

Financial Results

Fiscal 2018 in Review

Consolidated Earnings

Fiscal 2018 was our second year operating under the OMRON VG2.0 medium-term management plan, defined by the basic policy of *Creating Change: Accelerate growth and transform profit structure through innovation*. During the year, we increased investment towards corporate growth driven by the focus domains of the Industrial Automation Business and the Healthcare Business. We also worked to create innovation driven by social needs. In the second half of the fiscal year, revenues in the Industrial Automation Business, Electronic and Mechanical Components Business, and Automotive Electronic Components Business declined as a result of trade friction between the United States and China. However, the Healthcare Business and Social Systems, Solutions and Service Business achieved steady growth.

Consolidated Statements of Income

Net Sales

OMRON Group net sales for fiscal 2018 amounted to ¥859.5 billion, down 0.1% from the prior year. Demand for smartphones and semiconductor-related products slowed, while the global downturn in the manufacturing industry over the second half of the fiscal year led to

weaker performance in the Industrial Automation Business and the Electronic and Mechanical Components Business. However, growth in the Healthcare Business and the Social Systems, Solutions and Service Business compensated for weakness in other areas.

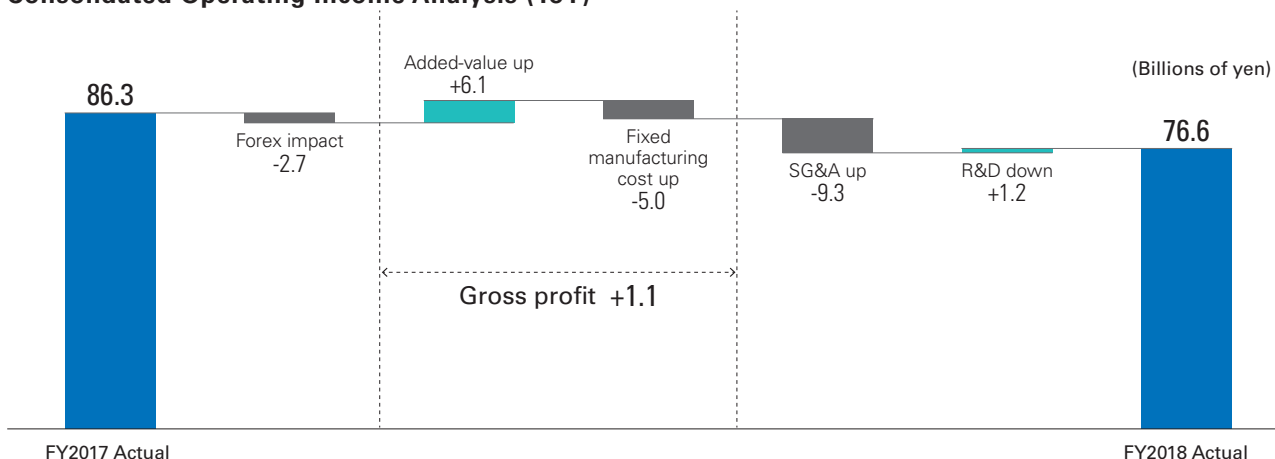
Gross Profit Margin, SG&A Expenses, and R&D Expenses

Gross profit margin for fiscal 2018 was 41.2%, down 0.4 points. Selling, general and administrative expenses were up ¥7.2 billion to ¥219.7 billion, mainly due to completion of the growth investment planned at the beginning of the fiscal year. Research and development expenses fell ¥1.3 billion year on year to ¥57.8 billion, mainly due to detailed selection in research and development projects.

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 ¥76.6 billion (11.2% decrease), while our operating income margin was 8.9% (1.1-point decrease). Income before income taxes (excluding other income) amounted to ¥75.4 billion (9.5% decrease), while net income attributable to OMRON shareholders came in at ¥54.3 billion for the year (14.0% decrease).

