Omron is undertaking a

competitive transformation

to remain at the forefront of its rapidly evolving markets.

OMRON

Sensing tomorrow™

Annual Report 2001

Year ended March 31, 2001

Annual Report 2001
Annual Report 2001
Year ended March 31, 2001
Year ended March 31, 2001

Profile

Through its broad range of operations, Omron Corporation is aiming to become a provider of innovative solutions for industry, society and daily life.

In May 2001, the Company marked its sixty-eighth anniversary with the unveiling of a new long-term management vision for the years 2001-2010, entitled Grand Design 2010. With the primary management goal of maximizing corporate value on a long-term basis, GD2010 outlines the ideal image of the Omron Group and the basic policies and management strategies needed to achieve it.

Focusing on its strengths in sensing and control technologies, Omron will continue striving to transform itself into a global company that contributes to the advancement of society.

Contents

Financial Highlights

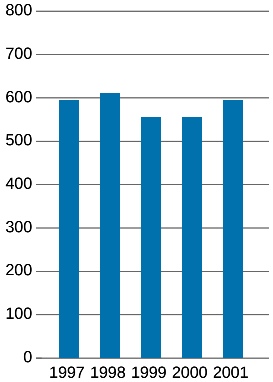
Omron Corporation and Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen (except per share data)			Thousands of U.S. dollars (Note 2) (except per share data)
	2001	2000	1999	**2001**
For the Year:				
Net Sales	**¥594,259**	¥555,358	¥555,280	**$4,792,411**
Income before Income Taxes and Minority Interests	**40,037**	21,036	8,249	**322,879**
Net Income	**22,297**	11,561	2,174	**179,815**
Net Income per Share (yen and U.S. dollars):				
Basic	**¥ 87.4**	¥ 45.0	¥ 8.3	**$ 0.71**
Diluted	**85.3**	44.5	8.3	**0.69**
Cash Dividends per Share (yen and U.S. dollars, Note 1)	**13.0**	13.0	13.0	**0.10**
Capital Expenditures (cash basis)	**¥ 37,583**	¥ 31,146	¥ 36,696	**$ 303,089**
Research and Development Expenses	**42,513**	36,605	42,383	**342,847**
At Year End:				
Total Assets	**¥593,144**	¥579,489	¥580,586	**$4,783,419**
Total Shareholders' Equity	**325,958**	336,062	321,258	**2,628,694**

Notes: 1. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.
2. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at March 31, 2001, of ¥124=$1.

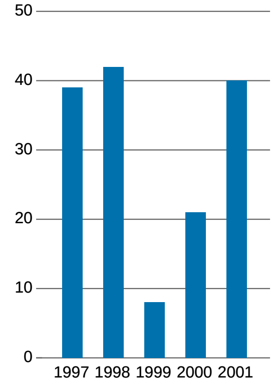
Net Sales

(Billions of Yen)



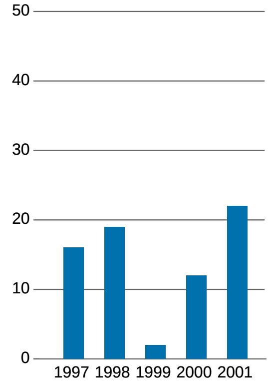
Income before Income Taxes and Minority Interests

(Billions of Yen)



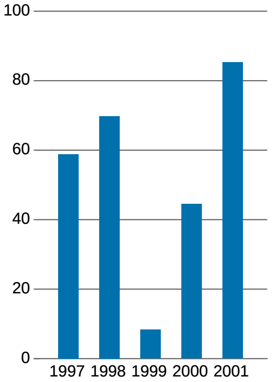
Net Income

(Billions of Yen)



Net Income per Share (Diluted)

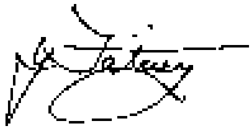
(Yen)



To Our Shareholders

YOSHIO TATEISI

Representative Director and
Chief Executive Officer



A core objective for Omron in the year ended March 31, 2001, the first year of our Eighth Medium-Term Management Plan, was accelerating the transformation of the Company. Accordingly, we worked toward market expansion and stronger competitiveness to establish a platform for sustained earnings growth. Under the internal company system introduced in April 1999, each internal company worked to improve its performance through measures such as strengthening business development in overseas markets, reinforcing business tie-ups with other companies, and boosting productivity both in and outside Japan. In addition, we invested in new and expanding business fields to establish the foundation for Omron's future growth. On the strength of these measures and a strong global economy that continued through the first half of the period, we achieved record net income in the past fiscal year.

PERFORMANCE: SIGNIFICANT GAIN IN PROFITS

Consolidated net sales increased 7.0 percent year-on-year to ¥594.3 billion. Profits were affected by negative factors including temporary expenses associated with the consolidation of offices, asset impairment costs resulting from the weak domestic stock market, and exchange rate changes. Despite these factors, the increase in net sales and a lower cost-of-sales margin led to a 90.3 percent increase in consolidated income before income taxes and minority interests to ¥40.0 billion and a 92.9 percent gain in net income to ¥22.3 billion, both up significantly over the previous fiscal year. Return on equity improved from 3.5 percent to 6.7 percent.

This increase in earnings was driven by several factors. First, we realized the benefits from our shift to a more customer-oriented approach by emphasizing the solutions-providing business, particularly in the Industrial Automation Company. Additional factors included a turnaround in the domestic economy led by IT-related investment; a continuation of the strong economic climate overseas, particularly in the United States; and increased sales for the Industrial Automation Company and the Electronic Components Company. Moreover, the internal company system introduced in April 1999 has resulted in even greater enthusiasm for achieving performance objectives, because it spurs each internal company to reach its profit and cash flow targets and engenders a stronger sense of competition among the companies.

Omron has long placed priority on addressing environmental issues. We collaborate with customers and affiliated companies in implementing measures to reduce environmental impact in every aspect of our business, including development, manufacturing and distribution. All of our manufacturing facilities have achieved ISO 14001 certification, and we are also obtaining this qualification for our nine non-manufacturing divisions, including offices and research facilities.

MANAGEMENT STRATEGIES AND PERFORMANCE TARGETS

In a challenging environment marked by globalization, the IT revolution and a changing industrial structure, the market is undergoing a winnowing process. In response, Omron is working to establish a solid and sustainable profit structure. During the fiscal year ending March 2002, to continue strengthening our profit structure, each internal company will invest in the future growth of its existing businesses, while managing these businesses with a clear focus on profit. We will also support earnings growth by expanding sales while improving the SGA expense and cost of sales ratios, and will work to maintain a sound financial position.

At the same time, we will channel more investment toward entering and expanding our presence in new businesses. Management will select investment parameters and conduct focused investment in growth fields that will become the cornerstones of Omron's future growth.

The functions and roles of internal companies and management will be clearly identified to assure the smooth execution of these two key strategies.

As the final step of our structural reform, we will focus on converting the results of our efforts to date into the concrete benefit of higher productivity. For the fiscal year ending March 2002, we are aiming for record consolidated income before taxes of ¥45.0 billion, which would surpass the previous high of ¥43.9 billion in the fiscal year ended March 1990.

