

# Notes to Consolidated Financial Statements

Omron Corporation and Subsidiaries

## 1. Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

Omron Corporation (the "Company") is a multinational manufacturer of automation components, equipment and systems with advanced computer, communications and control technologies. The Company conducts business in over 30 countries around the world and strategically manages its worldwide operations through five regional management centers in Japan, North America, Europe, Asia-Pacific and Greater China. Products, classified by type and market, are organized into five major business segments and an "Others" segment, as described below.

**Industrial Automation Business (IAB)** manufactures and sells control components and systems including programmable logic controllers, sensors and switches used in automatic systems in industry. In the global market, the Company offers many services, such as those involving labor-saving automation, environmental protection, safety improvement, and inspection-automization solutions for highly developed production systems.

**Electronic Components Business (ECB)** manufactures and sells electric and electronic components found in such consumer goods as home appliances as well as such business equipment as telecommunications systems, vending machines and office equipment.

**Automotive Electronic Components Business (AEC)** develops and produces automotive electronic components and other equipment for automakers and automotive electronic components manufacturers throughout the world.

**Social Systems Solutions Business (SSB)** encompasses the sale of card authorization terminals, ticket gates, automated ticket vending machines, electronic panels and terminal displays for traffic information and monitoring purposes, mainly for the domestic market.

**Healthcare Business (HCB)** sells blood pressure monitors, digital thermometers, body composition monitors, nebulizers, electronic therapy and other devices aimed at both the consumer and institutional markets.

**Others** consists of businesses with high growth potential. The group provides the peripheral equipment used in office automation equipment, modems, scanners and uninterrupted power supplies and energy consumption monitoring services in environmental fields.

### Basis of Financial Statements

The accompanying consolidated financial statements, stated in Japanese yen, include certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States of America, except for the omission of segment information required by Statement of Financial Accounting Standards ("SFAS") No.131, "Disclosures about Segments of an Enterprise and Related Information." Certain reclassifications have been made to amounts previously reported in order to conform to 2009 classifications.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Companies"). All significant intercompany accounts and transactions have been eliminated.

Investments in which the Companies have a 20% to 50% interest (affiliates) are accounted for using the equity method.

### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less, including time deposits, commercial paper, and securities purchased with resale agreements and money market instruments.

### Allowance for Doubtful Receivables

An allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

### Marketable Securities and Investments

The Companies classify all of their marketable debt and equity securities as available-for-sale. Available-for-sale securities are carried at market value with the corresponding recognition of net unrealized holding gains and losses as a separate component of accumulated other comprehensive income (loss), net of related taxes, until recognized. If necessary, individual securities classified as available-for-sale are reduced to fair value by a charge to income in the period in which the decline is deemed to be other than temporary. The Companies principally consider that an other-than-temporary impairment has occurred when the decline in fair value below the carrying value continues for over nine consecutive months. The Companies may also consider other factors, including their ability and intent to hold the applicable investment securities until maturity, and the severity of the decline in fair value.

Other investments are stated at the lower of cost or estimated net realizable value. The cost of securities sold is determined on the average cost basis.

### **Inventories**

Domestic inventories are mainly stated at the lower of cost, determined by the first-in, first-out method, or market. Also overseas inventories are mainly stated at the lower of cost, determined by the moving-average method, or market.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment has been computed principally on a declining balance method based upon the estimated useful lives of the assets. The estimated useful lives primarily range from 3 to 50 years for buildings and from 2 to 15 years for machinery and equipment.

### **Goodwill and Other Intangible Assets**

The Companies account for their goodwill and other intangible assets in accordance with SFAS No.142, "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS No.142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

### **Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of other than by sale are considered held and used until disposed of. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

### **Advertising Costs**

Advertising costs are charged to earnings as incurred. Advertising expense was ¥7,146 million (\$72,918 thousand), ¥8,648 million and ¥9,600 million for the years ended March 31, 2009, 2008 and 2007, respectively.

### **Shipping and Handling Charges**

Shipping and handling charges were ¥7,399 million (\$75,500 thousand), ¥8,121 million and ¥8,571 million for the years ended March 31, 2009, 2008 and 2007, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

### **Termination and Retirement Benefits**

Termination and retirement benefits are accounted for in accordance with SFAS No.87, "Employers' Accounting

for Pensions" and SFAS No.158, "Employers' Accounting for Defined Benefit Pension and Other Post retirement Plans" based on the fiscal year-end fair value of plan assets and the projected benefit obligations of employees, and are disclosed in accordance with SFAS No.132 (revised 2003), "Employers' Disclosures about Pensions and Other Post retirement Benefits" and SFAS No.158. The provision for termination and retirement benefits includes amounts for directors and corporate auditors of the Company.

### **Income Taxes**

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts, operating loss carryforwards and tax credit carryforwards. Future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, are recognized to the extent that such benefits are more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Companies adopted FASB Interpretation ("FIN") No.48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109," for the year beginning after April 1, 2007. The amount of tax benefit related to tax position were recognized greater than 50 percent likely of being realized based on available information at the reporting date.

The Company and certain domestic subsidiaries compute current income taxes based on the consolidated taxable income as permitted by Japanese tax regulations for the year beginning after April 1, 2006.

### **Product Warranties**

A liability for the estimated warranty related cost is established at the time revenue is recognized and is included in other current liabilities. The liability is established using historical information including the nature, frequency, and average cost of warranty claims.

### **Derivatives**

Derivative instruments and hedging activities are accounted for in accordance with SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133," SFAS No.149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," and SFAS No.161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No.133." These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

For foreign exchange forward contracts, foreign currency swaps and interest rate swaps on the date the deriv-

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ative contract is entered into, the Companies designate the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge or "foreign currency" hedge). The Companies formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow or foreign currency hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. Based on the Companies' policy, all foreign exchange forward contracts, foreign currency swaps and interest rate swaps entered into must be highly effective in offsetting changes in cash flows of hedged items.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow or foreign currency hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

### Cash Dividends

Cash dividends are reflected in the consolidated financial statements at proposed amounts in the year to which they are applicable, even though payment is not approved by shareholders until the annual general meeting of shareholders held early in the following fiscal year. Resulting dividends payable are included in Other current liabilities in the consolidated balance sheets.

### Revenue Recognition

The Companies recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss has transferred, the sales price is fixed or determinable, and collectibility is probable. These criteria are met when products are received by customers or services are performed.

### Stock-Based Compensation

The Companies applied revised SFAS No.123, "Share Based Payment," and recognized a stock-based compensation cost measured by the fair value method.

### New Accounting Standards

In December 2007, the FASB issued SFAS No.141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 141R will not have a material impact on the Companies' consolidated financial statements.

