Nomura Investment Forum 2009

Omron’s Structural Reform
and
EMC Business Reform
Results for the Second Quarter Ended September 30, 2009 (FY09/Q2) and Full-year Forecast

Structural Reform

EMC Business Reform

Notes:
1. The consolidated statements of Omron Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results and future developments are based on information available to the Company at present, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. Major factors influencing Omron’s actual results include, but are not limited to, (i) economic conditions affecting the Company’s businesses in Japan and overseas, (ii) demand trends for the Company’s products and services, (iii) the ability of the Omron Group to develop new technologies and new products, (iv) major changes in the fund-raising environment, (v) tie-ups or cooperative relationships with other companies, and (vi) movements in currency exchange rates and stock markets.
1 Results for the Second Quarter Ended September 30, 2009 (FY09/Q2) and Full-year Forecast
FY09 Q2 Results

- Sales and operating income bottomed out in Q1, leading to recovery trend in Q2.
- Sharp YoY drop in both sales and operating income, but results exceeded initial plan.
- Positive operating income achieved in Q2 alone due to effect of emergency measures and other factors.
- BEP in Q1-Q2 improved by approx. 25% YoY.

<table>
<thead>
<tr>
<th></th>
<th>FY09 Q1-Q2 Actual</th>
<th>YoY</th>
<th>Initial plan</th>
<th>vs. plan (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>232.4</td>
<td>65.5%</td>
<td>230.0</td>
<td>101.0%</td>
</tr>
<tr>
<td>Operating income</td>
<td>-7.7</td>
<td>-</td>
<td>-13.0</td>
<td>-</td>
</tr>
<tr>
<td>NIBT</td>
<td>-9.6</td>
<td>-</td>
<td>-14.5</td>
<td>-</td>
</tr>
<tr>
<td>NIBT (attributable to shareholders)</td>
<td>-6.9</td>
<td>-</td>
<td>-8.5</td>
<td>-</td>
</tr>
</tbody>
</table>
Sales and operating income expected to be in line with initial plan, assuming curtailment of CAPEX in Japan and raw material price hike.

<table>
<thead>
<tr>
<th></th>
<th>FY09 Forecast</th>
<th>FY08 Actual</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>510.0</td>
<td>627.2</td>
<td>81.3%</td>
</tr>
<tr>
<td>Operating income</td>
<td>0</td>
<td>5.3</td>
<td>—</td>
</tr>
<tr>
<td>NIBT</td>
<td>-3.5</td>
<td>-39.1</td>
<td>—</td>
</tr>
<tr>
<td>NIBT (attributable to shareholders)</td>
<td>-2.0</td>
<td>-29.2</td>
<td>—</td>
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</tbody>
</table>
FY08-FY09 Quarterly Results (All Segments)

- Back in the black in FY2009 2nd quarter with gradual recovery trend.
Sales declined from FY2008 2nd half to FY2009 1st half in all segments, but gradual recovery expected beginning in FY2009 2nd half.
Sales declined in FY2008 2nd half in all regions, but business recovery in Greater China in FY2009 stands out.

In Greater China, annual sales in FY2008 were equal to FY2009.
2 Structural Reform
Emergency Measures and Structural Reform: Outline

**Emergency Measures**
(Generate profit in FY09 through cost cuts)

- **Cost cutting**
  Advertising, R&D, indirect costs, etc.
- **Withdrawal from underperforming businesses**
  Four businesses in Japan/abroad (ECB, AEC)
- **Reduction of other fixed costs**
  Return of part of directors', executive officers' and managers' compensation, ban on overtime work, etc.

**Profit Generation**

**Cash Flow Creation**
- Freeze on large-scale investments
- Reduction in ordinary investments

**Structural Reform**
(Strengthen profit base over the medium term)

1. **Business Domain Reform**
   Restructure 3 control-based businesses:
   - IAB: Strengthen front line and profit base
   - ECB: Re-strengthen mechanical components business
   - AEC: Implement thorough efforts to improve profitability

2. **Operational Structure Reform**
   (1) Elimination and consolidation of production bases
   (2) Variable cost structure reform
   (3) IT structure reform
   (4) Head office function reform
Business domains to be reorganized as Industry, Society and Lifestyle.
Focus on strengths and avoid dispersion of management resources when reorganizing three control-based businesses (Industry).