We believe that our policy of emphasizing profitability is key to earning the trust of shareholders, a central theme of our corporate philosophy.

GROWING THE OMRON GROUP

Grand Design 2010 (GD2010), covering the first 10 years of the new century, is a vision expressing where we want the Omron Group to be in the year 2010, and the basic guidelines for the strategies to get us there. The main objective of GD2010 is maximizing the corporate value of the Omron Group over the long term. To this end, it presents three visions: a Corporate Transformation Vision for ongoing change to build a stronger corporate structure and adapt to changes in the environment; an Identity Vision for preserving the qualities that distinguish Omron; and an Internal Business Company Vision that determines the direction of development for each business area necessary for the Omron Group to achieve its ideal image. I am confident that under GD2010, we will continue evolving as an admirable company that has ambitious ideals and objectives.

The pages that follow cover this topic in detail, but I envision Omron in 2010 as a company that can maintain continuous business growth on a global scale in accordance with its own intentions while maintaining ROE above 10 percent. To make this vision a reality, we will change our corporate structure to that of a holding company, with all existing businesses becoming separate companies based on strategic units. This structure will allow for more effective strategic planning and execution and help the Omron Group establish an unshakable presence in the global market economy. Other objectives are strengthening corporate governance that is evaluated favorably by investors around the world, and listing our stock on overseas exchanges, including the New York Stock Exchange.

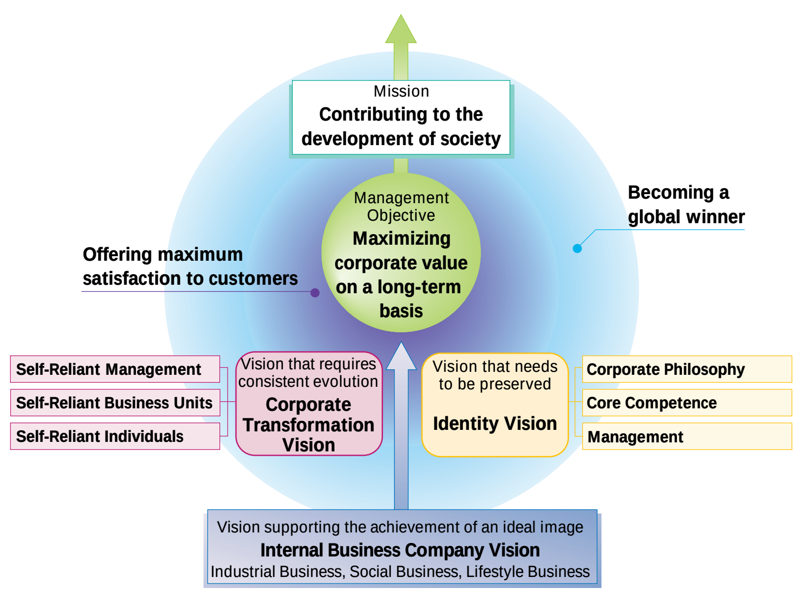
I believe that our efforts to increase corporate value will lead to sustained returns to Omron's shareholders. We ask for your continued support.

GD2010

Grand Design for the Year 2010

GD2010 defines the direction in which the Omron Group must proceed to succeed in global competition. To this end, all elements of Omron's corporate vision have been classified into those that require continuing reform and those that should be preserved and carried on in the future. Accordingly, GD2010 incorporates three corporate visions: the Corporate Transformation Vision; the Identity Vision and the Internal Business Company Vision.

IDEAL IMAGE OF OMRON
Creating a 21st century company



GD2010 OBJECTIVES

1. Mission: **To contribute to the development of society**

Omron's corporate motto is "At work for a better life, a better world for all." Building on this philosophy, we must be resolute in regularly taking on the challenge of creating new value and new markets.

2. Management objective: **To maximize corporate value on a long-term basis**

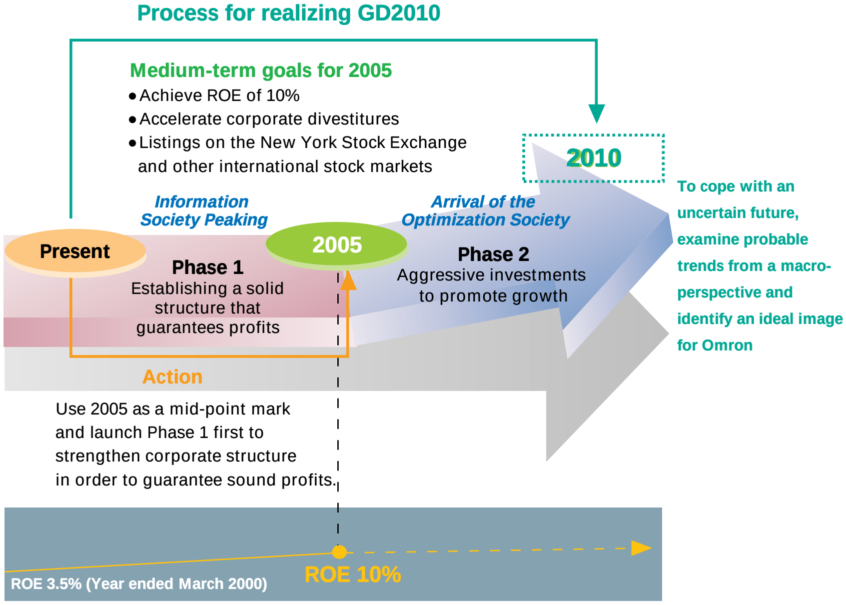
In connection with our goal of satisfying all our stakeholders, our management objective is to maximize Omron's corporate value in the capital market on a long-term basis.

BASIC STRATEGY: *Small but Global*

- Build our presence in the global market.
- Focus on our strength in sensing and control technology, our core area of competence.
- Follow a policy of collaborative creation with other companies, including customers, to offer the highest value to customers.

STAGE UP VISION

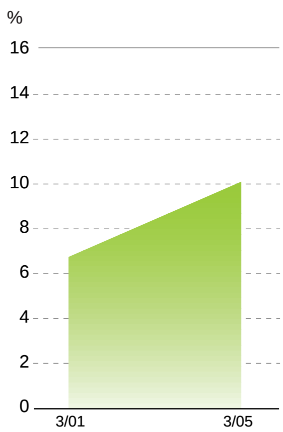
Examining probable changes from a macro-perspective and flexibly implementing actions



ACHIEVING GD2010 MEDIUM-TERM MANAGEMENT OBJECTIVES

Omron has set the following targets for the fiscal year ending March 2005, the midway point toward achieving the objective of maximizing corporate value on a long-term basis under GD2010.

MEDIUM-TERM TARGET FOR RETURN ON EQUITY



Return on Equity of 10%

To reach this target, management will focus on earnings by directing investment capital totaling ¥120 billion toward Omron's high-earnings core businesses in the Industrial Automation Company and Electronic Components Company. This represents 60 percent of Omron's total projected cumulative investments over the four-year period to March 2005.

Accelerating Corporate Divestitures and Establishing a Holding Company

Omron Corporation will become a holding company, and all present businesses will become autonomous companies with strategically based positions.

