

Fiscal 2008 Management's Discussion and Analysis

Note: The business divisions are presented using their abbreviated names

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

Market Environment

1. Macroeconomic Environment

The subprime loan crisis originating in the United States had strong repercussions on the real economies in countries around the world in fiscal 2008, and when conditions deteriorated abruptly in the third quarter, the economic conditions took on the characteristics of a global recession. Japan's economy, which relies heavily on exports, was critically damaged during the year. The steep drop in demand and the appreciating value of the yen deeply impacted corporate earnings while employment conditions deteriorated markedly and private consumption continued to decline.

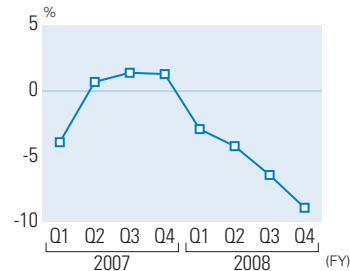
Growth Rates of Real GDP for Each Country/Region

CY	Japan	U.S.	EU	China
2007	2.4	2.0	2.7	13.0
2008	-0.6	1.1	0.9	9.0
2009 Estimates	-6.2	-2.8	-4.2	6.5

Source: IMF "World Economic Outlook," April 2009

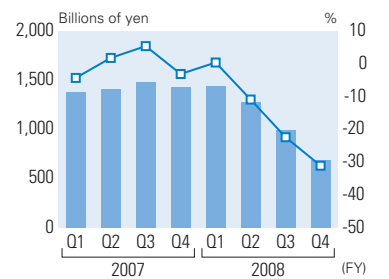
Domestic Macroeconomic Environment

Real Private Capital Investment



Note: Seasonally adjusted
Source: Cabinet Office, Government of Japan

Machinery Orders (Manufacturing)



Note: Seasonally adjusted
Source: Cabinet Office, Government of Japan

2. The Omron Group Market Environment

The business environment was extremely harsh for the Omron Group in fiscal 2008. Most manufacturing industries, including the Group's clients in the automotive and semiconductor industries, implemented production adjustments and reduced or postponed capital spending, particularly following the degeneration of business conditions in the third quarter.

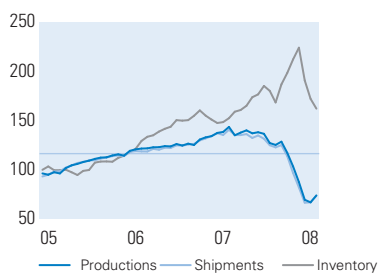
Demand plummeted for the Company's core factory automation control equipment. Strict inventory adjustments in the business and consumer equipment sectors also led to a steep drop in demand for electronic components. The steep production cuts in the automotive industry also led

to a further decline in demand for automotive electronics. On the positive side, demand grew in the first half in some regions for blood pressure monitors and other health-related equipment on growing health consciousness in emerging economies.

External factors influencing profits included a sharp decline in raw material prices and the strengthened yen beginning when economic conditions soured in the third quarter. The strong yen also impacted profits as the average exchange rates increased by ¥13.4 to ¥100.7 versus the U.S. dollar and by ¥17.4 to ¥144.5 versus the euro from the previous fiscal year.

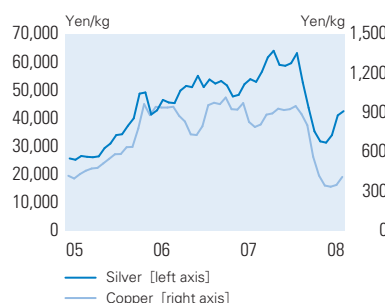
Indices of Electronic Parts and Devices

(Seasonally adjusted indices, 2005 average = 100)

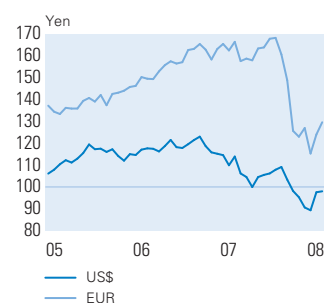


Source: Ministry of Economy, Trade and Industry

Silver and Copper Prices



Exchange Rates



Overview of Consolidated Results and Financial Condition

Note: Segment operating income is prepared using the single-step method (that does not show individual income levels) based on U.S. GAAP. For easier comparison to other companies, operating income represents gross profit minus selling, general and administrative expenses, and research and development expenses.

