2015 NOMURA Investment Forum

Toward Sustainable Corporate Value Creation

December 1, 2015
OMRON Corporation
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Introduction
Translation of an excerpt from a Tokyo Stock Exchange advertisement in the March 16, 2015 morning edition of the *Nihon Keizai Shimbun*. For more about the Corporate Value Improvement Award, see: [http://www.jpx.co.jp/english/equities/listed-co/award/03.html](http://www.jpx.co.jp/english/equities/listed-co/award/03.html)
Businesses
With JPY847.3bn sales in FY2014, OMRON operates 6 main businesses in over 110 countries around the world.

- Industrial Automation Business
- Electronic and Mechanical Components Business
- Automotive Electronic Components Business
- Social Systems, Solutions and Service Business
- Healthcare Business
- Businesses under Direct Control of HQ (PV Inverter, backlight)
### Businesses (Share)

**No. 1 market share products at each main business.**

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Product Description</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial Automation Business</strong></td>
<td>Control-related Equipment (Japan)*</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Electronic and Mechanical Components Business</strong></td>
<td>Relay (Global)</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Automotive Electronic Components Business</strong></td>
<td>Body Control Unit for light vehicles (Japan)</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Social Systems, Solutions and Service Business</strong></td>
<td>Station Equipment (Japan)</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Healthcare Business</strong></td>
<td>Home-Use Blood Pressure Monitors (Global)</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Businesses under Direct Control of HQ (PV Inverter, backlight)</strong></td>
<td>Residential-Use PV Inverters (Japan)</td>
<td>40%</td>
</tr>
</tbody>
</table>

*Source: Nippon Electric Control Equipment Industries Association*
Sales growth remained at 3% in ’90s and 1% in ‘00s, partly due to external factors. OP margin gradually declined.
Issues When I Assumed CEO in 2011

- Deteriorated growth potential
- Declined profitability relying on IAB*
- Weakened corporate culture

*IAB: Industrial Automation Business*
Improved six management indices significantly.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (bn)</th>
<th>GP Margin (%)</th>
<th>OP Margin (%)</th>
<th>ROIC (%)</th>
<th>ROE (%)</th>
<th>EPS (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>619.5</td>
<td>36.8%</td>
<td>40.1 (6.5%)</td>
<td>4.8%</td>
<td>5.2%</td>
<td>74.5</td>
</tr>
<tr>
<td>2012</td>
<td>650.5</td>
<td>37.1%</td>
<td>45.3 (7.0%)</td>
<td>8.6%</td>
<td>8.8%</td>
<td>137.2</td>
</tr>
<tr>
<td>2013</td>
<td>773.0</td>
<td>38.5%</td>
<td>68.1 (8.8%)</td>
<td>11.3%</td>
<td>11.6%</td>
<td>209.8</td>
</tr>
<tr>
<td>2014</td>
<td>847.3</td>
<td>39.3%</td>
<td>86.6 (10.2%)</td>
<td>13.4%</td>
<td>13.5%</td>
<td>283.9</td>
</tr>
<tr>
<td>2015 (E)</td>
<td>860.0</td>
<td>39.3%</td>
<td>70.0 (8.1%)</td>
<td>&gt;10%</td>
<td>&gt;10%</td>
<td>247.8</td>
</tr>
</tbody>
</table>
Management Innovation

Transform to address growing field as a total OMRON while making each business profitable. At the same time, strengthen management system so as not to fall into short-termism.

**Management demonstrating “Earning Power”**
- Matrix management subject to business unit system
- ROIC Management
- Vertical-Horizontal Management

**Management with medium and long-term view**
- Disclosure of midterm management target
- Strengthen compensation governance
- Engagement with investors

**Practice of OMRON Principles**
- Revised OMRON Principles so as for all employees to focus on the same goal
- Establishment of OMRON Corporate Governance Policies
Corporate Governance
# History of Our Corporate Governance

We have been working on developing our Corporate Governance structure since 1990s.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Chair of the Board of Directors / CEO</strong></td>
<td>President served as both</td>
<td>Chairman Serves as chair of the Board of Directors; President serves as CEO</td>
<td></td>
</tr>
<tr>
<td><strong>Separation of management oversight and business execution</strong></td>
<td>30 Directors</td>
<td>1999: Revised articles of incorporation, setting number of board members to 10 or fewer</td>
<td>1999: Adopted executive officer system</td>
</tr>
<tr>
<td><strong>Advisory Board</strong></td>
<td>1999: Advisory Board</td>
<td>2001: One outside director</td>
<td>2003: Two outside directors (seven directors)</td>
</tr>
<tr>
<td><strong>Outside Directors</strong></td>
<td>1998: One Member</td>
<td>1999: Two members</td>
<td>2003: Three members (four auditors)</td>
</tr>
<tr>
<td><strong>Audit &amp; Supervisory Board (Outside members)</strong></td>
<td>1996: Management Personnel Advisory Committee</td>
<td>2000: Personnel Advisory Committee</td>
<td>2011: Two members (four auditors)</td>
</tr>
<tr>
<td><strong>Advisory and Other Committees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Corporate Governance Policy</strong></td>
<td></td>
<td></td>
<td>2015: Revised</td>
</tr>
</tbody>
</table>
Corporate Governance Structure

