

Q&A Session Summary, Q2 2014 Earnings

OMRON Corporation

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*Supplemental. Original presentation given in Japanese.

Consolidated Performance, Management, VG2020 Strategies

Q: About OP forecast. Why going down ¥2bn from H1 to H2?

A: Three main reasons: (1) Forex: H2 rates are assumed at 1USD = ¥100, 1EUR = ¥135, the gap between H1 actual rates. (2) Summed-up fixed costs to be carried over to H2. (3) The changing market for environmental business affecting our Environmental Business.

Q: How much do you see the changing environmental market affect your Environmental Business, SSB and "Other"?

A: Around ¥4bn in sales. We expect the negative impact to be limited as we are not doing mega-solar. Besides, we could take the market change as an opportunity - the demand for electric storage-type equipment could go up, and we'll take the opportunity and work on R&D.

Q: About the use of funds. You said the growth strategy comes first, followed by dividends, and share buyback. When do you carry out buy-backs?

A: The buy-back announced today is based on on-hand cash and deposits level. We see that on-hand cash worth one-month sales or two at most is enough for working capital so far. We cannot specify the next is when.

Q: OMRON has been selected as one of the four finalists of TSE "Corporate Value Improvement Award" in 2014. How do you evaluate this achievement?

A: Last and two years ago, OMRON did not even make it to the top hundreds. We believe that this year TSE evaluated our company-wide efforts toward ROIC improvement, setting a down-top ROIC tree with KPI components (key performance indicators).

Industrial Automation Business (IAB)

Q: My understanding is that sales increase trend will last from H1 to H2, correct?

A: It can, but with H2 forex at 1USD = ¥100, 1EUR = ¥135, H1-H2 comparison is not that simple. Good news is our marketing activities toward target industries are showing good results.

Q: How much does the smart-phone related sales make up of IAB China sales?

A: In total, IAB China's H1 sales were up 27% Y/Y. Our estimate is 1/3 of which is smart-phone related.

Q: About IAB China, do you see any changes from the beginning of this fiscal year?
How about local SMEs?

A: No big change except for smart-phone special demand. SMEs neither. We feel that our efforts – SE reinforcement and better proposals - are for sure working. For example, what is unique about OMRON is that China's local companies have been choosing us, and now the percentage is surely going up.

Healthcare Business (HCB)

Q: HCB's full-year OP forecast is down by ¥800mil from the initial forecast. Is it because of NS Company?

A: Partly yes. For one thing, NS performance has seasonality. Also, we forecast some million OP decrease for H2 due to post M&A integration costs. We expect NS to contribute to HCB's OP starting next year.

Q: How did you calculate NS acquisition amount and other costs?

A: We cannot disclose in detail, but we thoroughly conducted due diligence with a 3rd-party expert, and fully negotiated, including escrow matter.

"Other" Businesses

Q: Is OP margin going down because of PV inverters' lowering market price?

A: It's not that price competition is worsening our OP margin. Our downward forecast includes some price cut efforts in order to win market share. R&D increase is another reason.