In December 2007, the FASB issued SFAS No.160, "Noncontrolling Interests in Consolidated Financial Statement, an amendment of ARB No.51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments then a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 will not have a material impact on the Companies' consolidated financial statements.

In March 2008, the FASB issued SFAS No.161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.133" ("SFAS 161"). SFAS 161 amends and expands the current disclosures required by SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 161 requires to provide greater transparency about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its interpretations, and how derivative instruments and related hedged items affect a company's financial position, results of operations and cash flows. SFAS 161 does not change the existing standards relative to recognition and measurement of derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 will not have a material impact on the Companies' consolidated financial statements. See Note 20 for the disclosures required by SFAS161.

In December 2008, the FASB issued FSP FAS No.132(R)-1, "Employers' Disclosures about Post retirement Benefit Plan Assets" ("FSP 132R-1"). FSP 132R-1 requires additional disclosures about plan assets including investment allocation, fair value of major categories of plan assets, development of fair value measurements, and concentrations of risk. FSP 132R-1 is effective for fiscal years ending after December 15, 2009. The adoption of FSP 132R-1 will not have a material impact on the Companies' consolidated financial statements.

In May 2009, the FASB issued SFAS No.165, "Subsequent Events" ("SFAS 165"). SFAS 165 defines disclosures about the date through which companies have evaluated subsequent events and the nature and financial effect of nonrecognized subsequent events. SFAS 165 is effective for fiscal year ending after June 15, 2009. The adoption of SFAS 165 will not have a material impact on the Companies consolidated financial statements.

## 2. Translation into United States Dollars

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of the readers outside of

Japan and has been made at the rate of ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

## 3. Inventories

Inventories at March 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished products	¥ 49,122	¥ 53,128	\$ 501,245
Work-in-process	13,068	16,656	133,347
Materials and supplies	22,518	25,341	229,775
Total	¥ 84,708	¥ 95,125	\$ 864,367

## 4. Marketable Securities and Investments

Investment securities include debt and marketable equity securities and consist of available-for-sale and held-to-maturity securities. Cost, gross unrealized holding gains

and losses and fair value of the securities at March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Available-for-sale securities</b>								
Debt securities	¥ 19	¥ —	¥ —	¥ 19	¥ 1,541	¥ —	¥ —	¥ 1,541
Equity securities	20,602	7,042	(1,237)	26,407	20,802	12,932	(662)	33,072
Total available-for-sale securities	¥ 20,621	¥ 7,042	¥ (1,237)	¥ 26,426	¥ 22,343	¥ 12,932	¥ (662)	¥ 34,613

	Thousands of U.S. dollars			
	2009			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Available-for-sale securities</b>				
Debt securities	\$ 194	\$ —	\$ —	\$ 194
Equity securities	210,224	71,857	(12,622)	269,459
Total available-for-sale securities	\$ 210,418	\$ 71,857	\$ (12,622)	\$ 269,653

(\*) Cost represents amortized cost for debt securities and acquisition cost for equity securities.

	Millions of yen				Thousands of U.S. dollars			
	2009							
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Held-to-maturity securities</b>								
Debt securities	¥ 200	¥ —	¥ —	¥ 200	\$ 2,041	\$ —	\$ —	\$ 2,041

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Maturities of debt securities classified as available-for-sale and held-to-maturity securities at March 31 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Due after one year through five years	¥ 119	¥ 119	¥ 41	¥ 41	\$ 1,214	\$ 1,214
Due over five years	¥ 100	¥ 100	¥ 1,500	¥ 1,500	\$ 1,020	\$ 1,020

Gross unrealized holding losses and fair value of certain available-for-sale, equity securities, aggregated by length of time that such securities have been in a continuous unrealized loss position at March 31 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Less than 12 months						
Equity securities	¥ 3,740	¥ (1,237)	¥ 6,270	¥ (662)	\$ 38,163	\$ (12,622)

Proceeds from sales of available-for-sale securities were ¥26 million (\$265 thousand), ¥3,403 million and ¥976 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Gross realized gains on sales were ¥7 million (\$71 thousand), ¥1,534 million and ¥805 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Realized losses on sales were ¥1 million (\$10 thousand) for the years ended March 31, 2009, and there were no gross realized losses on sales for the years ended March 31, 2008 and 2007.

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥5,062 million (\$51,653

thousand), ¥2,228 million and ¥144 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥5,256 million (\$53,633 thousand) and ¥4,526 million at March 31, 2009 and 2008, respectively. Investments with an aggregate cost of ¥5,105 million (\$52,092 thousand) were not evaluated for impairment because (a) the Companies did not estimate the fair value of those investments as it was not practicable to do so and (b) the Companies did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments.

## 5. Acquisition

In August 2006, the Company acquired 100% of the issued common stock of Pioneer Precision Machinery Corporation (now Omron Precision Technology Co., Ltd., "OPT") for cash in the aggregate amount of ¥7,721 million.

This acquisition was to expand and strengthen LCD backlights business from small-size to large-size.

The consolidated financial statements for the year ended March 31, 2007 include the operating results of OPT from the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen
Current assets	¥ 18,299
Property, plant and equipment	3,788
Investments and other assets (*)	3,855
Current liabilities	(16,284)
Long term liabilities	(1,937)
Net assets acquired	¥ 7,721

(\*) Investments and other assets include acquired goodwill of ¥2,179 million.

In September 2006, Omron Management Center of America, Inc., a subsidiary of the Company, acquired 100% of the issued common stock of Scientific Technologies Incorporated (now Omron Scientific Technologies Incorporated, "OSTI") for cash in the aggregate amount of ¥11,667 million.

This acquisition was to fulfill line-up of safety equipment, expand safety business and create cutting-edge equipment.

The consolidated financial statements for the year ended March 31, 2007 include the operating results of OSTI from the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen
Current assets	¥ 2,463
Property, plant and equipment	458
Investments and other assets (*)	11,360
Current liabilities	(795)
Long term liabilities	(1,819)
Net assets acquired	¥ 11,667

(\*) Investments and other assets include acquired goodwill of ¥7,044 million.

In June 2007, the Company acquired 95% of the issued common stock of Laserfront Technologies Co., Ltd. (now Omron Laserfront Inc., "OLFT") for cash in the aggregate amount of ¥8,099 million.

This acquisition was to expand laser business by enhancing line-up of products focusing on laser processing technology.