- Shareholders Meeting
- Chair: Chairman of the Board

- Board of Directors
- Personnel Advisory Committee
- CEO Selection Advisory Committee
- Compensation Advisory Committee
- Corporate Governance Committee

- Audit & Supervisory Board
- Audit & Supervisory Board Office
- Accounting Auditor

- Executive Organization
- President & CEO
- CSR-Related Committees
- Executive Council
- Internal Audit Division
**Enhanced Compensation Scheme**

**Motivation towards medium and long-term value creation = directors' interests aligned with shareholders’**

**Compensation for Directors up until FY2013**
- Base (fixed) compensation + bonuses based on past one year performance
- Stock compensation

**Compensation for Directors since FY2014**
- Base (fixed) compensation + bonuses based on past one year performance
  - + Medium-term performance-linked bonuses
- Stock compensation
  - + Issuance of paid stock acquisition rights
Establishment of OMRON Corporate Governance Policies

OMRON Corporate Governance Policies established in June 2015, through restructuring our existing corporate governance initiatives.

Omron Principles

Omron’s existing corporate governance initiative

OMRON Corporate Governance Policies

Complying with all the 73 principles

URL of OMRON Corporate Governance Policies:
Main Features of OMRON Corporate Governance Policies

1. Specific schedule about AGM:
   • AGM: at least three days prior to the so-called "date of highest concentration of AGM"
   • Convocation notices: sent to shareholders at least three weeks before the date of AGM
   • Electronic version of convocation notices: posted in Japanese and English on the website about a month before the date of AGM

2. Secure the rights of shareholders: disclose the level of opposing votes casted against company proposal (30%) when we shall take necessary measures such as engagement with shareholders proactively

3. Specific indices (ROIC, ROE, EPS) to be considered at capital policies

4. Declare not to introduce takeover defense measures

5. Describe relationship with employees, customers, business partners and suppliers, and communities based on the spirit of OMRON Principles

6. A hybrid-type governance structure with advisory committees, which complement the organizational structure of Company with an Audit & Supervisory Board

7. Composition of board of directors
   • Majority shall not be involved with business execution; at least 1/3 shall consist of independent outside directors ("IOD")
   • All advisory committees chaired by IOD; the majority should be composed of IODs
   • All members of corporate governance committees should be IODs
   • Chairperson shall not have authority to represent the company, and should not be involved with business execution

8. Internal control rule: matters related to risk management and compliance are quarterly reported to the BoD

9. Compensation and incentives for directors shall consist of a base salary, yearly performance-linked bonuses, midterm performance-linked bonuses, stock compensations, and paid stock options

10. Define policy for constructive dialogue with shareholders
Toward Future Growth
VG2020 Strategies

- IA Business Reinforcement
- Super-Global Growth Strategy
- New Business Strategy for the Optimization Society
Reinforce IA business by creation of new business opportunities and value.

**IA Business Reinforcement**

Create new business opportunities through M&A and integration of FA and ICT

Create new value through reinforcing core technologies
M&A to Speed-Up Growth

M&A as a part of Omron’s 10-year vision VG2020 key strategies.

IA Business Reinforcement

Super-Global Growth Strategy

New Business Strategy for the Optimization Society

Delta Tau
IAB, Sept. 2015

Adept
IAB, Oct. 2015

NS
HCB, Oct. 2014
M&A : Why Delta Tau and Adept

To offer a wider range of products.

**Input**
- Vision Sensors
- Fiber Sensors
- Emergency Stop Switches

**Logic**
- Controllers
- PLC
- Safety Light Curtains

**Output**
- Delta Tau Motion Controllers
- Servomotors Servo Drivers
- Inverters

**Safety**
- Safety Controllers

**Robots**
- Adept Robots
- Vision Sensors
- Fiber Sensors
- Emergency Stop Switches
Omron has broader product lines over competitors.

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<tbody>
<tr>
<td></td>
<td>Sensor</td>
<td>Vision</td>
<td>PLC</td>
<td>CNC</td>
<td>IPC</td>
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<tr>
<td>OMRON</td>
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<tr>
<td>I Corp.</td>
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<tr>
<td>J Corp.</td>
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</tbody>
</table>

○: Have / Alliance  
--: Do not have / Under Development
Integration of FA and ICT

Integrate FA and ICT by increasing IoT models.