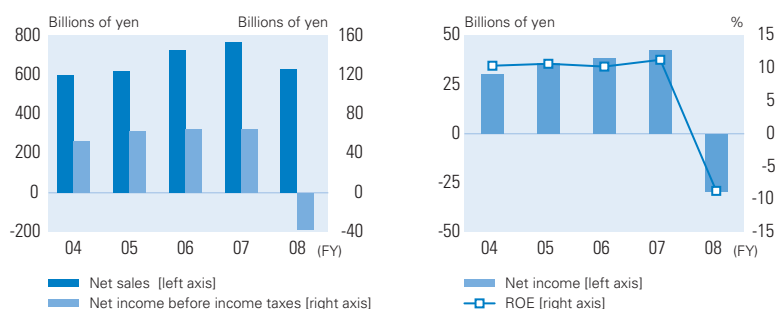
In this market environment, Omron's fiscal 2008 consolidated net sales declined 17.8% year on year to ¥627.2 billion and operating income plummeted 91.8% to ¥5.3 billion despite efforts to reduce costs in every business segment, restricting large investment, and launching wide-ranging structural reform of business operations with the objective of reestablishing our revenue bases. The Company also recorded a consolidated net loss before income taxes of ¥39.1 billion and a net loss of ¥29.2 billion, largely as a result of impairment losses for goodwill,

property, plant and equipment, and investment securities.

Total assets declined 12.8% from the previous fiscal year owing to reduced sales and asset impairment losses. The net loss contributed to a 19.0% year-on-year decline in total shareholders' equity, which lowered the equity ratio to 55.4%, from 59.7% at the end of the previous fiscal year.

Return on equity (ROE) fell to -8.7%, as the Group was unable to extend its streak of maintaining ROE above its benchmark 10% level for five consecutive years.

Net Sales & Net Income before Income Taxes Net Income & ROE



* Figures have been restated to account for businesses discontinued in FY2007.

Review and Analysis of the Statements of Income

Sales

Consolidated net sales declined 17.8% year on year to ¥627.2 billion as the global recession and the strong yen led to declining revenue in all business segments. By region, sales declined 15.6% in Japan and decreased in all other regions as well, falling 21.1% in North America, 23.3% in Europe, 17.7% in the Greater China region, and 13.5% in Southeast Asia.

Cost of Sales and SG&A Expenses

The decline in sales led to a 13.0% year-on-year decrease in cost of sales. However, the cost to sales ratio rose 3.6 percentage points to 65.2%. Raw materials prices, which had risen sharply in the previous fiscal year, dropped back as economic conditions worsened, but sales revenue was strongly impacted by downward pressure on product prices and the sharp rise in the value of the yen.

SG&A expenses were reduced by 7.0% from the previous fiscal year as a result of company-wide efforts to

counter the decline in sales by cutting costs and restricting large investment. The Company reduced R&D by 5.1%, but the rapidity of the drop in sales resulted in the SG&A expense ratio growing 3.1 percentage points to 26.2% and the R&D expense ratio rising 1.0 percentage point to 7.7%.

Other Expenses (Income) *See Note 12 on page 79

The net amount of other expenses (income) was a net loss of ¥44.5 billion, as loss in this category expanded ¥43.4 billion from the previous fiscal year. The main factors were impairment losses for goodwill, property, plant and equipment, and investment securities.

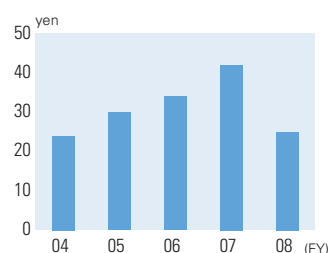
Net Income before Income Taxes, Net Income, and Profit Distribution

As a result of the above, net income before income taxes decreased ¥103.3 billion from ¥64.2 billion in the previous fiscal year to a net loss before income taxes of ¥39.1 billion. Net income declined ¥71.6 billion from ¥42.4 billion

to a net loss of ¥29.2 billion in fiscal 2008. Basic net income per share decreased to a ¥132.2 net loss per share, down from ¥185.9 in the previous year.

Based on our profit distribution policy (see page 19) and in consideration of the earnings results, ordinary dividends of ¥25 per share were distributed in the fiscal year under review.

Dividends per Share



Costs, Expenses, and Income as Percentages of Net Sales

	FY2008	FY2007	FY2006
Net sales	100.0%	100.0%	100.0%
Cost of sales	65.2	61.6	61.6
Gross profit	34.8	38.4	38.4
Selling, general and administrative expenses	26.2	23.1	22.6
Research and development expenses	7.7	6.7	7.2
Interest expenses (income), net	0.0	(0.1)	(0.1)
Income (Loss) from continuing operations before income taxes, minority interests, and equity in loss of affiliates	(6.2)	8.4	8.9
Income taxes	(1.6)	3.2	3.6
Income (Loss) from continuing operations	(4.7)	5.2	5.1
Income from discontinued operations	—	0.4	0.2
Net income (loss)	(4.7)	5.6	5.3

Segment Information

Note: Segment operating income is prepared using the single-step method (that does not show individual income levels) based on U.S. GAAP. For easier comparison to other segment companies, operating income represents gross profit minus selling, general and administrative expenses, and research and development expenses.