Consolidated Operating Income Analysis (YoY)



Review of Operations by Business Segment



Industrial Automation Business (IAB)

We engaged in sales activities to automobile and food industries that leveraged our extensive product line-up and ability to offer solutions. These activities responded to increased needs for capital investment and labor

savings in line with advanced technology and local production for local consumption. Our sales efforts yielded results driving increased sales to this market. In contrast, sales to the digital industry were lower due to

slower demand for capital investment related to smartphones and semiconductors, as well as the global downturn in the manufacturing industry over the second half of the fiscal year. These results offset each other, leading to segment net sales of ¥391.8 billion, down 1.1% year on year. We did, however, complete growth-related investments in line with our original plan, building a foundation of technologies, products, infrastructure, and other assets upon which we will accelerate into the future. Specifically, we expanded the number of Automation Centers that carry out

application development in cooperation with customer manufacturing locations. We now have 35 centers in operation worldwide, 27 more locations than in 2016. At the same time, we made a 20% increase (compared to fiscal 2016) in the number of sales engineers who provide support for application installations at customer manufacturing locations. In our production centers, we enhanced our production capacity necessary for future growth. Continued investments in growth focused on the medium to long term, resulting in a significant 15% decline in operating income, down to ¥62.9 billion.

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	331.8	336.0	331.0	396.1	391.8	378.0
Japan	126.7	130.5	133.5	152.0	154.7	150.5
Americas	47.6	40.4	30.3	35.3	35.0	32.0
Europe	67.8	69.3	65.6	77.7	79.9	75.0
Greater China	55.0	58.3	59.6	77.7	78.2	75.0
Asia Pacific	34.1	36.9	41.3	53.1	43.8	45.0
Direct exports	0.7	0.6	0.6	0.4	0.3	0.5
Operating income	54.6	47.9	52.0	74.0	62.9	63.0
Operating income margin	16.5%	14.3%	15.7%	18.7%	16.1%	16.7%
R&D expenses	15.3	18.2	16.4	21.0	23.3	—
Depreciation and amortization	3.5	4.0	4.2	5.2	6.9	—
Capital expenditures	4.2	5.3	4.5	9.3	7.4	—



Electronic and Mechanical Components Business (EMC)

Demand in the consumer and commercial products industry was strong, driven by a favorable business environment in the Americas and Europe, as we accurately identified customer needs. Buying sentiment slowed in automotive-related industries in China. At the same time, demand in the amusement industry continued to contract. As a result, segment net sales amounted to ¥99.7 billion, a 4.5% decrease year on year. Profits were affected negatively by lower net sales to external customers and OMRON Group businesses.

We continued with investment in improving productivity aimed at optimizing fixed manufacturing costs to accelerate automation in manufacturing processes, reduce costs, and deliver high-value products to our customers. These measures included investing in production locations and consolidating production lines. As a result of these measures, segment operating income decreased to ¥8.2 billion, 34.5% lower year on year.

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	103.9	103.7	93.9	104.4	99.7	98.0
Japan	23.9	23.2	22.5	24.3	21.6	21.5
Americas	18.1	19.9	16.3	17.5	17.9	17.0
Europe	15.9	16.1	14.8	16.9	17.7	17.5
Greater China	35.0	33.6	29.0	31.0	30.4	30.0
Asia Pacific	10.1	10.4	11.3	14.5	11.9	12.0
Direct exports	0.9	0.5	0.1	0.1	0.1	0.0
Operating income	10.2	8.5	9.4	12.5	8.2	8.5
Operating income margin	9.8%	8.2%	10.0%	12.0%	8.2%	8.7%
R&D expenses	5.4	4.9	4.6	5.3	5.1	—
Depreciation and amortization	8.0	8.3	7.9	7.7	7.6	—
Capital expenditures	9.5	8.9	6.5	10.0	12.0	—

*We revised business classifications, reclassifying certain operations under Other Businesses to the EMC and other segments beginning with the 2018 fiscal year. Accordingly, we reclassified results for fiscal 2017 under this new categorization for presentation herein.



Automotive Electronic Components Business (AEC)

Model changes in vehicles carrying OMRON products resulted in weak demand in the Americas, Europe, and China. On the other hand, demand in Asia was strong, supported by increasing automobile production and rising needs for motorcycle-related products. As a

result, net sales in the segment amounted to ¥130.5 billion (0.5% decrease) for the year. The segment recorded an increase in operating income to ¥6.3 billion (8.7% increase) due to improved productivity.