Listing on New York and Other Overseas Stock Exchanges

As a means of raising recognition of Omron as a global company and implementing corporate governance that is highly evaluated among international investors, Omron aims to list its stock on the New York Stock Exchange and other overseas stock exchanges.

CORE INVESTMENTS DURING PHASE I (PERIOD TO MARCH 2005)

- Improve earnings and growth capabilities by emphasizing investment in existing businesses.
- Focus investments on core businesses (Industrial Automation Company and Electronic Components Company).

INVESTMENT AREA	AIM	CORE STRATEGIC INVESTMENTS
Industrial Automation Company	**Improve earnings capability**	Investment in information technology to improve productivity in management/development/production divisions
		Development of new businesses Advanced sensors/Safety applications
		Build business model by user segments to increase the number of customers
Electronic Components Company	**Improve growth capability**	**Existing business:** Build up global production systems
		Expansion into new businesses: IT-related electronic components (fiber optics/mobile equipment)

GD2010 Three Corporate Visions of GD2010

Three Corporate Visions of GD2010

CORPORATE TRANSFORMATION VISION

It is important to focus on issues and procedures that will promote continuous transformation, both at an individual level and within the overall Omron corporate structure. Self-reliance is a key concept of GD2010 in maximizing value and carrying out a successful transformation.

The Corporate Transformation Vision will guide the changes in the Omron Group so that it can flexibly accommodate changes in the business environment.

Self-Reliant Management Practices

Omron will promote corporate transformation aimed at establishing a corporate governance system that meets international standards and enables the Company to take advantage of the capital market as a global company. Initiatives will include promoting greater transparency in management and reinforcing audit functions from the standpoint of representing stockholders, which is the primary role of the Board of Directors, through measures such as including outside directors on the Board. At the same time, Omron will clearly define the roles and functions of the Board of Directors, Corporate Management and Business Operations. These initiatives are aimed at maintaining strong corporate governance in order to respond to changes in the operating environment more flexibly and swiftly.

Self-Reliant Business Units

To maintain an optimum Group management structure, Omron Corporation will become a holding company and accelerate corporate divestitures to turn all current strategic business units into independent companies. This will allow each business to engage in the most appropriate management for its respective market and provide maximum value to customers.

Three Corporate Visions of GD2010

Three Corporate Visions of GD2010

IDENTITY VISION

Building a Powerful Brand:
To create brand value supported by all stakeholders, Omron is implementing an Identity Vision from the three perspectives of corporate philosophy, core competence and management.

The Identity Vision outlines the consistent elements that have remained unchanged since Omron's establishment.

Corporate Philosophy

Since its inception, Omron has shown a strong commitment to core values stressing the development and maintenance of social awareness as well as public responsibility. In this time, Omron has contributed to society with a steady stream of innovative products. The GD2010 vision will continue to embody these values as we work to achieve the broader goals of the plan.

Core Competence

To clarify the Company's strengths and build brand power, Omron is centering its business on its core competence in the area of sensing and control. In the near future, we expect to enter a "Sensor Net" era, when sensors will be able to detect a broad range of analog information available in the real world and freely distribute that data via a network. Omron is ready to explore the new business opportunities that will arise in the coming Sensor Net age.

Management

Omron's management policy focuses on alliances that include mergers and acquisitions as well as collaborations and partnerships with other companies. This will allow Omron to facilitate speedy entry into new markets along with the acquisition of powerful resources from outside companies, and will also contribute to expanding business operations. Through these initiatives, Omron can carry out thorough selectivity and focus in its operations.

INTERNAL BUSINESS COMPANY VISION

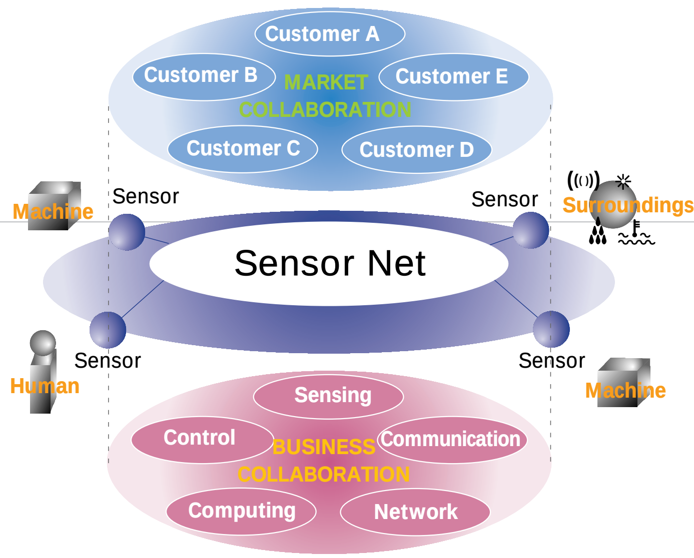
Based on the key management concepts of GD2010: self-reliance, co-existence and creativity, the internal business companies are being encouraged to work towards realizing their individual visions, while emphasizing their relationship with other companies in the Group, and the role each company plays in achieving the overall Company objectives.

SENSOR NET VALUE

Offering new value through sensor networks

Anticipating an era in which sensors will detect a broad range of analog information in the real world and freely distribute that data via a network

Supporting IT literate customers



Developing new business models for all Omron Group business units

Merging hardware, software and service businesses

The Internal Business Company Vision determines the direction of development for each business area necessary for the Omron Group to achieve its ideal form.

Industrial Automation Company

The Industrial Automation Company will help empower customers to create their own added value by providing them with effective innovations in the three areas of information technology, the environment and global support.

Electronic Components Company

The Electronic Components Company aims to become a leading electronic components supplier with a high reputation among international customers. At the same time, it will continue to assure maximum profitability and sustained growth.

Social Systems Business Company

Having obtained JQA certification, the Social Systems Business Company will focus on becoming the number one company in customer satisfaction and profitability on a global scale.

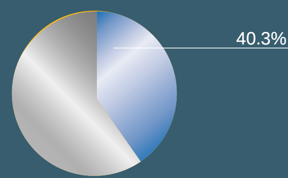
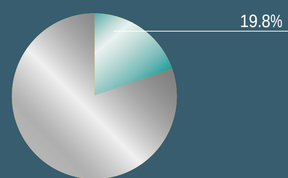
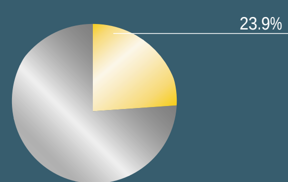
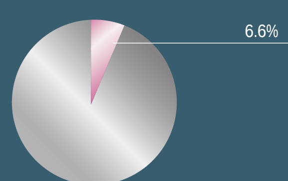
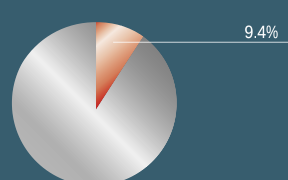
Healthcare Company

The Healthcare Company aims to develop a business focusing on technologies that prevent lifestyle-related diseases and improve health. It will achieve this by drawing on Omron's core sensing and control technologies as well as strategic alliances. Through these efforts, the company strives to continue promoting growth and high profitability.

Creative Service Company

The Creative Service Company is committed to offering unique and creative services ahead of competitors in the outsourcing industry. The company's eventual goal is to become an independent, listed company, a goal it intends to achieve by consistently offering maximum satisfaction to customers.