From

(IAB) Industrial Automation
(ECB) Electronic Components
(AEC) Automotive Electronic Components
(SSB) Social Systems
(HCB) Healthcare
(Others) Business Development Group, etc.

Restructuring

Industry
Society
Lifestyle

Toward

Reorganization based on strengths
Social Systems Business
Healthcare Business
Environmental Solutions Business HQ

Domain expansion
Domain expansion
Tackling environmental issues
Structural Reform:
Concentrating Management Resources on 3 Control-based Businesses (IAB, ECB, and AEC)

- Concentrate on strengths: IAB’s sales strength (sales channels for general purpose products) and ECB’s global production/technological strengths (mechanical components).

**From**

- IAB
  - FA
  - Strength: Established sales channels through which basic products are widely marketed to general customers

**To**

- IAB
  - FA
  - Production of switches and relays for industrial machinery

- ECB
  - EMC*
  - Strength: Global production/technology
  - ME**
  - Production of switches and relays for automobiles

- AEC
  - ECU***, others
  - *EMC: Electro mechanical components (electronic components for mechanical systems, e.g., relays, switches and connectors)
  - **ME: Micro electronic components (electronic system components, e.g., electronic parts, MEMS and LCD backlights)
  - ***ECU: Electronic control units (automotive control units)

**Selection and focus: Concentration of management resources**

- Growth with new products (e.g., MEMS)

- Customer/product targeting and independent operation
Structural Reform: Progress to Date of 3 Control-based Businesses

➢ 3 control-based businesses currently undertaking structural reforms aimed at increasing sales and improving profitability in the future.
➢ Each business focused on capitalizing on its strengths.

IAB

Shifting resources to the front line to strengthen sales force, improving customer support structure, etc.

EMC (ECB)

Carrying out production structure reform aimed at lowering manufacturing fixed costs/variable costs

AEC

Decision to spin off AEC into new company in April 2010; focused on improving profitability toward autonomous management
Structural Reform: Production Structure Reform

- Reduce fixed and variable costs by concentrating manufacturing in EMC.

**Measures for lowering manufacturing fixed costs/variable costs to be concentrated mainly on EMC**

1. Optimization of materials and parts
   - CMO (Common, Module, Option)

2. MFCA (Material Flow Cost Accounting)

3. 1 sec. molding – HCP (High Cycle Production)

4. Use CMO to strengthen procurement, quality control, inspection, waste elimination, etc.

5. Site consolidation (3-tiered manufacturing system)
Target PL after Structural Reform

(Billions of yen)

Sales 763

Cost of sales ratio 61.6%

SG&A 23.1%

R&D 6.7%

Operating income 8.6%

FY2007 +0 FY2009

Variable costs 510

Fixed costs 65.7%

Operating income 630

Variable costs

Through structural reform, minimize increase in variable costs/fixed costs

Fixed costs (gross)

• Manufacturing fixed costs
• SG&A
• R&D

Variable costs

Operating income

Operating income target ¥100 billion

FY201X

Variable costs

Manufacturing fixed costs

SG&A

R&D

Operating income 100

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3 EMC Business Reform
Overview of EMC Business

- Manufacture of electromechanical components (relays, switches, connectors, etc.); strengths include global production system and technological expertise.

### Relays
Market volume: approx. ¥500 billion

### Switches
Market volume: approx. ¥400 billion

### Connectors
Market volume: approx. ¥4 trillion

* In addition to the above, the EMC business also encompasses components for amusement equipment and mobile phones.
Growing Market for EMC Business

- Emerging markets are expanding, especially Greater China.
- Continued growth projected, especially in Greater China and Asia Pacific.

Sales results (by region)

Growth in emerging markets, especially Greater China

Source: Internal data
Future Targets for EMC Business

- Aim for an operating income margin of 20% or more for EMC once overall sales recover to FY2007 level (¥750 billion).

**Future Targets**

- **FY2007**
  - Sales: Approx. 760
  - Operating Income: 65
  - EMC Business Sales: Approx. 150
    - Operating income margin: approx. 15%

- **FY2009**
  - Total: 510
  - EMC Business Sales: 100

- **FY201X**
  - Total: Approx. 750
  - EMC Business Sales: 150 or more
    - Operating income margin: 20% or more

*Include sales via IAB and other business companies.*
Reorganization of ECB as EMC

- ECB reorganized and renamed EMC as of Sep. 21, 2009.
- Strengthen production capabilities, aim to improve gross profit ratio by 5 percentage points.