The consolidated financial statements for the year ended March 31, 2008 include the operating results of OLFT from July 2007. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen
Current assets	¥ 6,186
Property, plant and equipment	619
Investments and other assets (*)	7,354
Current liabilities	(3,863)
Long term liabilities	(1,940)
Minority interest	(257)
Net assets acquired	¥ 8,099

(\*) Investments and other assets include acquired goodwill of ¥3,668 million

## 6. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2009 and 2008 were as follows:

	Millions of yen		2008		Thousands of U.S. dollars	
	2009	2008	2009	2008	2009	2008
	Gross amount	Accumulated amortization	Gross amount	Accumulated amortization	Gross amount	Accumulated amortization
<b>Intangible assets subject to amortization:</b>						
Software	¥ 30,280	¥ 21,900	¥ 38,875	¥ 25,210	\$ 308,980	\$ 223,469
Other	3,458	2,535	4,416	2,845	35,285	25,868
Total	¥ 33,738	¥ 24,435	¥ 43,291	¥ 28,055	\$ 344,265	\$ 249,337

Aggregate amortization expense related to intangible assets was ¥6,462 million (\$65,939 thousand), ¥6,769 million and ¥5,762 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Estimated amortization expense for the next five years ending March 31 is as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Years ending March 31</b>		
2010	¥ 3,745	\$ 38,214
2011	2,722	27,776
2012	1,525	15,561
2013	746	7,612
2014	178	1,816

Intangible assets not subject to amortization at March 31, 2009 and 2008 were immaterial.

The carrying amount of goodwill at March 31, 2009 and 2008 and changes in its carrying amount for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Balance at beginning of year	¥ 22,236	¥ 19,021	\$ 226,898
Acquisition	—	4,131	—
Impairment	(16,813)	—	(171,561)
Foreign currency translation adjustments and other	(1,455)	(916)	(14,847)
Balance at end of year	¥ 3,968	¥ 22,236	\$ 40,490

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In accordance with SFAS No.142, the Companies recognized the impairment losses for the fiscal year ended March 31, 2009 related to goodwill allocated to the reporting units of Industrial Automation business, Electronic Components Business, Automotive Electronic Component Business and Healthcare Business. The amounts were ¥9,406 million (\$95,980 thousand), ¥191 million (\$1,949 thousand), ¥662 million (\$6,755 thousand) and ¥6,554 mil-

lion (\$66,878 thousand), respectively. Due to the sharp deterioration of business environment in automobile sector, FPD sector and medical equipment sector, the fair value of the associated reporting unit was decreased. The impairment losses are included in other expenses (income), net in the consolidated financial statements of operations. The fair value of the reporting unit was estimated using the expected present value of future cash flows.

### 7. Impairment loss on Long-lived Assets

In accordance with SFAS No.144, the Companies recognized the impairment losses for the fiscal year ended March 31, 2009 on long-lived assets in Industrial Automation business, Electronic Components Business, Automotive Electronic Component Business and Other Business. The amounts were ¥5,361 million (\$54,704 thousand), ¥5,788 million (\$59,061 thousand), ¥9,699 million (\$98,969 thousand) and ¥355 million (\$3,622 thou-

sand), respectively. Due to the sharp deterioration of the business environment in the automobile, FPD and semiconductor sectors, the carrying amount of the certain groups of assets exceeded their fair value. The impairment losses are included in other expenses (income), net in the consolidated financial statements of operations. The fair value of the group assets was estimated using the expected present value of future cash flows.

### 8. Short-Term Debt and Long-Term Debt

Short-term debt at March 31 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Commercial Paper			
The weighted average annual interest rates			
2008 0.8%	¥ 31,000	¥ 16,000	\$ 316,327
2009 0.8%			
Unsecured debt:			
The weighted average annual interest rates			
2008 5.1%	1,970	1,795	20,102
2009 3.9%			
Total	¥ 32,970	¥ 17,795	\$ 336,429

Long-term debt at March 31 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unsecured debt:			
The weighted average annual interest rates			
2008 2.9%	¥ 20,000	¥ 384	\$ 204,082
2009 1.3%			
Other	1,889	1,630	19,276
Total	21,889	2,014	223,358
Less portion due within one year	488	522	4,980
Long-term debt, less current portion	¥ 21,401	¥ 1,492	\$ 218,378

The annual maturities of long-term debt outstanding at March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 488	\$ 4,979
2011	20,049	204,582
2012	49	500
2013	50	510
2014	52	531
Thereafter	1,201	12,255
Total	¥ 21,889	\$ 223,357

As is customary in Japan, additional security must be given if requested by a lending bank, and banks have the right to offset cash deposited with them against any debt or obligation that becomes due and, in case of default and certain other specified events, against all debt payable to the banks. The Companies have never received any such requests.

As is also customary in Japan, the Company and

domestic subsidiaries maintain deposit balances with banks with which they have short- or long-term debt. Such deposit balances are not legally or contractually restricted as to withdrawal.

Total interest cost incurred and charged to expense for the years ended March 31, 2009, 2008 and 2007 amounted to ¥1,257million (\$12,827 thousand), ¥1,537 million and ¥1,116 million, respectively.

## 9. Leases

The Companies do not have any material capital lease agreements.

The Companies have operating lease agreements primarily involving offices and equipment for varying periods. Leases that expire generally are expected to be

renewed or replaced by other leases. At March 31, 2009, future minimum rental payments applicable to non-cancelable leases having initial or remaining non-cancelable lease terms in excess of one year were as follows:

	Millions of yen	Thousands of U.S. dollars
<b>Years ending March 31</b>		
2010	¥ 2,724	\$ 27,796
2011	2,343	23,908
2012	1,963	20,031
2013	1,725	17,602
2014	1,474	15,041
Thereafter	7,746	79,040
Total	¥ 17,975	\$ 183,418

Rental expense amounted to ¥13,787 million (\$140,684 thousand), ¥13,292 million and ¥12,598 million for the years ended March 31, 2009, 2008 and 2007, respectively.

## 10. Termination and Retirement Benefits

The Company and its domestic subsidiaries sponsor termination and retirement benefit plans which cover substantially all domestic employees. Benefits were based on the employee's years of service, with some plans considering compensation and certain other factors. The Company, effective from April 2004, and its domestic subsidiaries, effective from April 2005, introduced an amended plan to establish a new formula for determining pension benefits including a "point-based benefits system," under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and performance. If the termination is involuntary, the employee is usually entitled to greater payments than in the case of voluntary termination.

The Company and its domestic subsidiaries fund a portion of the obligations under these plans. The general funding policy is to contribute amounts computed in accordance with actuarial methods acceptable under Japanese tax law. The Company and substantially all domestic subsidiaries had a contributory termination and retirement plan which was interrelated with the Japanese government social welfare program and

consisted of a substitutional portion requiring employee and employer contributions plus an additional portion established by the employers.

Periodic pension benefits required under the substitutional portion were prescribed by the Japanese Ministry of Health, Labour and Welfare, commence at age 65 and continue until the death of the surviving spouse. Benefits under the additional portion were usually paid in a lump sum at the earlier of termination or retirement although periodic payments were available under certain conditions.