	(Billions of yen)					
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	137.9	140.0	132.1	131.2	130.5	124.0
Japan	25.9	21.1	19.0	17.3	18.2	18.5
Americas	39.3	47.6	43.9	41.9	38.5	38.5
Europe	3.6	4.6	3.9	2.8	2.1	1.5
Greater China	29.9	27.4	28.0	28.6	23.5	20.5
Asia Pacific	32.2	31.9	30.1	33.3	42.0	39.5
Direct exports	7.1	7.3	7.2	7.3	6.2	5.5
Operating income	9.2	7.3	7.1	5.8	6.3	4.0
Operating income margin	6.7%	5.2%	5.4%	4.4%	4.8%	3.2%
R&D expenses	8.5	9.3	9.2	10.5	8.4	—
Depreciation and amortization	4.7	5.3	4.9	5.2	5.1	—
Capital expenditures	6.5	6.9	5.2	5.8	6.2	—



Social Systems, Solutions and Service Business (SSB)

The SSB segment experienced strong demand for upgrades in our Public Transportation Business and our Traffic and Road Management Systems Business. In response, we proposed solutions tailored to the needs of our clients. As a result, the segment recorded ¥75.0

billion in net sales, an increase of 6.7% year on year. Operating income increased to ¥5.8 billion (19.5% increase), mainly due to higher net sales and improved productivity.

	(Billions of yen)					
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	66.4	70.4	61.9	70.3	75.0	83.0
Japan	65.1	68.6	61.3	69.4	73.8	81.5
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	0.3	0.6	0.3	0.3	0.4	0.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct exports	1.1	1.2	0.3	0.6	0.8	1.0
Operating income	3.1	2.5	3.7	4.8	5.8	6.5
Operating income margin	4.6%	3.6%	6.0%	6.9%	7.7%	7.8%
R&D expenses	2.1	2.2	1.8	2.1	2.8	—
Depreciation and amortization	1.4	1.6	1.4	1.3	1.2	—
Capital expenditures	1.7	1.5	1.4	1.6	1.9	—

*We revised business classifications in October 2018, reclassifying certain operations under the Other Businesses segment to the SSB segment. Accordingly, we reclassified consolidated results for the fiscal year ended March 2017 and for the first six months of the fiscal year ended March 2018 under this new categorization for presentation herein.



Healthcare Business (HCB)

Blood pressure monitors market has shown firm demand globally. The HCB segment stepped up promotions through online channels mainly in China, Japan, and the Americas. We also purchased 3A Health Care in Italy, which develops and manufactures nebulizers. As a result, the segment recorded steady

growth, reaching ¥115.5 billion in net sales (6.5% increase year on year). Although the segment incurred higher R&D expenses for future growth, segment profit grew to ¥13.0 billion (16.3% increase year on year), mainly due to higher sales and productivity improvements.

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	100.6	108.1	101.3	108.5	115.5	123.0
Japan	31.4	31.1	28.9	26.0	26.9	28.5
Americas	18.6	23.1	21.7	23.8	23.6	24.5
Europe	21.2	19.2	18.3	21.0	22.7	23.0
Greater China	22.4	25.4	23.1	26.8	31.0	34.5
Asia Pacific	6.6	8.9	9.0	10.3	10.7	12.0
Direct exports	0.5	0.5	0.3	0.6	0.6	0.5
Operating income	6.5	7.3	8.5	11.2	13.0	14.0
Operating income margin	6.5%	6.7%	8.4%	10.3%	11.3%	11.4%
R&D expenses	5.5	6.1	6.2	6.7	6.7	—
Depreciation and amortization	3.3	3.8	3.3	3.0	2.8	—
Capital expenditures	3.9	2.8	2.2	3.2	4.0	—



Other Businesses

The Environmental Solutions Business reported strong performance for the year, experiencing growing demand for storage battery systems. Our Backlights Business saw weak sales due to further business optimization initiatives. As a result, the businesses segment as a whole recorded ¥41.7 billion in net sales,

a decrease of 5.9% year on year. The segment reported operating loss of ¥0.5 billion, a 0.7 billion improvement compared to the previous fiscal year. This result was mainly due to higher Environmental Solutions Business sales together with optimization of fixed expenses in our Backlights Business.

