102.8	102.0
Japan	28.1	23.9	23.2	22.5	22.8	21.0
Overseas	69.6	80.0	80.5	71.4	80.1	81.0
Americas	16.6	18.1	19.9	16.3	17.5	17.5
Europe	14.7	15.9	16.1	14.8	16.9	17.5
Greater China	28.7	35.0	33.6	29.0	31.0	32.0
Asia Pacific	8.7	10.1	10.4	11.3	14.5	14.0
Direct exports	0.9	0.9	0.5	0.1	0.1	0.0
Operating income	8.7	10.2	8.5	9.4	12.1	12.5
Operating income margin	8.9%	9.8%	8.2%	10.0%	11.8%	12.3%
R&D expenses	6.0	5.4	4.9	4.6	5.3	
Depreciation and amortization	7.8	8.0	8.3	7.9	7.7	
Capital expenditures	10.9	9.5	8.9	6.5	10.0	

*We revised business classifications and presentation beginning fiscal 2018, reclassifying certain operations under Other Businesses to the EMC segment.

Automotive Electronic Components Business (AEC)

The Automotive Electronic Components Business recorded domestic net sales of 17.3 billion, down 9.0% for the year. This decrease was mainly due to model changes resulting in the termination of several models using OMRON products. Overseas net sales were up a slight 0.7% to ¥113.9 billion due to combination of offsetting factors. Demand was lower in the Americas due to declining auto production and model changes resulting in fewer models using OMRON products. We experienced strong performance in Asia, by contrast, due to solid automotive production in India and rising sales of motorcycles in Indonesia. In total, the AEC segment recorded net sales of ¥131.2 billion, nearly level with the prior year at a 0.7% decrease. Operating income was 18.4% lower at ¥5.8 billion for the year. This decrease was mainly due to higher research and development expenses committed to next-generation products.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	126.6	137.9	140.0	132.1	131.2	128.0
Japan	28.4	25.9	21.1	19.0	17.3	16.0
Overseas	98.2	112.0	118.9	113.1	113.9	112.0
Americas	33.3	39.3	47.6	43.9	41.9	38.5
Europe	3.3	3.6	4.6	3.9	2.8	2.0
Greater China	25.4	29.9	27.4	28.0	28.6	27.5
Asia Pacific	29.2	32.2	31.9	30.1	33.3	37.5
Direct exports	7.2	7.1	7.3	7.2	7.3	6.5
Operating income	9.1	9.2	7.3	7.1	5.8	6.0
Operating income margin	7.2%	6.7%	5.2%	5.4%	4.4%	4.7%
R&D expenses	8.2	8.5	9.3	9.2	10.5	
Depreciation and amortization	3.4	4.7	5.3	4.9	5.2	
Capital expenditures	6.7	6.5	6.9	5.2	5.8	

Social Systems, Solutions and Service Business (SSB)

Sales in the Social Systems, Solutions and Service Business grew 3.0% for the year to ¥63.7 billion. Demands for upgrades in our Public Transportation Business were flat. However, our Traffic and Road Management Systems Business experienced strong demand for management systems upgrades, despite weakness in replacement demand for road traffic terminals. Segment operating income rose 11.6% to ¥4.1 billion, resulting from revenue growth and stronger earnings capacity achieved by moving design and production in-house.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	67.6	66.4	70.4	61.9	63.7	67.0
Japan	67.3	65.1	68.6	61.3	62.8	66.5
Overseas	0.3	1.3	1.8	0.6	0.9	0.5
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	0.2	0.3	0.6	0.3	0.3	0.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct exports	0.1	1.1	1.2	0.3	0.6	0.0
Operating income	3.9	3.1	2.5	3.7	4.1	4.5
Operating income margin	5.7%	4.6%	3.6%	6.0%	6.5%	6.7%
R&D expenses	2.5	2.1	2.2	1.8	2.1	
Depreciation and amortization	1.2	1.4	1.6	1.4	1.3	
Capital expenditures	1.5	1.7	1.5	1.4	1.6	

*We revised business classifications and presentation in fiscal 2017, reclassifying certain operations under the SSB segment to the Other Businesses segment.

Healthcare Business (HCB)

Our Healthcare Business recorded domestic net sales of ¥26.0 billion, down 10.0%. While sales of blood pressure monitors and low-frequency therapy equipment were strong in response to stepped up online promotions, sales from professional-use products were lower due to the transfer of shares of Omron Colin Co., Ltd. In December 2016. Overseas net sales were up a healthy 13.9% year on year, reaching ¥82.5 billion. Sales of blood pressure monitors and nebulizers in the Americas were strong, mainly due to promotional activity in online sales channels in the U.S. and an expansion of our store network. Our business in Europe saw firm sales of blood pressure monitors in Russia, while our businesses in Greater China reported higher sales of blood pressure monitors and nebulizers through online channels. Sales of blood pressure monitors in Indonesia and elsewhere in Asia were strong, mainly due to an expansion in our store network. As a result, the HCB segment recorded a total of ¥108.5 billion in net sales for fiscal 2017, up 7.1%. Higher sales and productivity improvements combined for a sharp rise in segment operating income, up 31.4% to ¥11.2 billion for the year.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	89.3	100.6	108.1	101.3	**108.5**	119.0
Japan	30.8	31.4	31.1	28.9	**26.0**	28.5
Overseas	58.5	69.2	77.0	72.4	**82.5**	90.5
Americas	14.3	18.6	23.1	21.7	**23.8**	24.5
Europe	21.0	21.2	19.2	18.3	**21.0**	22.0
Greater China	17.3	22.4	25.4	23.1	**26.8**	30.5
Asia Pacific	5.5	6.6	8.9	9.0	**10.3**	13.0
Direct exports	0.4	0.5	0.5	0.3	**0.6**	0.5
Operating income	7.5	6.5	7.3	8.5	**11.2**	12.5
Operating income margin	8.5%	6.5%	6.7%	8.4%	**10.3%**	10.5%
R&D expenses	5.2	5.5	6.1	6.2	**6.7**	
Depreciation and amortization	2.3	3.3	3.8	3.3	**3.0**	
Capital expenditures	3.9	3.9	2.8	2.2	**3.2**	