On March 31, 2007, the Companies adopted the recognition and disclosure provisions of SFAS No.158. SFAS No.158 required the Companies to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of their pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss) as pension liability adjustments. Before adoption of SFAS No.158, an additional minimum pension liability was recognized based on a plan's accumulated benefit obligation (projected benefit obligation, less future compensation increase), pursuant to SFAS No.87.

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### Obligations and Funded Status

The following table is the reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets at March 31:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
<b>Change in benefit obligation:</b>			
Benefit obligation at beginning of year	¥ 159,025	¥ 154,529	\$ 1,622,704
Service cost, less employees' contributions	3,976	3,992	40,571
Interest cost	3,180	3,091	32,449
Actuarial loss	2,877	2,772	29,358
Benefits paid	(5,064)	(4,306)	(51,673)
Settlement paid	(1,042)	(1,053)	(10,633)
Benefit obligation at end of year	¥ 162,952	¥ 159,025	\$ 1,662,776
<b>Change in plan assets:</b>			
Fair value of plan assets at beginning of year	¥ 89,729	¥ 93,462	\$ 915,602
Actual return on plan assets	(9,723)	(4,516)	(99,214)
Employers' contributions	5,272	5,120	53,796
Benefits paid	(3,991)	(3,284)	(40,724)
Settlement paid	(1,042)	(1,053)	(10,633)
Fair value of plan assets at end of year	¥ 80,245	¥ 89,729	\$ 818,827
Fair value of assets in retirement benefit trust at beginning of year	10,828	13,750	110,490
Actual return on assets in retirement benefit trust	(3,788)	(2,922)	(38,653)
Fair value of assets in retirement benefit trust at end of year	¥ 7,040	¥ 10,828	\$ 71,837
Funded status at end of year	¥ (75,667)	¥ (58,468)	\$ (772,112)

Amounts recognized in the consolidated balance sheet at March 31, consist of:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Termination and retirement benefit	¥ (75,667)	¥ (58,468)	\$ (772,112)

Amounts recognized in accumulated other comprehensive income (loss) at March 31, consist of:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Net actuarial loss	¥ 87,474	¥ 70,637	\$ 892,592
Prior service cost	(17,855)	(19,708)	(182,194)
	¥ 69,619	¥ 50,929	\$ 710,398

The accumulated benefit obligation at March 31 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Accumulated benefit obligation	¥ 158,225	¥ 154,412	\$ 1,614,541

### Components of net Periodic Benefit Cost

The expense recorded for the contributory termination and retirement plans included the following components for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service cost, less employees' contributions	¥ 3,976	¥ 3,992	¥ 3,954	\$ 40,571
Interest cost on projected benefit obligation	3,180	3,091	3,091	32,449
Expected return on plan assets	(3,128)	(2,955)	(3,411)	(31,918)
Amortization	826	625	612	8,429
Net periodic benefit cost	¥ 4,854	¥ 4,753	¥ 4,246	\$ 49,531

The unrecognized net actuarial loss and the prior service benefit are being amortized over 15 years.

The estimated net actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for the year ending March 31, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Net actuarial loss	¥ 2,725	\$ 27,806
Prior service cost	(1,853)	(18,908)

### Measurement Date

The Company and certain of its domestic subsidiaries use March 31 as the measurement date for projected benefit obligation and plan assets of the termination and retirement benefits.

### Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	2.0%	2.0%
Compensation increase rate	2.0%	2.0%

Weighted-average assumptions used to termination and retirement benefit cost for the years ended March 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	2.0%	2.0%	2.0%
Compensation increase rate	2.0%	2.0%	2.0%
Expected long-term rate of return on plan assets	3.0%	3.0%	3.0%

The expected return on plan assets is determined by estimating the future rate of return on each category of plan assets considering actual historical returns and current economic trends and conditions.

### Plan Assets

The Company's pension plan weighted-average asset allocation (except for assets in retirement benefit trust) by asset category is as follows:

	2009	2008
<b>Asset category</b>		
Cash	0.9%	1.7%
Equity securities	19.4%	16.3%
Debt securities	44.5%	48.4%
Life insurance company general accounts	17.1%	14.6%
Other	18.1%	19.0%
Total	100.0%	100.0%

## Notes to Consolidated Financial Statements

Omron Corporation and Subsidiaries

The assets in the retirement benefit trust at March 31, 2009 and 2008 consisted of 95.3%, 98.1% equity securities, respectively, and consisted of 4.7%, 1.9% other, respectively.

The Company investment policies are designed to ensure that adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company formulates a model portfolio comprised of the optimal combination of equity and debt securities in order to produce a total return that will match the expected return on a mid-term to long-term basis.

### Cash Flows

#### Contributions

The Companies expect to contribute ¥8,567 million (\$87,418 thousand) to their domestic termination and retirement benefit plans in the year ending March 31, 2010.

Target allocation of plan assets is 20% equity securities, 66% debt securities and life insurance company general account and 14% other for both 2009 and 2008.

The Company evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the model portfolio. The Company revises the model portfolio to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Equity securities include a common stock of the Company in the amounts of ¥6 million (\$61 thousand) (0.01% of total domestic plan assets), and ¥4 million (0.00% of total domestic plan assets) at March 31, 2009, and 2008, respectively.

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Millions of yen	Thousands of U.S. dollars
<b>Years ending March 31</b>		
2010	¥ 6,114	\$ 62,388
2011	7,215	73,622
2012	6,880	70,204
2013	7,054	71,980
2014	6,805	69,439
2015-2019	35,983	367,173

Certain employees of European subsidiaries are covered by a defined benefit pension plan. The projected benefit obligation for the plan and related fair value of plan assets were ¥2,691 million (\$27,459 thousand) and ¥2,135 million (\$21,786 thousand), respectively, at March 31, 2009 and ¥2,891 million and ¥2,691 million, respectively, at March 31, 2008.

The Companies also have unfunded noncontributory termination plans administered by the Companies. These plans provide lump-sum termination benefits are paid at the earlier of the employee's termination or mandatory retirement age, except for payments to directors and corporate auditors which require approval by the shareholders

before payment. The Companies record provisions for termination benefits sufficient to state the liability equal to the plans' vested benefits, which exceed the plans' accumulated benefit obligations.

The aggregate liability for the termination plans excluding the funded contributory termination and retirement plan in Japan, as of March 31, 2009 and 2008 was ¥4,776 million (\$48,735 thousand) and ¥5,068 million, respectively. The aggregate net periodic benefit cost for such plans for the years ended March 31, 2009, 2008 and 2007 was ¥702 million (\$7,163 thousand), ¥258 million and ¥1,167 million, respectively.

## 11. Shareholders' Equity

Japanese companies are subjected to the Corporate Law.