FA equipment gather various kinds of information in the factory.
Creation of New Business Opportunities

- Processing line: realizing higher-speed/accuracy production equipment.
- Assembly & inspection lines: creating a new style of automation - human-machine harmony.

Information Technology (IoT of diverse control equipment)

Higher Precision

Processing Line
- Injection Molding Machines
- Machine Tools

Human-Machine Harmony
- Conveyor Line
- Assembly Line
- Inspection Line

Robotics Tech. (+R)

Omron’s Control Technology (ILO+S)
Reinforce IA business by creation of new business opportunities and value.

**IA Business Reinforcement**

Create new business opportunities through M&A and integration of FA and ICT

Create new value through reinforcing core technologies
“Sensing & Control”, which converts information into value, is the Omron’s core technology. New value is created by adding “think” (knowledge of people).
IAB has about 200,000 customers globally. Omron’s strength is our extensive knowledge at factory sites.

Omron enters the factory sites and accumulates on-site knowledge.

Omron needs to understand customers' specifications and develop products that satisfy their needs.
Robot will perform work more flexibly by sensing objects’ information.

**From: Programming base**
- Robot only performed the work that was programmed.

**To: Sensing base**
- By sensing objects’ information, robot performs work flexibly.

- Visual/tactile sensors can understand the object.
- e.g. Robot can also pick a soft object.
Evolution by Sensing & Control + Think (2)

By leveraging Artificial Intelligence (AI), time required to launch production line will be greatly shortened.

**From: Rule base**

- Complex and massive procedures were needed to launch production line.

**To: Learning base**

- By AI controllers’ self-learning on the operation of various equipment, production line can be optimally operated in a short time.

AI controller can control optimally by self-learning on equipment, robot's role and motion.
企業価値向上に向けて
References
### Corporate Information

<table>
<thead>
<tr>
<th><strong>Established</strong></th>
<th><strong>May 10(^{th}), 1933</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Head Office</strong></td>
<td>Shiokoji Horikawa, Shimogyo-ku, Kyoto</td>
</tr>
<tr>
<td><strong>Sales</strong></td>
<td>¥847.3bn for FYE March 2015 (overseas sales: 60.1%)</td>
</tr>
<tr>
<td><strong># of employees</strong></td>
<td>37,572*</td>
</tr>
<tr>
<td><strong>Listed at</strong></td>
<td>Tokyo Stock Exchange 1(^{st}) section (ticker 6645)</td>
</tr>
<tr>
<td><strong># of Shares out.</strong></td>
<td>217,397,872 shares*</td>
</tr>
<tr>
<td><strong>Market cap.</strong></td>
<td>JPY983.7bn (based on closing price on Nov. 30(^{th}) 2015: ¥4,525)</td>
</tr>
<tr>
<td><strong>Trading unit</strong></td>
<td>100 shares</td>
</tr>
</tbody>
</table>

* As of March 31\(^{st}\), 2015
Sales Breakdown by Segment

- **IAB**
- **EMC**
- **AEC**
- **Other**
- **HCB**
- **SSB**

847.3 billion yen (FY14)

※In addition to the figures above, net sales include Eliminations & Corporate 1%.
Net Sales by Area

- Japan: 39.9%
- Americas: 14.9%
- Europe: 13.4%
- Asia Pacific: 10.3%
- Greater China: 21.5%

Total sales: 847.3 billion yen (FY14)
ROIC Management: Down-Top ROIC Tree

**KPI**
- Sales in focus industries/areas
- Sales of new/focus products
- Selling price control
- Variable costs reduction, value/%
- Defect costs %
- Per-head production #
- Automation % (headcount reduction)
- Labor costs−sales %
- Inventory turnover months
- Slow-moving inv. months
- Credits & debts months
- Facilities turnover (1/N automation ratio)

**Drivers**
- GP Margin
- Added-value %
- Fixed manuf. costs %
- SG&A %
- R&D %
- Working capital turnover
- Fixed assets turnover

**On-site**
**PLAN**
**DO**
**CHECK**

**To-Dos Cycle**

**ROIC**

**ROS**

**Invested Capital Turnover**
ROIC Definition

\[
\text{Net income attributable to shareholders} \quad \text{Invested capital}
\]

\[
\text{ROIC} = \frac{\text{Net income attributable to shareholders}}{\text{Invested capital}}
\]

Invested capital*

\[
= \text{Net assets} + \text{Interest-bearing debt}
\]

*The average of FY14 year-end result, FY15 quarterly results and forecasts.

Capital cost forecast at 6% for EARTH-1 STAGE (FY14-16)
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 the current time, 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 Company to develop new technologies and products
   (iv) major changes in the fundraising environment
   (v) tie-ups or cooperative relationships with other companies
   (vi) movements in currency exchange rates and stock markets, and
   (vii) accidents and natural disasters.
3. The presentation slides are based on “Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2016”. Figures rounded to the nearest JPY million and percentage to one decimal place.

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