Omron at a Glance

	Main Products	% of Net Sales
Industrial Automation Company	Programmable logic controllers, Programmable terminals, Photoelectric sensors, Proximity sensors, Printed circuit board automated solder inspection systems, Switches, Relays, Timers, Counters, Temperature and process controllers, Protective relays, Power supplies	¥239,225 million 
Electronic Components Company	Tactile switches, Dip switches, Trigger switches, General purpose relays, Multiplex controllers, Laser radar, Actuators, Buckle switches, Detection switches, Components for photocopiers and printers (Counterfeit detectors, Tablets, Paper handling machines, Controller PCB units, Sensors, Relays, Switches), Amusement components (Sensors, Keys, ICs, Game controllers)	¥117,910 million 
Social Systems Business Company	Banking systems (ATMs, Cash dispensers, POS systems, FET terminals), Automatic fare collection systems, Area traffic control systems, Parking systems, Totalizer systems	¥141,928 million 
Healthcare Company	Digital blood pressure monitors, Electric digital thermometers, Electronic pulse massagers, Body-fat monitors, Nebulizers, Chair massagers, Pedometers, Healthcare services	¥39,327 million 
Others	Peripheral equipment for personal computers (Terminal adapters, Modems, Cable-type modems for mobile phones, Uninterruptible power supplies, Scanners), Card readers, Room access control systems, Radio frequency ID systems, Photo-sticker vending machines, Speech recognition and voice authentication software	¥55,869 million 

Industrial Automation Company

In the fiscal year ended March 31, 2001, manufacturers made aggressive capital investments centered on the boom in IT-related businesses. In response, the Industrial Automation Company increased sales of conventional control equipment while also expanding sales of products that meet new customer needs, resulting in an 11.2 percent jump in net sales from the previous fiscal year to ¥239.2 billion.

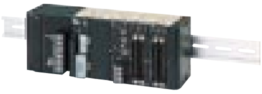
In the domestic market, the robust expansion in IT investment that started in the second half of the previous fiscal year continued. Manufacturers in the semiconductor, LCD and electronic component industries substantially increased capital investment to meet sharply rising demand from makers of communications equipment such as personal computers and cellular phones.

In Europe, the U.S., China and elsewhere in Asia, market conditions remained favorable. Strengthening direct contact with customers and adding more locally hired engineers enabled us to provide customized development capabilities. As a result, the company achieved sales increases ranging from 10 to 35 percent on a local currency basis and improved its position in these markets.

Looking at product categories, the company's success in providing solutions to meet needs created by the increasing use of IT in production was a key to performance gains. This contributed strongly to growth in sales of fiber photoelectric sensors, radio frequency identification (RFID) systems and programmable logic controllers. In addition, sales of vision sensors, automated optical inspection (AOI) systems and safety-related products expanded more than 30 percent, buoyed by the introduction of new products geared to emerging customer needs.

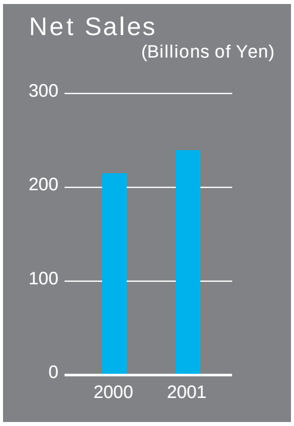
While responding to changes in global markets, we will promote efficient procedures to deepen relationships with customers in all business sectors.

Vision sensor F160, the top vision sensor in the industry, is easy to use, with superior accuracy and functionality.



The next-generation programmable logic controller CJ1 is quick, compact and seamless.

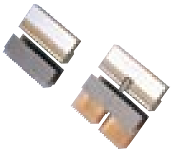
VT-RBT is a member of the popular VT-WIN family of accurate, high-speed automated optical inspection (AOI) systems.



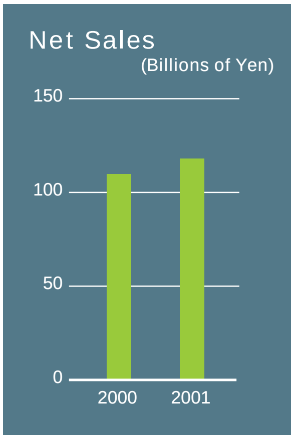
Electronic Components Company

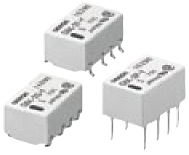
Used primarily in production equipment, the MY miniature power relay is made without lead, cadmium or PVC materials to reduce environmental impact.

The type XF2L FPC connector is used for mobile devices such as PDAs and mobile telephones.



The type XC8 hard metric connector is used in communications infrastructure, including telephone exchanges, servers and transmission devices.





The G6K relay, featuring 4th generation design, offers excellent savings in board size space.

Despite signs of weakening demand in some sectors of the industry during the latter half of the period, the business environment in the fiscal year ended March 31, 2001 was generally favorable, and the Electronic Components Company successfully introduced sales initiatives in response to market demands. As a result, net sales were ¥117.9 billion, an increase of 7.5 percent over the previous fiscal year.

Domestic sales were buoyed by a solid market for IT-related electronic components, particularly for cellular phones and the Internet. In manufacturing, we implemented a new strategy for flexibly increasing production of strong-selling equipment. This resulted in firm sales of equipment for consumer and commerce (C&C) components such as relay switches.

Outside Japan, the U.S. economy continued to grow steadily through the first half of the fiscal year. We restructured our sales network in the U.S. and Europe, and efforts to strengthen sales capabilities began to show results, marked by the start of operations of an independent subsidiary in Southeast Asia. Sales of equipment for C&C components were particularly brisk, fueled by demand for personal computers and audiovisual equipment. Moreover, expanded worldwide investment in communications infrastructure continued to underpin growth in demand for telecom relays used in telephone exchanges.

In the automotive electronic component sector, increased automobile production volume in Japan resulted in growing sales of high-value-added products such as keyless entry systems and electric power steering controllers. Business also expanded strongly in North America, propelled by the launch of new products amid favorable market conditions. In Europe, however, declining automobile production volume in the United Kingdom resulted in a downturn in component sales.

In order to maintain its position as a leading global electronic components supplier, the company is focused on improving its worldwide sales network, promoting low-cost operations, and standardizing parts and materials. In addition, the selection of optimal locations for production and procurement is aimed at building a competitive advantage on a global basis.

Keyless entry systems offer convenient remote locking and unlocking of vehicle doors and trunks.

Social Systems Business Company

The Social Systems Business Company posted net sales of ¥141.9 billion, a year-on-year increase of 10.4 percent. This performance was supported by demand for equipment from financial institutions and the credit card industry as well as a large increase in the delivery of systems to the public transportation industry.

Although financial institutions generally restrained investment in automated equipment, demand increased for machine replacement and conversion to handle the new ¥2,000 note and the redesigned ¥500 coin. In addition, the company posted strong sales of electronic fund transfer systems, including Cyber Gate, a multi-service terminal designed primarily for convenience stores, and a debit/credit terminal that handles IC cards.