The Corporate Law requires that all shares of common stock be issued with no par value and at least 50% of amount paid of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Corporate Law permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Corporate Law also requires that an amount equal

to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal

term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Corporate Law, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million. Such amount available for the dividends under the Corporate Law was ¥36,549 million (\$372,949 thousand) at March 31, 2009, based on the amount recorded in the parent company's general books of account.

### Stock Options

The Companies has authorized the grant of options to purchase common stock of the Company to certain directors and executive officers of the Company under a fixed stock option plan.

Under the above plan, the exercise price of each option exceeded the market price of the Company's com-

mon stock on the date of grant and the options expire 5 years after the date of the grant. Generally, options become fully vested and exercisable after 2 years. A summary of the Company's fixed stock option plan activity and related information for the years ended March 31, 2009 is as follows:

Fixed options	Shares	Yen	
		Weighted-average exercise price	Weighted-average fair value of options granted during the year
Options outstanding at April 1, 2006	973,000	¥ 2,384	
Granted	217,000	3,031	¥ 539
Exercised	(260,000)	2,284	
Expired	(25,000)	2,306	
Options outstanding at March 31, 2007	905,000	¥ 2,570	
Granted	237,000	3,432	¥ 744
Exercised	(181,000)	2,131	
Expired	(3,000)	1,913	
Options outstanding at March 31, 2008	958,000	¥ 2,868	
Granted	—	—	¥ —
Exercised	—	—	
Expired	(120,000)	2,435	
Options outstanding at March 31, 2009	838,000	¥ 2,930	
Options exercisable at March 31, 2009	601,000	¥ 2,733	

  

Fixed options	Shares	U.S. dollars	
		Weighted-average exercise price	Weighted-average fair value of options granted during the year
Options outstanding at March 31, 2008	958,000	\$ 29.27	
Granted	—	—	\$ —
Exercised	—	—	
Expired	(120,000)	24.85	
Options outstanding at March 31, 2009	838,000	\$ 29.90	
Options exercisable at March 31, 2009	601,000	\$ 27.89	

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Omron Corporation and Subsidiaries

The following summarizes information about fixed stock options at March 31, 2009:

	Shares	Weighted-average remaining contractual life	Range of exercise prices		Weighted-average exercise price	
			Yen	U.S. dollars	Yen	U.S. dollars
Options outstanding	<b>838,000</b>	<b>1.86 years</b>	<b>¥ 2,550</b> <b>to</b> <b>¥ 3,432</b>	<b>\$ 26.02</b> <b>to</b> <b>\$ 35.02</b>	<b>¥ 2,930</b>	<b>\$ 29.90</b>
Options exercisable	<b>601,000</b>	<b>1.31 years</b>	<b>¥ 2,550</b> <b>to</b> <b>¥ 3,031</b>	<b>\$ 26.02</b> <b>to</b> <b>\$ 30.93</b>	<b>¥ 2,733</b>	<b>\$ 27.89</b>

The fair value of each option grant was estimated as of the grant date using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007
Risk-free interest rate	1.343%	1.540%
Volatility	27.8%	28.0%
Dividend yield	1.166%	1.068%
Expected life	3.5 years	3.5 years

No fixed stock options were granted for the years ended March 31, 2009.

The Black-Scholes option valuation model used by the Company was developed for use in estimating the fair value of fully tradable options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. It is management's opinion that the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a

reliable single measure of the fair value of its stock options.

Stock-based compensation cost recognized for the year ended March 31, 2009 was ¥101 million (\$1,031 thousand). As of March 31, 2009, total compensation cost related to nonvested options and not yet recognized was ¥24 million (\$245 thousand), and the weighted-average period over which it is expected to be recognized is 0.25 years.

There were no cash received from options exercised under the plan for the year ended March 31, 2009.

When options are exercised, the Company will grant the Company's treasury stock.

## 12. Other Expenses (Income), net

Other expenses (income), net for the years ended March 31, 2009, 2008 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net loss on sales and disposals of property, plant and equipment	<b>¥ 1,983</b>	¥ 963	¥ 6,427	<b>\$ 20,235</b>
Loss on impairment of property, plant and equipment	<b>21,203</b>	168	1,441	<b>216,357</b>
Loss on impairment of investment securities and other assets	<b>5,401</b>	2,297	682	<b>55,112</b>
Loss on impairment of goodwill	<b>16,813</b>	—	—	<b>171,561</b>
Net gain on sales of investment securities	<b>(64)</b>	(1,571)	(954)	<b>(653)</b>
Gain on contribution of securities to retirement benefit trust	<b>—</b>	—	(10,141)	<b>—</b>
Interest income, net	<b>(173)</b>	(828)	(710)	<b>(1,765)</b>
Foreign exchange loss, net	<b>(1,060)</b>	1,251	1,086	<b>(10,816)</b>
Dividend income	<b>(786)</b>	(525)	(654)	<b>(8,020)</b>
Other, net	<b>1,155</b>	(668)	590	<b>11,785</b>
Total	<b>¥ 44,472</b>	¥ 1,087	¥ (2,233)	<b>\$ 453,796</b>

### 13. Income Taxes

The provision for income taxes for the years ended March 31, 2009, 2008 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Current income tax expense	¥ 3,400	¥ 24,403	¥ 21,688	\$ 34,694
Deferred income tax expenses, exclusive of the following	(14,866)	(367)	3,541	(151,694)
Change in the valuation allowance	971	236	366	9,908
Total	¥ (10,495)	¥ 24,272	¥ 25,595	\$ (107,092)

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a normal tax rate of approximately 41.0% in 2009, 2008 and 2007.

The effective income tax rates of the Companies differ from the normal Japanese statutory rates as follows for the years ended March 31:

	2009	2008	2007
Normal Japanese statutory rates	41.0%	41.0%	41.0%
Increase (decrease) in taxes resulting from:			
Permanently non-deductible items	(1.6)	0.9	0.5
Tax credit for research and development expenses	1.2	(4.6)	(4.0)
Losses of subsidiaries for which no tax benefit was provided	(11.9)	1.0	3.7
Difference in subsidiaries' tax rates	6.7	(1.7)	(2.0)
Change in the valuation allowance	(7.1)	0.4	0.6
Other, net	(1.5)	0.8	0.0
Effective tax rates	26.8	37.8	39.8

The approximate effect of temporary differences and tax credit and loss carry forwards that gave rise to deferred tax balances at March 31, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventory valuation	¥ 6,145	¥ —	¥ 7,788	¥ —	\$ 62,704	\$ —
Accrued bonuses and vacations	4,626	—	5,913	—	47,204	—
Termination and retirement benefits	6,446	—	7,023	—	65,776	—
Enterprise taxes	—	246	1,001	—	—	2,510
Marketable securities	—	1,350	—	3,673	—	13,776
Property, plant and equipment	4,607	—	849	—	47,010	—
Allowance for doubtful receivables	3,018	—	1,195	—	30,796	—
Pension liability adjustment	28,544	—	20,881	—	291,265	—
Other temporary differences	13,683	3,888	8,632	5,704	139,623	39,673
Tax credit carryforwards	4,275	—	5,025	—	43,622	—
Operating loss carryforwards	13,691	—	3,483	—	139,704	—
Subtotal	¥ 85,035	¥ 5,484	¥ 61,790	¥ 9,377	\$ 867,704	\$ 55,959
Valuation allowance	(10,343)	—	(8,591)	—	(105,541)	—
Total	¥ 74,692	¥ 5,484	¥ 53,199	¥ 9,377	\$ 762,163	\$ 55,959

## Notes to Consolidated Financial Statements

Omron Corporation and Subsidiaries

The total valuation allowance increased by ¥1,752 million (\$17,878 thousand) in 2009 and decreased by ¥235 million in 2008.