Note: In segment information, sales represents sales to external customers and excludes inter-segment transactions. Conversely, operating income includes income from inter-segment income transactions before deductions of headquarters expenses and other non-apportionable amounts.

Please refer to pages 32–42 for detailed segment business results, fiscal 2009 outlook, and strategy.

1. Review of Operations by Business Segment

IAB (Industrial Automation Business)

IAB net sales declined 20.0% year on year to ¥262.9 billion and operating income fell 60.6% to ¥20.5 billion. Sales were suppressed by the postponement and cancellation of large-scale equipment investment projects beginning in the third quarter, particularly in the semiconductor, flat panel display, and automotive industries. Sales were also down sharply in the Asia Pacific and Greater China regions, where sales had been holding relatively firm.

ECB (Electronic Components Business)

ECB net sales decreased 19.6% year on year to ¥123.9 billion and operating income declined from ¥12.6 billion in the previous fiscal year to a ¥2.0 billion operating loss in fiscal 2008. The result was mainly due to a further decline in demand from the semiconductor and automotive indus-

tries in the second half, stepped up inventory adjustment measures in the business and consumer equipment sectors, and a loss of the previously steady momentum in orders for small-sized backlights and input switches for mobile devices.

AEC (Automotive Electronic Components Business)

AEC net sales declined 23.6% year on year to ¥82.1 billion and operating income declined from ¥1.4 billion in the previous fiscal year to a ¥6.4 billion operating loss in fiscal 2008. The primary factors were the spikes in gasoline prices and the global recession, which combined to sharply reduce automobile demand. Sales were also sluggish in China and emerging economies, largely due to declines in unit sales of mid- and large-size vehicles.

SSB (Social Systems Business)

SSB net sales decreased 6.3% year on year to ¥79.9 billion and operating income fell 24.0% to ¥5.4 billion. New railway line construction led to increased demand for railway infrastructure equipment, but the overall restrained spending for corporate capital investment and public sector investment ultimately drew down sales.

HCB (Healthcare Business)

HCB net sales declined 10.9% year on year to ¥63.8 billion and operating income decreased 48.5% to ¥4.8 billion. Sales of home blood pressure monitors and body composition monitors plummeted amid stagnant demand in the healthcare and medical equipment markets. Sales were

improving in the first half due to expanded sales channels in North America and growing demand for blood pressure monitors in China, Russia, Eastern Europe, and the Middle East. However, full-year sales declined, from the impacts of the global recession and strong yen in the second half.

Others

Other Business net sales declined 7.0% year on year to ¥14.5 billion and operating income dropped 49.4% to ¥4.4 million. Increasing consumer consciousness regarding energy consumption supported steady sales of electricity usage monitoring services. Sales declined for uninterruptible power supply units and broadband routers.

Growth in Net Sales by Business Segment

	FY2008	FY2007	FY2006
IAB	(20.0)%	7.6%	12.1%
ECB	(19.6)	11.5	41.6
AEC	(23.6)	15.2	20.3
SSB	(6.3)	(19.6)	15.4
HCB	(10.9)	8.9	7.6
Others	(7.0)	4.5	(1.3)

Composition of Net Sales by Business Segment

	FY2008	FY2007	FY2006
IAB	41.9%	43.1%	42.2%
ECB	19.8	20.2	19.1
AEC	13.1	14.1	12.9
SSB	12.7	11.2	14.6
HCB	10.2	9.4	9.1
Others	2.3	2.0	2.1

2. Review of Operations by Region

Japan

The rapid deterioration in economic conditions led to domestic sales declines of between 10% to 20% for each of the IAB, ECB, AEC, and HCB segments. Restrained capital investment by railway companies held domestic sales flat for the SSB segment. Net sales in Japan declined 15.6% year on year to ¥328.1 billion and operating income decreased 83.3% to ¥8.4 billion in fiscal 2008.

North America

Sales in North America were brisk for IAB's oil-related and safety businesses, but the severe production cuts by the automobile industry strongly impacted the sales results of AEC. Net sales in North America fell 21.1% year on year to ¥80.4 billion and operating income declined from ¥2.1 billion in the previous fiscal year to a ¥0.7 billion operating loss.

Europe

IAB sales in Europe declined 23.5% amid severe deterioration in the business environment in Italy, Spain, and Eastern Europe. HCB recorded rising sales of blood pressure monitors in Russia, Eastern Europe, and the Middle East, but posted declining sales for the year following a downturn in demand in the second half.

Net sales in Europe fell 23.3% year on year to ¥103.1 billion and operating income decreased 55.7% to ¥6.5 billion.