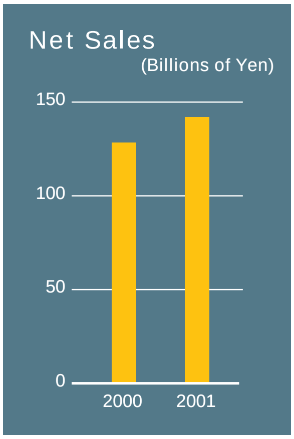
In the public transportation systems sector, sales of equipment to railway companies increased. Supporting factors included the delivery of system equipment for PassNet, a system that allows passengers to use a single card on more than 20 train lines in the Kanto region, as well as delivery of equipment to the Japan Railways Group. Using know-how cultivated through our expertise in public transportation systems, we are also developing businesses targeting the airline industry and the amusement market.

In the traffic control and road information systems sector, restrained investment in projects by local governments led to a year-on-year decline in sales.

With the advent of the networked society, we plan to expand into new types of terminal equipment, primarily content delivery equipment such as multifunctional ATMs and multimedia station terminals.

The Social Systems Business Company will work to further expand sales, while placing the highest priority on strengthening existing businesses to maximize profitability. Moreover, measures to improve the soundness of our operations will include cost reductions through the promotion of concurrent development and cost engineering, in addition to revisions to business processes and deployment of information systems.

DCS + music is a multimedia kiosk terminal featuring seven different multi-interfaces.

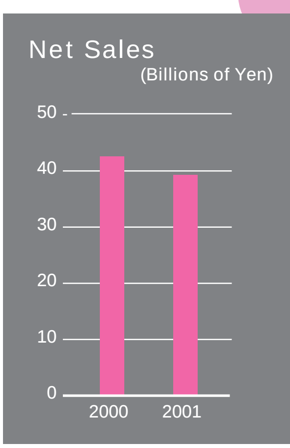


A next-generation ATM, the JX-ATM provides advanced services for the electronic era.

Using our know-how in public transportation systems, we developed the Universal Studios Japan turnstile entrance/exit system.

Healthcare Company

The HEM-770A Fuzz digital blood pressure monitor employs a newly developed cuff and features a universal design for ease of use.



Results for the Healthcare Company were impacted by continued weak consumption in Japan as well as changing consumption patterns. As a result, sales declined 7.8 percent year-on-year to ¥39.3 billion.

In the domestic market, the trend in the retail industry toward a bipolar structure focused on large-scale stores and specialized small shops accelerated. In response, the company worked to expand sales by closely gearing sales activities to the needs of each region and by strengthening the creation of appealing sales spaces. New products introduced during the fiscal year included a blood pressure monitor, a pedometer, fitness equipment, and a legless massage chair for home use.

In the healthcare equipment sector, prices dropped sharply for products for which growth was expected, such as ear thermometers, body fat meters and massage chairs, resulting in sluggish sales. This limited the beneficial effects of new product introductions and sales expansion measures, and led to a substantial decline in overall sales.

In the healthcare services sector, we developed and launched the *Kenko Tatsujin* (Health Master) series, and formed a number of alliances with other companies.

Outside Japan, sales were firm in the U.S., reflecting a strong push during the Christmas season and strengthening of sales activities closely geared to major customers. Fierce price competition continued in Europe, particularly in Germany, and was exacerbated by the market entry of new low-priced products from other Asian manufacturers. Nevertheless, sales in Europe were generally favorable. In Asia, the increasing sentiment that growth was slowing compared to the U.S. and European economies saw consumer spending decline in our major markets.

Faced with flat consumption and maturing products, we are aiming to expand our position as a solution provider by creating a comprehensive health business that responds to changing consumer needs. In the future, we plan to expand business volume in our fields of expertise – blood pressure monitors, thermometers and nebulizers – by building on our use and knowledge of biosensing and other technologies. In addition, we will further strengthen our sales strategies.

The HJ-111, a full-function pedometer for aerobic exercise, can measure paces walked while tucked inside the user's pocket.

The HM-404 massage chair offers the ultimate in relaxation.

Others

Results for non-core businesses were mixed, reflecting the varied impact of current market conditions on each business. Overall, however, net sales of other businesses declined 6.0 percent year-on-year to ¥55.9 billion.

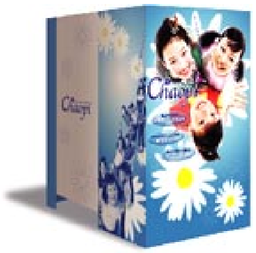
The Creative Service Company, which provides consulting and outsourcing services, focuses on business process reengineering and on helping clients raise efficiency by outsourcing or separating the functions of administrative operations. The company expanded its business scope and achieved higher sales in the fiscal year ended March 31, 2001 by capitalizing on its record of success in meeting the growing needs of businesses for management structure reform and more efficient administrative operations.

In the Business Development Group, competition intensified in the market for PC peripheral equipment due to accelerating price declines. However, sales of terminal adapters and cable modems for mobile equipment increased.

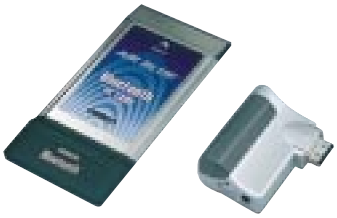
Although sales of photo-sticker vending machines have been adversely affected since the “print club” boom subsided, the overall market expanded significantly during the fiscal year due to the diffusion of large-sized machines. By offering new products accurately tailored to customer needs, this business sector achieved a substantial increase in sales over the previous fiscal year. We also delivered automated voice response systems with voice recognition technology to customers in industries such as securities, computers and finance.

Subsidiary Omron Alphatech Corporation shifted its business focus from hardware sales to service, and although net sales decreased, a sharper focus on profit resulted in an increase in net income.

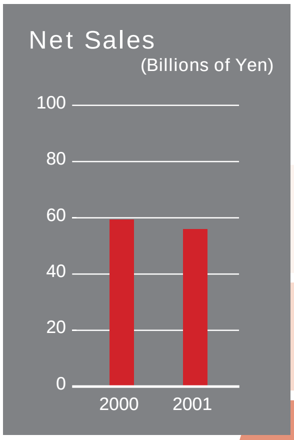
We will continue pursuing greater profitability for businesses with outstanding potential that cannot be included in any of the core Omron companies, while simultaneously mapping out clear strategies for the growth of each business. Additionally, we will focus on putting in place the infrastructure necessary to develop and strengthen new businesses in line with the corporate strategies of the whole Omron Group.



Chaopi is a photo-sticker machine that can even take photos from above.



Omron used Bluetooth technology to develop this modem for wireless connections with vibrating feel H" and H" cellular phones made by DDI Pocket, Inc.



Environmental Activities

Environmental Activities

Highlights of the Year

ISO 14001 CERTIFICATION FOR NINE OFFICES/LABORATORIES

By March 2000, all Omron Group factories worldwide had achieved ISO 14001 certification. During the past fiscal year, six offices (Kyoto and Tokyo head offices; Osaki, Nagoya, Komaki Automotive and Osaka branch offices) and three laboratories (Tsukuba, Kyoto and Kumamoto) also became ISO 14001 certified. Certifying the non-manufacturing sector enables Omron to build a fully-fledged corporate-wide environmental management system. By doing so, our environmental conservation activities can be implemented more effectively and swiftly.