As of March 31, 2009, certain subsidiaries had operating loss carryforwards approximating ¥45,780 million (\$467,143 thousand) available for reduction of future taxable income, the majority of which expire by 2015.

The Company has not provided for Japanese income taxes on unremitted earnings of certain foreign subsidiaries to the extent that they are believed to be indefinitely reinvested. Under Japanese Tax Reform on March, 2009, up to 95% of a dividend received by a company from the foreign subsidiaries is free of tax. As a result, the accumulated unremitted earnings of the foreign subsidiaries which the Company has not recognized deferred tax liabilities were ¥71,174 million (\$726,265 thousand) and ¥63,180 million at March 31, 2009 and 2008, respectively. Dividends received from domestic subsidiaries are expected to be substantially free of tax.

The Companies adopted FIN No.48 for the year beginning April 1, 2007. As a result of this adoption, the Companies decreased ¥266 million of the beginning retained earnings. The Companies believe that the total amount of unrecognized tax benefits as of March 31, 2009 is not material to its result of operations, financial condition or cash flows.

The Companies recognize interest and penalties accrued related to unrecognized tax benefits in income taxes in the consolidated statements of operations.

The companies file income tax returns in Japanese and foreign jurisdictions. With few exceptions, tax examinations in Japan for the year on and before ended March 31, 2007 have been finished. With few exceptions, tax examinations in foreign countries for the year on and before ended March 31, 2003 have been finished.

### 14. Foreign Operations

Net sales and total assets of foreign subsidiaries for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net sales	<b>¥ 299,127</b>	¥ 374,399	¥ 324,509	<b>\$ 3,052,316</b>
Total assets	<b>¥ 205,199</b>	¥ 257,151	¥ 263,900	<b>\$ 2,093,867</b>

### 15. Discontinued Operations

On April 1, 2007, the Company sold the entire business of Omron Entertainment Co., Ltd, which had been a consolidated subsidiary, to a third party. In accordance with SFAS No.144, the Companies presented the gains (net of tax) of its disposal business and the results of discontinued operations (including operations of subsidiaries that either have been disposed of or classified as held for sale) as separate line item in the consolidated statements of operations under "Income from discontinued operations, net of tax." Prior years' consolidated statements of operations including segment information and other related matters were restated to compare with the consolidated

statements of operations for the year ended March 31, 2009. On the other hand, the cash flows attributable to the operating, investing and financing activities of the discontinued operations were not presented separately from the cash flows attributable to activities of the continuing operations.

The Companies have no continuing involvement with the business of Omron Entertainment Co., Ltd.

The following table summarizes selected financial information for the years ended March 31, 2008 and 2007 for the discontinued operations.

	Millions of yen	
	2008	2007
Net sales	¥ —	¥ 12,785
Cost of sales and expenses	—	10,776
Income from discontinued operations before income taxes	—	2,009
Net gain on sales of business entities	5,177	—
Income taxes	2,123	823
Income from discontinued operations, net of tax	¥ 3,054	¥ 1,186

## 16. Per Share Data

The Company accounts for its net income per share in accordance with SFAS No.128, "Earnings per Share." Basic net income per share has been computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding

during each year. Diluted net income per share reflects the potential dilution of convertible bonds and stock options, and has been computed by the if-converted method for convertible bonds and by the treasury stock method for stock options.

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Income from continuing operations	¥ (29,172)	¥ 39,329	¥ 37,094	\$ (297,673)
Diluted income from continuing operations	¥ (29,172)	¥ 39,329	¥ 37,094	\$ (297,673)

  

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Income from discontinued operations	¥ —	¥ 3,054	¥ 1,186	\$ —
Diluted income from discontinued operations	¥ —	¥ 3,054	¥ 1,186	\$ —

  

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Net income	¥ (29,172)	¥ 42,383	¥ 38,280	\$ (297,673)
Diluted income	¥ (29,172)	¥ 42,383	¥ 38,280	\$ (297,673)

  

	2009	2008	2007
Weighted average common shares outstanding	220,747,962	228,005,106	232,059,070
Dilutive effect of:			
Stock options	—	61,624	153,918
Diluted common shares outstanding	220,747,962	228,066,730	232,212,988

## Notes to Consolidated Financial Statements

Omron Corporation and Subsidiaries

### 17. Supplemental Information for Cash Flows

Supplemental cash flow information for the years ended March 31, 2009, 2008 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Interest paid	¥ 1,257	¥ 1,536	¥ 1,130	\$ 12,827
Income taxes paid	18,776	27,216	24,591	191,592
Non-cash investing and financing activities:				
Liabilities assumed in connection with capital expenditures	1,567	2,202	2,977	15,990
Fair value of securities contributed to retirement benefit trust	—	—	16,019	—
Decrease in retained earnings as a result of extinguishment of treasury stock	—	23,858	—	—