Other Businesses

The Other Businesses segment recorded ¥54.8 billion in net sales for fiscal 2017, down 20.0% year on year. Despite ongoing structural reforms, lower sales and other factors combined to produce an operating loss of ¥2.1 billion. Despite the positive impact of expanding our lineup of storage battery products, sluggish demand for PV inverters used in solar panels drove down sales in our Environmental Solutions Business. In contrast, our Electronic Systems and Equipment Business experienced strong demand for uninterruptible power supply units and contract services for the development and production of electronic devices. Accordingly, sales in this business increased for the year. Micro Devices Business sales were higher, mainly due to a temporary rise in demand for smartphone microphones. Finally, sales in our Backlights Business fell year on year by a wide margin, largely due to further business optimization initiatives.

(Billions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net sales	94.1	101.4	70.2	68.5	**54.8**	50.5
Japan	66.2	59.8	51.2	60.2	**44.8**	43.5
Overseas	27.9	41.6	19.0	8.3	**10.0**	7.0
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	25.6	38.2	17.1	7.3	**8.5**	6.5
Asia Pacific	0.0	0.0	0.0	0.0	**0.0**	0.0
Direct exports	2.3	3.4	1.9	1.0	**1.5**	0.5
Operating income (loss)	10.3	10.3	(3.5)	(1.9)	**(2.1)**	0.0
Operating income margin	11.0%	10.2%	—	—	**—**	—
R&D expenses	4.3	5.5	4.6	3.7	**3.7**	
Depreciation and amortization	2.0	2.5	3.1	1.7	**0.8**	
Capital expenditures	4.0	6.9	5.3	1.4	**0.9**	

*We revised business classifications and presentation in fiscal 2017, reclassifying certain operations under the SSB segment to the Other Businesses segment.
*We revised business classifications and presentation beginning fiscal 2018, reclassifying certain operations under Other Businesses to the EMC segment.

Review of Financial Condition

Total assets at the end of fiscal 2017 amounted to ¥745.0 billion, an increase of ¥47.3 billion compared to the end of the prior fiscal year. This increase stems mainly from an increase in inventories, machinery and equipment, and other capital assets.

Total liabilities increased ¥10.6 billion to ¥237.6 billion. Current liabilities amounted to ¥182.8 billion, ¥10.7 billion higher due mainly to increases in accounts payable.

Net assets increased ¥36.6 billion to ¥507.4 billion, owing mainly to higher net income attributable to OMRON shareholders. Net income attributable to OMRON shareholders and other factors led to an increase in retained earnings of ¥45.0 billion. As a result, shareholders' equity amounted to ¥505.5 billion (year-on-year increase of ¥36.5 billion), while shareholders' equity ratio increased 0.7 points to 67.9%. While total liabilities and shareholders' equity were higher year on year, our debt-equity ratio remained nearly level at 0.47, a 0.01-point decrease.

Capital Expenditures

The OMRON Group made ¥38.9 billion in total capital investments during fiscal 2017, representing a 51.2% increase compared to the prior fiscal year. We engaged in a deliberate yet active approach to capital investment, committing resources for future OMRON Group growth.

Cash Flows

Cash and cash equivalents as of the end of fiscal 2017 amounted to ¥113.0 billion, a decrease of ¥13.0 billion compared to the end of the prior fiscal year. Net cash provided by operating activities amounted to ¥73.7 billion. This was a ¥4.2 billion decrease compared to the prior fiscal year, reflecting net income of ¥63.5 billion (¥17.2 billion increase) and ¥29.5 billion in depreciation and amortization (¥500 million increase). Net cash used in investing activities amounted to ¥55.8 billion. This was an increase of ¥40.8 billion in net cash outlays, mainly due to capital expenditures and business acquisitions. As a result, free cash flow (total of net cash provided by operating activities and net cash used in investing activities) amounted to ¥17.8 billion, a decrease of ¥45.0 billion versus the prior fiscal year. Net cash used in financing activities amounted to ¥33.1 billion, an increase of ¥18.1 billion, partly due to ¥15.4 billion in dividend payments (¥800 million increase year on year).

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. The OMRON Group established a guideline of 30% in payout ratio and 3% of dividend on equity ratio for profit distributions for fiscal years 2017 through 2020 covered by our medium-term management plan, VG2.0. As guided by this policy, we paid ¥76 per share in dividends for fiscal 2017. This resulted in a dividend on equity ratio of 3.3%.