PROMOTING ECO-PRODUCT DEVELOPMENT (54 ECO-PRODUCTS IN TOTAL)

From among all the environmentally friendly products developed by the company, Omron certifies those products that fulfill in-house standards as "Eco-Products." Once a product receives certification, an Omron designed eco-label is then printed in product catalogs and brochures. By doing so, we aim to accelerate the development of products that consume less energy and conserve resources. As of March 2001, a total of 54 products have been designated Eco-Products.

AIMING FOR AN ATM RECYCLING RATIO OF 98%

In January 2001, Omron established a recycling test center for disposed ATMs at the end of their useful lives. This center collects, disassembles and breaks down these ATMs for recycling or reuse of parts and materials. Unlike conventional processing that used shredders, sorting is now done manually for more precise classification, resulting in higher-quality recycled materials. Aiming to achieve a recycling ratio for ATMs of 98% (on a weight basis), including thermal and cascade recycling, the center is planning to make design suggestions for more easy-to-disassemble/decompose products.

PROMOTING GREEN PROCUREMENT

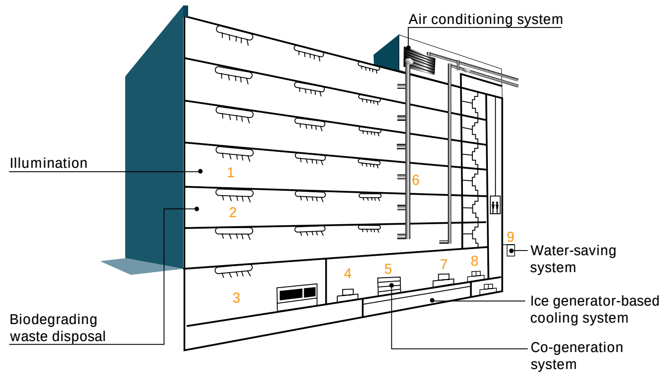
In conformance with company guidelines formulated in 1999, Omron will launch a green procurement system for the purchase of parts and materials in April 2003. Preference will be given to those suppliers who have been evaluated and rated highly for their active involvement in environmental conservation. Criteria for evaluation were specified in the past fiscal year.

ENVIRONMENTAL ACCOUNTING

During the year ended March 31, 2001, the Industrial Automation Company implemented environmental accounting practices on a trial basis. Environmental costs (including investments, personnel costs and other related expenditures) totaled ¥1.1 billion. The Industrial Automation Company's environmental accounting record is characterized by a large proportion of R&D related expenses (over 60%). Our calculation of environmental activity effectiveness concentrated on direct benefits, which amounted to ¥150 million. Based on an analysis of the trial run results, we will strengthen this environmental accounting system for company-wide implementation.

INTELLIGENT OFFICE BUILDING WITH ECOLOGY IN MIND

Omron Kyoto Center Building
Land area: 4,760m²
Total floor area: 36,250m²
Height: 45m
Floors: 11 plus two underground levels



1. Fluorescent light
2. Dining room
3. Central control/ monitoring room
4. Electricity control room
5. Co-generation system
6. Water heater/restroom
7. Cold/hot water pump
8. Heat source facility
9. Rain water tank

**** High-tech design incorporating environmentally friendly facilities***

Completed in August 2000, the Omron Kyoto Center Building serves as the heart of Omron operations by integrating head office administrative functions, as well as the operations of internal companies and R&D laboratories. Providing a spacious, open area, this building has been designed to maintain harmony with the surrounding environment. The building also features a number of advanced technologies to enhance environmental conservation as well as to provide a more comfortable workplace.

**** A wealth of innovative sensing technologies***

For added security, a face recognition system and card gate system are installed for room entry/exit control. Other automated systems that incorporate Omron's advanced sensing technologies include an RFID tag-based fare adjustment system for the dining room and wireless modem-equipped vending machines.

**** Comprehensive energy-saving measures***

This building also features a number of energy-saving measures including inverter control for air conditioning systems. CO_2 concentration levels in the building are monitored, and the outside air intake control is used to maintain a comfortable work environment. In addition, the building uses a gas co-generation system (with a maximum 1,040kW electric power generating capacity) that recovers waste heat for hot water absorption-type freezers. Moreover, a total heat exchanger for the thermal energy recovery system helps minimize waste heat emissions, while an ice generation system uses the supply of low-cost electricity at night for more effective energy usage. Other energy-saving measures include highly efficient fluorescent lighting fixtures and collected rainwater for trees and plants.

**** Reducing volume of waste***

All-in-one printer/copier/fax machine units and PCs that have been installed within the building are networked. This helps to conserve paper as the network system makes it easy to assess the volume of paper used by each division. Paper that has been classified as recyclable is then shredded for use as toilet paper.

A biodegrading waste disposer is also utilized for the production of organic fertilizer from raw food refuse and leftovers from the dining room. That fertilizer is then supplied to a subcontracted tea farm. Omron in turn purchases tea produced by that farm to help promote the recycling of resources.

DEVELOPMENT OF LEAD-FREE SOLDERS

In the year ended March 1996, Omron launched a study project for lead-free solder technology. In the year ended March 2000, a company-wide specialized committee was established to work on: 1) the selection of lead-free solder/plating materials; 2) the development of lead-free soldering processes and techniques to evaluate lead-free reliability; and 3) research for soldering systems. As a result, Omron has been able to choose lead-free solder materials that satisfy requirements for both reliability and mass-production. At the same time, work done through the committee has enabled the establishment of a practical lead-free soldering process. To accompany this endeavor, we have also adopted a laser-welding technology to achieve connections that totally eliminate the use of solders.

Board of Directors, Corporate Auditors and Executive Officers

Left to right: Tadao Tateisi, Akio Imaizumi, Norio Hirai, Nobuo Tateisi, Yoshio Tateisi, Tatsuro Ichihara, Shozo Hashimoto

Board of Directors

Chairman and Representative Director

Nobuo Tateisi

Representative Director and Chief Executive Officer

Yoshio Tateisi

Vice President and Director

Norio Hirai

Vice President and Director, Executive Vice President

Tatsuro Ichihara

Senior Managing Directors

Akio Imaizumi
Tadao Tateisi

Director (Non-executive)

Shozo Hashimoto

Corporate Auditors

Tomoaki Nishimura
Motoki Tamura
Takayuki Yamashita
Yoshio Nakano

Executive Vice Presidents

Soichi Koshio
Hideki Masuda

Senior Managing Officers

Yoshifumi Kajiya
Shingo Akechi
Hisao Sakuta
Fujio Tokita
Keiichiro Akahoshi
Akihiko Otani

Managing Officers

Masaaki Sadatomo
Minoru Tamura
Tsukasa Yamashita
Yutaka Takigawa
Fumio Tateisi
Shinya Tozawa
Kazuo Nomura
Yasuhira Minagawa
Kuniyasu Kihira
Tsutomu Ozako
Toshio Ochiai
Masaki Kobayashi
Soichi Yukawa
Hiroki Toyama
Kojiro Tobita
Hideo Kawanaka
Tadahiko Otsuka
Yoshio Kushihashi
Susumu Yoshida
Keizo Kadono
Hiroshi Tatebayashi
Hiroyuki Nishimura
Kuninori Hamaguchi