### 18. Other Comprehensive Income (Loss)

The change in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2009, 2008 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Foreign currency translation adjustments:				
Beginning balance	¥ (5,782)	¥ 6,560	¥ (1,353)	\$ (59,000)
Change for the year	(16,537)	(12,342)	7,913	(168,745)
Ending balance	(22,319)	(5,782)	6,560	(227,745)
Minimum pension liability adjustments:				
Beginning balance	—	—	(21,183)	—
Change for the year	—	—	1,658	—
Adjustment to initially apply SFAS No.158	—	—	19,525	—
Ending balance	—	—	—	—
Pension liability adjustments:				
Beginning balance	(29,245)	(22,169)	—	(298,418)
Change for the year	(11,325)	(7,076)	—	(115,562)
Adjustment to initially apply SFAS No.158	—	—	(22,169)	—
Ending balance	(40,570)	(29,245)	(22,169)	(413,980)
Unrealized gains (losses) on available-for-sale securities:				
Beginning balance	6,501	12,738	19,671	66,337
Change for the year	(3,738)	(6,237)	(6,933)	(38,143)
Ending balance	2,763	6,501	12,738	28,194
Net gains (losses) on derivative instruments:				
Beginning balance	309	(142)	(106)	3,153
Change for the year	(927)	451	(36)	(9,459)
Ending balance	(618)	309	(142)	(6,306)
<b>Total accumulated other comprehensive loss:</b>				
Beginning balance	(28,217)	(3,013)	(2,971)	(287,929)
Change for the year	(32,527)	(25,204)	2,602	(331,908)
Adjustment to initially apply SFAS No.158	—	—	(2,644)	—
Ending balance	¥ (60,744)	¥ (28,217)	¥ (3,013)	\$ (619,837)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen								
	2009			2008			2007		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
<b>Foreign currency translation adjustments:</b>									
Foreign currency translation adjustments arising during the year	¥(17,054)	¥ 517	¥(16,537)	¥(12,384)	¥ 42	¥(12,342)	¥ 8,248	¥ (341)	¥ 7,907
Reclassification adjustment for the portion realized in net income	—	—	—	—	—	—	6	—	6
Net change in foreign currency translation adjustments during the year	(17,054)	517	(16,537)	(12,384)	42	(12,342)	8,254	(341)	7,913
<b>Minimum pension liability adjustments</b>									
	—	—	—	—	—	—	2,811	(1,153)	1,658
<b>Pension liability adjustments</b>									
Pension liability adjustments arising during the year	(18,368)	7,530	(10,838)	(11,369)	4,662	(6,707)	—	—	—
Reclassification adjustment for the portion realized in net income	(826)	339	(487)	(625)	256	(369)	—	—	—
Net change in pension liability adjustments during the year	(19,194)	7,869	(11,325)	(11,994)	4,918	(7,076)	—	—	—
<b>Unrealized gains (losses) on available-for-sale securities:</b>									
Unrealized holding gains (losses) arising during the year	(11,393)	4,671	(6,722)	(11,266)	4,619	(6,647)	(949)	389	(560)
Reclassification adjustment for losses on impairment realized in net income	5,062	(2,075)	2,987	2,229	(914)	1,315	144	(59)	85
Reclassification adjustment for net gains on sales realized in net income	(5)	2	(3)	(1,534)	629	(905)	(805)	330	(475)
Reclassification adjustment for net gains on contribution of securities to retirement benefit trust realized in net income	—	—	—	—	—	—	(10,141)	4,158	(5,983)
Net unrealized gains (losses)	(6,336)	2,598	(3,738)	(10,571)	4,334	(6,237)	(11,751)	4,818	(6,933)
<b>Net gains (losses) on derivative instruments:</b>									
Net gains (losses) on derivative instruments designated as cash flow hedges during the year	1,333	(546)	787	1,997	(819)	1,178	(2,047)	839	(1,208)
Reclassification adjustment for net gains (losses) realized in net income	(2,905)	1,191	(1,714)	(1,232)	505	(727)	1,986	(814)	1,172
Net gains (losses)	(1,572)	645	(927)	765	(314)	451	(61)	25	(36)
<b>Other comprehensive income (losses)</b>									
	¥(44,156)	¥11,629	¥(32,527)	¥(34,184)	¥ 8,980	¥(25,204)	¥ (747)	¥ 3,349	¥ 2,602

## Notes to Consolidated Financial Statements

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	Thousands of U.S. dollars		
	2009		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
<b>Foreign currency translation adjustments:</b>			
Foreign currency translation adjustments arising during the year	\$ (174,020)	\$ 5,275	\$ (168,745)
Reclassification adjustment for the portion realized in net income	—	—	—
Net change in foreign currency translation adjustments during the year	(174,020)	5,275	(168,745)
<b>Minimum pension liability adjustments</b>	—	—	—
<b>Pension liability adjustments</b>			
Pension liability adjustments arising during the year	(187,429)	76,837	(110,592)
Reclassification adjustment for the portion realized in net income	(8,428)	3,459	(4,969)
Net change in pension liability adjustments during the year	(195,857)	80,296	(115,561)
<b>Unrealized gains (losses) on available-for-sale securities:</b>			
Unrealized holding gains (losses) arising during the year	(116,255)	47,663	(68,592)
Reclassification adjustment for losses on impairment realized in net income	51,653	(21,173)	30,480
Reclassification adjustment for net gains on sales realized in net income	(51)	20	(31)
Reclassification adjustment for net gains on contribution of securities to retirement benefit trust realized in net income	—	—	—
Net unrealized gains (losses)	(64,653)	26,510	(38,143)
<b>Net gains (losses) on derivative instruments:</b>			
Net gains (losses) on derivative instruments designated as cash flow hedges during the year	13,602	(5,571)	8,031
Reclassification adjustment for net gains (losses) realized in net income	(29,643)	12,153	(17,490)
Net gains (losses)	(16,041)	6,582	(9,459)
<b>Other comprehensive income (losses)</b>	<b>\$ (450,571)</b>	<b>\$ 118,663</b>	<b>\$ (331,908)</b>

## 19. Financial Instruments and Risk Management

### Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values as of March 31, 2009 and 2008, of the Companies' financial instruments.

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Nonderivatives:</b>						
Long-term debt, including current portion	¥ (21,889)	¥ (21,897)	¥ (2,014)	¥ (2,014)	\$ (223,357)	\$ (223,439)
<b>Derivatives:</b>						
Included in other current assets (liabilities):						
Forward exchange contracts	(779)	(779)	1,221	1,221	(7,949)	(7,949)
Foreign currency swaps	(27)	(27)	12	12	(276)	(276)
Interest rate swap	(24)	(24)	—	—	(245)	(245)

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value:

#### Nonderivatives

- (1) Cash and cash equivalents, notes and accounts receivable, short-term debt and notes and accounts payable: The carrying amounts approximate fair values.
- (2) Investment securities (see Note 4): The fair values are estimated based on quoted market prices or dealer quotes for marketable securities or similar instruments. Certain equity securities includ-

ed in investments have no readily determinable public market value, and it is not practicable to estimate their fair values.

- (3) Long-term debt:

The fair values are estimated using present value of discounted future cash flow analysis, based on the Companies' current incremental issuing rates for similar types of arrangements.

## Derivatives

The fair value of derivatives generally reflects the estimated amounts that the Companies would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses

of open contracts. Dealer quotes are available for most of the Companies' derivatives; otherwise, pricing or valuation models are applied to current market information to estimate fair value. The Companies do not use derivatives for trading purposes.

