

IAB INDUSTRIAL AUTOMATION BUSINESS

Manufacturing and sales of control systems for factory automation



IAB focuses on promoting quality, safety, and environment solutions for production sites and reinforcing the competitiveness of its core general-purpose components.

% of Net Sales

42%



Fiscal 2008 in Review

Restrained equipment investment in the manufacturing sector caused earnings to plummet in the third quarter

IAB net sales declined 20.0% year on year to ¥262.9 billion and operating income fell 60.6% to ¥20.5 billion in fiscal 2008.

Capital investment by the Japanese semiconductor, electronic components, automobile, and other sectors was already in a gradual declining trend at the start of the year, but when the economic crisis deepened in the third quarter, many companies suddenly began postponing or freezing plans for large-scale equipment investment. IAB sales were hit hard, with full-year domestic sales ultimately down 19.2% year on year.

Under the circumstances, IAB highlighted its solutions business, focusing on quality, safety, and the environment, and stepped up marketing of its application sensors, safety components, and other devices. While this management strategy had some success, it was still not enough to make up for the sharp drop in sales of its core general-purpose

components.

The economic situation also impacted overseas sales, which plummeted 20.7%. In North America, demand in the oil- and gas-related industries started recovering and safety equipment sales were brisk in the first half. The automobile and other industries were investing to enhance existing facilities, but this trend came to a halt in the second half. IAB sales in North America ultimately ended down 10.7% for the year. In Europe also, in the first half, demand for motion controllers, safety components, and other systems was growing, and sales of power conditioners for solar-power generators were strong. Demand deteriorated from strong to stagnant in the second half in Italy, Spain, Eastern Europe, and other areas, and overall sales in Europe ended up down 23.5% for the year. The repercussions from the economic situation inevitably spread to the Greater China region, and IAB sales in China fell a similar 25.5% for the year. The one bright spot was the Asia Pacific region, where the region's growth momentum supported a 6.9% growth in sales.

IAB Results and Plans

Fiscal Year	(Billions of yen)				
	2005	2006	2007	2008	2009 (Plan)
Net sales*	272.7	305.6	328.8	262.9	193.0
Domestic	136.2	140.8	144.1	116.4	84.5
Overseas	136.5	164.8	184.7	146.5	108.5
North America	25.4	34.8	35.6	31.7	24.7
Europe	69.6	81.3	92.3	70.7	51.0
Asia	12.7	14.0	16.2	17.4	15.4
China	24.0	28.8	34.6	25.7	17.2
Direct exports	4.8	5.8	6.0	1.0	0.2
Operating income*	41.9	48.5	51.9	20.5	5.0
Operating income margin*	15.4%	15.9%	15.8%	7.8%	2.6%
R&D expenses*	18.5	18.1	19.5	18.2	
Depreciation and amortization*	10.2	11.2	11.7	10.1	
Capital expenditures*	10.0	13.7	8.4	8.9	

* FY2009 (Plan) adopted from FASB Statement No.131, *Disclosures about Segments of an Enterprise and Related Information*.

* Projections for FY2009 are based on exchange rates of ¥95/US\$ and ¥125/Euro.

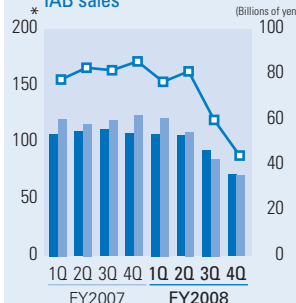
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and head office expenses that are not apportionable.

* Projected figures for R&D costs, depreciation costs, and capital expenditures are not publicized.

Check It Out!

Analysis of external environment

Indices of industrial production and machinery orders, IAB sales



*2000/4-2001/3 average=100

*Source: The Ministry of Economy Trade and Industry and the Cabinet Office, Government of Japan

IAB sales trends move on a half-year time lag to indices for industrial production and machinery orders.

Yoshinobu Morishita
Senior Managing Officer
Company President,
Industrial Automation Company



Business Strategy and Outlook for Fiscal 2009

Fortify the business base of general-purpose components for future growth

We forecast a decline of 26.6% year on year to ¥193.0 billion in net sales and a decrease of 75.6% to ¥5.0 billion in operating income in fiscal 2009.

Inventory adjustments in the manufacturing sector are progressing and some economic indicators are pointing to improving business conditions. Nevertheless, it remains to be seen uncertain when a full-fledged recovery will start. We anticipate equipment investment to be restrained for some time even after business conditions hit bottom, and forecast IAB sales falling 42.9% in the first half and 1.9% in the second half in fiscal 2009.

In line with the Company's sweeping restructuring (see page 15 for details), IAB plans to reorganize its production structure and deepen coordination with ECB* to enhance operating efficiency.

In Japan, the Company will strengthen its marketing abilities for general-purpose components, which are one of its leading product lines, by reassigning sales staff from AEC and other internal companies. IAB will also seek to raise general-purpose component sales from the current low levels by providing comprehensive service support and intensifying usage of its various sales channels.

IAB is also aggressively developing quality, safety, and environmental solutions for the photovoltaic and rechargeable battery sector, next-generation equipment sector, and other growth industries where we anticipate steady investment going forward. Overseas, IAB will revise its production and development operating structures in China to enhance its cost competitiveness and will develop the emerging markets in Russia, Brazil, and South Africa.

* As of September 21, ECB's name will be changed to EMC (Electronic and Mechanical Components Business Company).

What's New

Improving photovoltaic cell production quality and productivity rates

The rapid expansion of the photovoltaic cell market is increasing the need for highly efficient, high-quality production methods. Cells used in solar-powered batteries are extremely thin, just 0.2 mm thick, and are easily chipped and cracked during the manufacturing process. Flawed cells in a solar-powered panel are a common cause of defective products, and manufacturers are introducing inspection systems to test for defects.

The inspection systems that are currently used present several problems. For example, they become unstable if the cell shape or size changes or if the flow or positioning of the cells is inconsistent. In addition, the complexity involved in setting and adjusting the systems means that getting them up and running requires a significant amount of time.

IAB analyzed every aspect of the photovoltaic cell manufacturing process and developed a profile tracking and defect inspection software program that automatically identifies cell shapes, sizes, and positioning. The system incorporates the Company's leading image processing technology, which allows the image settings to be focused and brightened digitally. The result is a straightforward inspection system that is stable and reliable and does not require extensive training or experience.



Cell defect inspection software for the photovoltaic cell industry using vision sensors

Micro PLCs

Omron realized dramatic cost savings for its micro programmable logic controllers by conducting a cost review of each individual component. Our micro PLCs significantly simplify programming and wiring systems.



Safety Products

Safety sensors are key to creating a safe working environment at manufacturing sites. These sensors ensure that doors and gates on equipment and at facilities are closed when a person tries to enter a danger zone.



Automatic Optical Inspection Device

Omron's automatic optical inspection (AOI) devices provide high-precision inspection of substrates used in backbone equipment for automotive electronic components, mobile phones, and other equipment. AOI devices are also solutions for the prevention of flaw repetition and improved manufacturing quality for a digital society.