(As of June 26, 2001)

Financial Section

Six-year Summary

Omron Corporation and Subsidiaries
Years ended March 31

	Millions of yen (except per share data)					
	2001	2000	1999	1998	1997	1996
Net Sales (Note 2)**:**						
Industrial Automation	**¥239,225**	¥215,087	¥245,785	¥ —	¥ —	¥ —
Electronic Components	**117,910**	109,661	56,673	—	—	—
Social Systems Business	**141,928**	128,534	135,872	138,203	145,172	125,623
Healthcare	**39,327**	42,640	43,729	40,793	36,388	31,618
Open Systems	**—**	—	—	50,131	50,187	38,621
Control Components and Systems	**—**	—	—	313,642	291,277	275,149
Specialty Products	**—**	—	—	47,263	46,533	38,687
Others	**55,869**	59,436	73,221	21,763	24,704	15,591
	594,259	555,358	555,280	611,795	594,261	525,289
Costs and Expenses:						
Cost of sales	**376,194**	358,911	364,314	387,445	388,005	342,500
Selling, general and administrative expenses	**131,203**	133,662	136,734	138,404	130,163	109,117
Research and development expenses	**42,513**	36,605	42,383	39,914	35,188	34,433
Interest expenses, net	**111**	750	862	682	1,591	2,044
Foreign exchange loss, net	**1,389**	2,841	2,766	4,419	860	5,027
Other expenses (income), net	**2,812**	1,553	(28)	(1,312)	(794)	(84)
	554,222	534,322	547,031	569,552	555,013	493,037
Income before Income Taxes and Minority Interests	**40,037**	21,036	8,249	42,243	39,248	32,252
Income Taxes	**17,318**	9,048	6,044	23,371	22,952	17,039
Minority Interests	**422**	427	31	168	557	626
Net Income	**22,297**	11,561	2,174	18,704	15,739	14,587
Net Income per Share (yen):						
Basic	**¥ 87.4**	¥ 45.0	¥ 8.3	¥ 71.4	¥ 60.1	¥ 55.7
Diluted	**85.3**	44.5	8.3	69.8	58.8	54.5
Cash Dividends per Share (yen, Note 1)	**13.0**	13.0	13.0	13.0	13.0	13.0
Capital Expenditures (cash basis)	**¥ 37,583**	¥ 31,146	¥ 36,696	¥ 35,896	¥ 29,956	¥ 34,079
Total Assets	**593,144**	579,489	580,586	593,129	610,930	612,929
Total Shareholders' Equity	**325,958**	336,062	321,258	343,066	333,102	318,194
Value indicators:						
Gross profit margin (%)	**36.7**	35.4	34.4	36.7	34.7	34.8
Income before tax/Net sales (%)	**6.7**	3.8	1.5	6.9	6.6	6.1
Return on sales (%)	**3.8**	2.1	0.4	3.1	2.6	2.8
Return on assets (%)	**6.8**	3.6	1.4	7.0	6.4	5.4
Return on equity (%)	**6.7**	3.5	0.7	5.5	4.8	4.7
Inventory turnover (times)	**4.44**	4.56	4.18	4.28	4.66	4.51
Price/earning ratio (times)	**23.6**	64.9	175.0	28.3	36.6	42.2
Assets turnover (times)	**1.01**	0.96	0.95	1.02	0.97	0.88
Debt/equity ratio (times)	**0.820**	0.724	0.807	0.729	0.834	0.926
Interest coverage ratio (times)	**26.83**	14.64	5.56	20.05	12.27	8.47

Notes: 1. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.

2. Certain reclassifications have been made to the net sales amounts previously reported for 2000 in order for them to conform to 2001 categories. The amounts previously reported for 2000 were: Industrial Automation, ¥243,604 million; Electronic Components, ¥68,328 million; Others, ¥72,252 million. These same reclassifications could not be made to net sales amounts previously reported for 1999 and prior years because the necessary data is not readily available.

Management's Discussion and Analysis

Financial Strategy

During the fiscal year ended March 31, 2001, Omron posted record consolidated net income as a result of the policies the Company implemented to strengthen its earnings structure. These included improving asset efficiency, disciplined liquidity management, and efforts to raise competitiveness. In addition, Omron is investing capital according to specific plans and keeping capital expenditures within the scope of cash flow, while focusing on high-profit businesses to increase corporate value.

Overview of Operations

In Japan, while consumer spending remained restrained, favorable exports and increased private capital investment supported a modest recovery. Overseas, during the first half of the fiscal year, the U.S. economy maintained a strong rate of growth, while the economies of Asia continued to recover and economic conditions in Europe were favorable. During the second half, however, weakness in the U.S. information technology (IT) sector contributed to a pronounced slowdown in the overall U.S. economy. The Japanese economy weakened as a result, evidenced by factors including an increase in inventories in the domestic semiconductor industry. In this environment, Omron worked during the year ended March 31, 2001 to transform its identity and position while consistently improving its earnings base. The Company also expanded its position in its markets and emphasized improved competitiveness.

These efforts were supported by firm capital investment in the Japanese semiconductor and IT sectors. Domestic sales increased as a result. Overseas sales also expanded.

The consolidation of operating bases and lower production costs resulted in a decrease in the ratio of cost of sales to net sales. This and other positive factors resulted in a 90.3 percent increase in income before income taxes and minority interests to ¥40.0 billion. Net income rose 92.9 percent to ¥22.3 billion, a record high, and ROE improved to 6.7 percent.

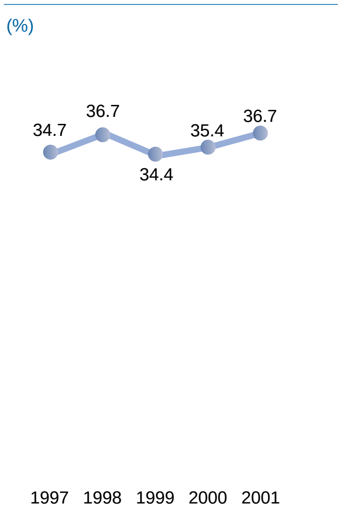
Sales

Consolidated net sales increased 7.0 percent to ¥594.3 billion, supported by firm capital investment in the semiconductor and IT sectors and increased demand in Omron's core control components systems business. Both domestic and overseas sales increased.