Greater China

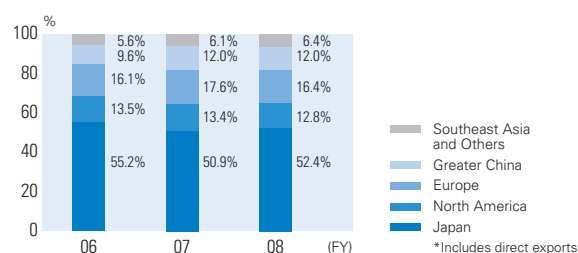
In the Greater China region, encompassing China, Hong Kong, and Taiwan, the rapid worsening in business conditions as the global economy deteriorated led to IAB and ECB sales declines of 25.5% and 21.7%, respectively. HCB posted 22.5% sales growth on expanding demand for blood pressure monitors.

Total net sales in the Greater China region declined 17.7% year on year to ¥75.2 billion and operating income decreased 61.4% to ¥3.1 billion.

Southeast Asia and Others

The economic recession and rapid strengthening of the yen were the major factors behind sales drops of 18.3% and 31.6% for ECB and AEC, respectively, in the region. IAB sales edged up 6.9%. Net sales in the Southeast Asia and other areas declined 13.5% year on year to ¥40.4 billion and operating income fell 67.1% to ¥1.5 billion.

Sales Breakdown by Region



Financial Condition

Assets

Total assets amounted to ¥538.3 billion in fiscal 2008, representing a decrease of ¥79.1 billion, or 12.8%, from the end of the previous fiscal year. The decline was primarily due to booking impairment losses for goodwill of ¥16.8 billion, property, plant and equipment of ¥21.2 billion, and investment securities of ¥5.4 billion along with a ¥53.3 billion decrease in notes and accounts receivable-trade associated with the drop in sales and a ¥10.4 billion decline in inventories.

Liabilities and Shareholders' Equity

Current liabilities, long-term liabilities, and minority interests in subsidiaries amounted to ¥239.9 billion in fiscal 2008, a decline of ¥9.0 billion, or 3.6%, from the previous fiscal year. Notes and accounts payable-trade declined ¥36.5 billion from the previous fiscal year, while an increase

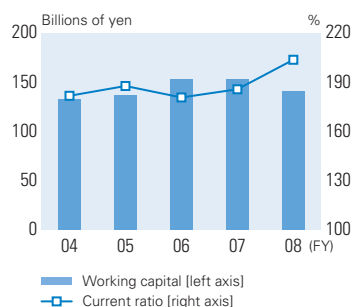
in loans raised interest-bearing liabilities by ¥35.1 billion, to ¥54.9 billion. Termination and retirement benefits increased by ¥16.9 billion, or 26.6%, from the previous fiscal year.

Total shareholders' equity amounted to ¥298.4 billion, representing a ¥70.1 billion, or 19.0%, decrease from the previous fiscal year in addition to a net loss of ¥29.2 billion, primarily due to the strong yen and the differences from securities revaluation.

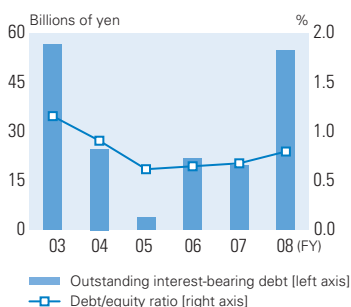
As a result, the shareholders' equity ratio decreased 4.3 percentage points to 55.4%, from 59.7% in the previous fiscal year, and the debt/equity ratio increased from 0.675 to 0.804 over the same period.

Net assets per share based on the number of shares outstanding at the end of the fiscal year was ¥1,355.41, compared to ¥1,662.32 at the end of the previous fiscal year.

Working Capital & Current Ratio



Outstanding Interest-bearing Debt & Debt/Equity Ratio



Cash Flow

Cash and cash equivalents at the end of the fiscal year amounted to ¥46.6 billion, a ¥6.0 billion increase from the end of the previous year.

Cash Flow from Operating Activities

Cash flow from operating activities decreased by ¥37.6 billion from the previous year to ¥31.4 billion, primarily due to the ¥29.2 billion net loss and the increase in the non-expenditure item of depreciation and amortization from booking impairment losses for goodwill and property, plant and equipment.

Cash Flow from Investing Activities

Cash flow from investing activities saw a net outflow of ¥40.6 billion representing a ¥3.9 billion increase in outflow from the previous fiscal year. The increase was largely due to decreased proceeds from the sale of property and equipment and this is despite limiting capital investment spending below the original plan for the year.

Cash Flow from Financing Activities

Cash flow from financing activities saw a net inflow of ¥21.9 billion, representing a ¥56.3 billion increase from the net outflow in the previous fiscal year. Inflow from the increase in loans was larger than dividend payments and other outflows.

Free Cash Flow