![Diagram showing reorganization and production capabilities]

- Optimal manufacturing location (Three-tiered manufacturing system)
- Strengthen consolidation & integration technology (Strengthen materials, molding, and processing technology)

Move to Others segment (treat as “incubation” businesses)
Reducing Costs with a Three-tiered Manufacturing System

- Optimize global production structure to maintain high quality level and strengthen cost competitiveness vis-à-vis emerging countries.

**Three-tiered manufacturing system**

**Mother factory (Japan)**
- Consolidate elemental technologies
- Supply key parts and equipment for assembly and inspection.

**Mass production factories (worldwide)**
- High volume production of general-purpose products
- Support for sub-contractors
- Improve QCD through autonomous management

**Switch/relay factories**
- Relay business
  - (OER) Takeo (office)
  - Oversea production facilities around the world
- Switch business
  - (OES) Kurayoshi/Izumo (offices)

**Sub-contractors (worldwide)**
- Low volume production of general-purpose products
- Enable flexible response to fluctuations in demand
- Stable supply of parts and assembly

OER: OMRON Relay & Devices Corporation
OES: OMRON Switch & Device Corporation

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Improving cost competitiveness by reducing time in production process and eliminating waste of raw materials.

1 sec. molding → Using HCP (High Cycle Production) to shorten process.

Traditional molding process

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<td>B</td>
<td>C</td>
<td>D</td>
<td>E</td>
<td>F</td>
</tr>
</tbody>
</table>

- Mold clamping
- Injection
- Cooling
- Mold opening
- Ejection
- Inspection

Approx. 6 seconds

Significant time reduction

HCP molding process

Approx. 1 sec.

Industry-first achievement of 1 sec. molding
Management Integration of EMC to Enhance Switch/Relay Businesses

- Reorganize/merge Group companies in Japan to achieve global no.1 position.
- Establish company specializing in switch business in April 2010.

<table>
<thead>
<tr>
<th>Relay business</th>
<th>Established company specializing in relay business in 2003 (OER)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Takeo will be merged with OER as business integration</td>
</tr>
<tr>
<td></td>
<td>as of April 2010.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Switch business</th>
<th>Establish company specializing in switch business in April 2010.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• New company to be established in Okayama</td>
</tr>
<tr>
<td></td>
<td>(OES: OMRON Switch &amp; Device Corporation)</td>
</tr>
<tr>
<td></td>
<td>• Merge Omron Corp. switch division, subsidiaries Omron</td>
</tr>
<tr>
<td></td>
<td>Kurayoshi and Omron Izumo.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Connector business</th>
<th>Continue to strengthen</th>
</tr>
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</table>

**Merits of establishing switch/relay companies**

- Organic coordination of planning, development and design functions will help us achieve monozukuri on an even higher level.
- Promote autonomous, agile management for better customer/market response.
Consolidation of Production Sites in Japan (Relay/Switch Businesses)

- Switch business (OES) headquarters will be located in Okayama Office; Kurayoshi and Izumo will function as business offices.
- Relay business (OER) headquarters will be located in Kumamoto; Takeo will function as business office.

Switch business headquarters (OES – Okayama)

Izumo (Office)

Kurayoshi (Office)

Takeo (Office)

Relay business headquarters (OER – Kumamoto)

OER: OMRON Relay & Devices Corporation
OES: OMRON Switch & Device Corporation
Expansion of Overseas Production Ratio

- Consolidate elemental technologies in mother factories, strengthen production capabilities of overseas factories to provide better service to customers around the world.

Relay business (production)

- FY2008: More than 65% Overseas
- FY201X: More than 65% Overseas

Switch business (production)

- FY2008: More than 50% Overseas
- FY201X: More than 50% Overseas
Long-term Vision

Accelerate new product creation
Strengthen production capabilities
Reduce costs with three-tiered manufacturing system

Aim for global no.1 position

Relay business: Net sales of ¥85 billion (FY2014 target)
Switch business: Net sales of ¥50 billion (FY2018 target)
“Shaping Our Sense of Security”
with Sensing and Control Technology

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