(Billions of yen)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)
Net sales	101.4	70.2	68.5	44.4	41.7	32.0
Japan	59.8	51.2	60.2	35.5	35.5	30.5
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	38.2	17.1	7.3	8.5	6.1	1.5
Asia Pacific	0.0	0.0	0.0	0.0	0.0	0.0
Direct exports	3.4	1.9	1.0	0.4	0.1	0.0
Operating income	10.3	(3.5)	(1.9)	(1.2)	(0.5)	(1.0)
Operating income margin	10.2%	—	—	—	—	—
R&D expenses	5.5	4.6	3.7	3.7	2.0	—
Depreciation and amortization	2.5	3.1	1.7	0.8	0.7	—
Capital expenditures	6.9	5.3	1.4	0.9	0.9	—

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Review of Financial Condition

Total assets at the end of fiscal 2018 amounted to ¥749.9 billion, an increase of ¥4.9 billion compared to the end of the prior fiscal year. This increase stems mainly from an increase over the previous fiscal year in property, plant, and equipment.

Total liabilities increased ¥6.0 billion to ¥243.6 billion. Current liabilities decreased ¥11.3 billion to ¥171.5 billion from the previous fiscal year, mainly due to decreases in notes and accounts payable-trade and accrued expenses. However, termination and retirement benefits increased ¥16.0 billion year on year to ¥58.3 billion.

Total net assets decreased ¥1.1 billion compared to the end of the prior fiscal year to ¥506.3 billion. This result was due to share buybacks and other factors in excess of net income attributable to OMRON shareholders for the fiscal year. Our shareholders' equity ratio was 67.2 percent, down 0.7 points compared to 67.9 percent at the end of the prior fiscal year. Despite this result, the company has maintained a firm financial foundation capable of handling aggressive investments and changes in market conditions.

Capital Expenditures

The OMRON Group made ¥41.9 billion in total capital investments during fiscal 2018, representing a 7.7% increase compared to the prior fiscal year. While ensuring careful deliberation on investments, the Group conducted active capital investment targeting future growth.

Cash Flows

Net cash provided by operating activities for the fiscal year amounted to ¥71.2 billion (a decrease in cash provided of ¥2.4 billion compared to the prior fiscal year). This result was mainly due to the recording of net income and amortization and depreciation, which more than offset decreases in notes and accounts payable-trade and accrued expenses. Net cash used in investing activities was ¥35.0 billion, representing a decrease in net cash used of ¥20.9 billion compared to the prior fiscal year. This result was mainly due to capital expenditures for investments in production capacity increases and future growth. Free cash flows (cash provided by operating activities less cash used in investing activities) amounted to ¥36.3 billion, an increase of ¥18.5 billion compared to the prior fiscal year. Net cash used in financing activities was ¥40.8 billion, which was an increase in net cash used of ¥7.7 billion compared to the prior fiscal year. This result was mainly due to dividends paid and stock buybacks. As a

result, the balance of cash and cash equivalents at March 31, 2019, amounted to ¥110.3 billion, a decrease of ¥2.8 billion compared to the end of the prior consolidated fiscal year.

Dividend Policy

Our policy for profit distribution is to aim for sustainable corporate value growth, and thus OMRON prioritizes investment necessary for future business expansion. These investments include research and development, capital investments, mergers and acquisitions, and other investments for future growth. Having secured internal reserves, the company makes decisions regarding ongoing profit distribution to shareholders in consideration of capital efficiency.

The company has established a guideline of approximately 30% in payout ratio and approximately 3% of DOE for profit distributions for fiscal years 2017 through 2020 covered by our medium-term management plan. Our full-year dividend for fiscal 2018 was ¥84 per share. As a result, our dividend payout ratio was 32.2%, a 6.6-point increase year on year. Our dividend on equity ratio was 3.5%, a 0.2-point increase compared to the prior fiscal year.