## 20. Derivatives and Hedging Activities

The Companies enter into foreign exchange forward contracts and combined purchased and written foreign currency swap contracts to hedge foreign currency transactions (primarily the U.S. dollar and the EURO). The companies also enter into interest rate swap contracts to hedge interest-rate fluctuations. The Companies do not use derivatives for trading purposes. The Companies are exposed to credit risk in the event of non-performance by counterparties to derivatives, but management considers the exposure to such risk to be minimal since the counterparties are major financial institutions.

Changes in the fair value of foreign exchange forward contracts, foreign currency swaps and interest rate swaps designated and qualifying as cash flow hedges are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into other expenses (income), net in the same period as the hedged items affect earnings. Substantially all of the accumulated other comprehensive income (loss) in relation to foreign exchange forward contracts and interest rate at March 31, 2009 is expected to be reclassified into earnings within twelve months.

The notional amounts of contracts to exchange foreign currency outstanding at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Forward exchange contracts	¥ 63,784	¥ 64,916	\$ 650,857
Foreign currency swap	¥ 2,646	¥ 620	\$ 27,000
Interest rate swap	¥ 20,000	—	\$ 204,082

The fair values of derivatives as of March 31, 2009 were as follows:

### Derivatives designated as hedges

Assets	Millions of yen	Thousands of U.S. dollars	Liabilities	Millions of yen	Thousands of U.S. dollars
	2009	2009		2009	2009
Forward exchange contracts	¥ 875	\$ 8,929	Forward exchange contracts	¥ (1,654)	\$ (16,878)
			Foreign currency swap	(27)	(276)
			Interest rate swap	(24)	(245)

The effects on consolidated statements of operations in fourth quarter were as follows:

Derivatives designated as hedges	Profit and loss of other comprehensive income (loss) [Hedge effective part]		Transfer from accumulated other comprehensive income (loss) to profit and loss [Hedge effective part]	
	Cash flow hedge			
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
	<b>2009</b>			
Forward exchange contracts	¥ 809	\$ 8,255	¥ (1,714)	\$ (17,490)
Foreign currency swap	(8)	(82)	0	0
Interest rate swap	(14)	(143)	—	—

The amount of the hedging ineffectiveness was not material.

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### 21. Commitments and Contingent Liabilities

The Company has commitments as of March 31, 2009 of approximately ¥16,727 million (\$170,684 thousand) related to contracts for outsourcing computer services through 2013. The contracts require an annual service fee of ¥4,385 million (\$44,745 thousand) for the year ending March 31, 2009. The annual service fee will gradually decrease each year during the contract term to ¥4,209 million (\$42,949 thousand) for the year ending March 31, 2013. The contract is cancelable at any time subject to a penalty of 15% of aggregate service fees payable for the remaining term of the contract.

The Company and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that damages from such lawsuits, if any, would not have a material effect on the consolidated financial statements.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Companies to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Companies place their short-term cash investments with high-credit-quality financial institutions. Concentrations of credit risk with respect to trade receivables, as approximately 52% of total sales are concentrated in Japan, are limited due to the large

number of well-established customers and their dispersion across many industries. The Company normally requires customers to deposit funds to serve as security for ongoing credit sales.

#### Guarantees

The Company provides guarantees for bank loans of other companies. The guarantees for the other companies are made to ensure that those companies operate with less finance costs. The maximum payments in the event of default is ¥712 million (\$7,265 thousand) at March 31, 2009. The carrying amounts of the liabilities recognized under those guarantees at March 31, 2009 were immaterial.

Bank loans of ¥364 million (\$3,714 thousand) of an unaffiliated company were jointly and severally guaranteed by the Company and six other unaffiliated companies. According to an agreement between the seven companies, any loss on these guarantees are to be borne equally among the companies.

#### Product Warranties

The Companies issue contractual product warranties under which they generally guarantee the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Balance at beginning of year	¥ 1,619	¥ 2,190	\$ 16,520
Addition	1,475	1,507	15,051
Utilization	(1,593)	(2,078)	(16,255)
Balance at end of year	¥ 1,501	¥ 1,619	\$ 15,316

### 22. Fair Value Measurements

SFAS 157 "Fair Value Measurements" ("SFAS 157") defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1— Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2— Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3— Inputs are significant to measure fair value of assets or liabilities and unobservable.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009.

Items	Millions of yen				Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Investment securities	¥ 26,426	¥ —	¥ —	¥ 26,426	\$ 269,653	\$ —	\$ —	\$ 269,653
Derivative	—	875	—	875	—	8,929	—	8,929
<b>Liabilities</b>								
Derivative	—	1,705	—	1,705	—	17,398	—	17,398

#### Investment Securities

Investment securities mainly consist of listed stocks. These are classified as Level 1. Because the fair value of the investment securities is valued using a quoted market price in active markets for identical assets and can be observed.

#### Derivatives

Derivatives consist of foreign exchange forward contracts, foreign currency swaps and interest rate swaps. These are classified as Level 2. Because the fair value is valued using the observable market data such as foreign exchange rates or interest rates.

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Non-marketable investment securities with a carrying amount of ¥496 million (\$5,061 thousand) were written down to their fair value of ¥153 million (\$1,561 thousand), resulting in an other-than-temporary impairment charge of ¥343 million (\$3,500 thousand), which was included in earnings for the fiscal year ended March 31, 2009.

These investments were classified as Level 3. Because these fair values were valued using unobservable inputs.

## 23. Business Structure Reform

The Companies established a new division, the "Emergency Measures and Structural Reform Headquarters," headed by Hisao Sakuta, President & CEO, in January 2009 in response to the rapid worsening of the business environment. Since February 2009, the Companies have been implementing "emergency measures" to generate profit, including cost cutting and the consolidation of unprofitable businesses, as well as "structural reform" aimed at strengthening the revenue base in the medium term through the reorganization of core businesses and closure/consolidation of sites. Major business structure reforms on March 31, 2009 are as follows;

#### [1] Electronic Components Business

The Companies decided to pull out of the large-size backlight business, which encompasses the development, manufacture and sales of large-size LCD backlights, dissolving three subsidiaries. According to this decision, the Companies recognized impairment losses on long-lived

assets and other losses for the fiscal year ended March 31, 2009. The subsidiaries are planned to be liquidated by the end of March 2011. The Companies decided to reorganize semiconductor production sites and close a part of them in Japan. According to this decision, the Companies recognized impairment losses on long-lived assets for the fiscal year ended March 31, 2009. The closure of the site is planned to be completed by the end of March 2010.

#### [2] Automotive Electronic Component Business

The Companies decided to reorganize automotive electronic component production sites and dissolve the manufacturing subsidiary in the United Kingdom. According to this decision, the Companies recognized impairment losses on long-lived assets and other losses for the fiscal year ended March 31, 2009. The subsidiary is planned to be liquidated by the end of March 2011.

## 24. Subsequent Events

No significant event took place.