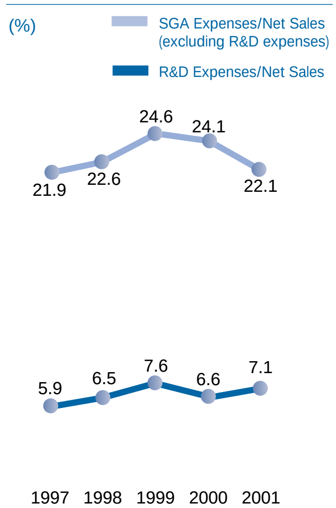
Cost of Sales, SGA Expenses and Income

Cost of sales increased ¥17.3 billion, or 4.8 percent, over the prior fiscal year to ¥376.2 billion, and improved to 63.3 percent of net sales, compared to 64.6 percent for the previous fiscal year. Factors in the improvement included higher productivity and lower raw material prices resulting from the yen's strength during the first half of the fiscal year. As a result, gross profit increased 11.0 percent to ¥218.1 billion, and the ratio of gross profit to net sales improved by 1.3 percentage points to

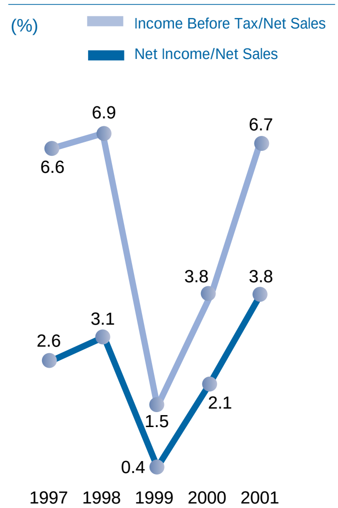
Gross Profit Margin



SGA Expenses/Net Sales
R&D Expenses/Net Sales



Income Before Tax/Net Sales
Net Income/Net Sales



36.7 percent. SGA expenses decreased ¥2.5 billion, or 1.8 percent, year-on-year to ¥131.2 billion, and improved to 22.1 percent of net sales from 24.1 percent for the previous fiscal year. Primary factors included a reduction in commissions for outsourcing. Research and development expenses increased ¥5.9 billion, or 16.1 percent, to ¥42.5 billion, and represented 7.1 percent of net sales, compared to 6.6 percent for the previous fiscal year. R&D is essential to Omron's growth strategy and the Company intends to maintain the ratio of R&D expenses at approximately 7 percent of net sales.

Costs, Expenses and Income as Percentages of Net Sales

	2001	2000	1999
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**63.3**	64.6	65.6
Gross profit	**36.7**	35.4	34.4
Selling, general and administrative expenses	**22.1**	24.1	24.6
Research and development expenses	**7.1**	6.6	7.6
Interest expenses, net	**0.0**	0.1	0.1
Income before income taxes and minority interests	**6.7**	3.8	1.5
Income taxes	**2.9**	1.6	1.1
Net income	**3.8**	2.1	0.4

Main factors in non-operating expenses included a drop in interest expenses due largely to a reduction in short-term debt. Income before income taxes and minority interests increased ¥19.0 billion, or 90.3 percent, to ¥40.0 billion. Income taxes increased ¥8.3 billion, or 91.4 percent, to ¥17.3 billion, and the ratio of income taxes to income before income taxes and minority interests stood at 43.3 percent compared to 43.0 percent for the previous fiscal year. As a result of the above, net income increased ¥10.7 billion, or 92.9 percent, to ¥22.3 billion. The ratio of net income to net sales improved to 3.8 percent from 2.1 percent for the prior fiscal year, and ROE improved to 6.7 percent from 3.5 percent for the prior fiscal year. Net income per share improved by ¥42.4 to ¥87.4, and diluted net income per share improved by ¥40.8 to ¥85.3.

Review of Operations by Company

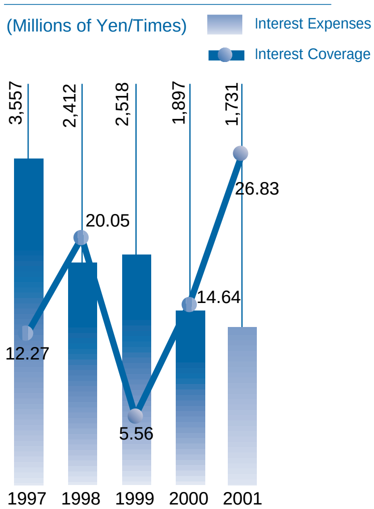
In April 2000, Omron restructured marketing channels, resulting in a change in the assignment to its internal companies of sales of certain products and sales from certain regions. Figures for the previous fiscal year have been restated to conform with the new structure.

Composition of Net Sales

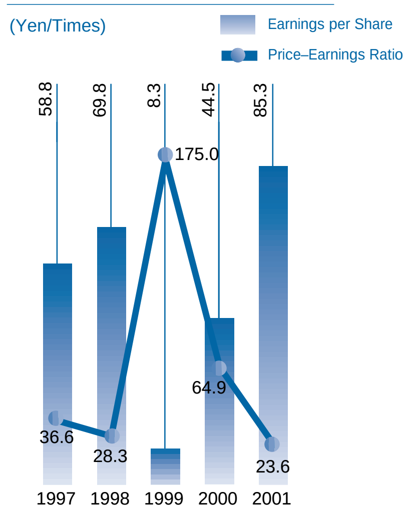
	2001	2000	1999
Industrial Automation	**40.3%**	38.7%	44.2%
Electronic Components	**19.8**	19.8	10.2
Social Systems Business	**23.9**	23.1	24.5
Healthcare	**6.6**	7.7	7.9
Others	**9.4**	10.7	13.2

Note: The composition of net sales is based on the classifications reported in the Six-year Summary.

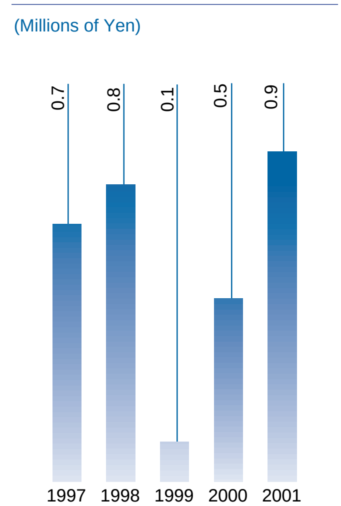
Interest Expenses and Interest Coverage



Earnings per Share and Price–Earnings Ratio



Net Income per Employee



Industrial Automation Company

Net sales for the Industrial Automation Company, excluding intercompany transactions, increased 11.2 percent year-on-year to ¥239.2 billion, and represented 40.3 percent of total net sales. In Japan, factors supporting the increase included strong IT-related investment, growth in sales of Omron's key control components systems products, and the Company's success in providing industrial IT solutions. Outside Japan, sales for the fiscal year increased solidly in the United States, although a slowdown in capital spending centered on the semiconductor industry became apparent in the second half. Results also improved in Europe for the fiscal year, despite the impact of factors that emerged in the second half including higher crude oil prices and the appreciation of the Euro. In China and elsewhere in Asia, continuing economic recovery favorably influenced performance.

Electronic Components Company

Net sales for the Electronic Components Company, excluding intercompany transactions, increased 7.5 percent year-on-year to ¥117.9 billion, and accounted for 19.8 percent of total net sales. In Japan, IT-related demand lent strength to the electronic components market, and sales of consumer and commerce (C&C) components were firm. Outside Japan, the strength of the U.S. economy in the first half of the fiscal year supported the electronic components market, and Omron benefited from its restructuring of marketing bases. In China and elsewhere in Asia, the establishment of marketing bases led to improved performance in the C&C sector, including the home electronics industry. Omron's automotive components business benefited from increased unit production among domestic auto manufacturers. Outside Japan, new product introductions drove strong sales growth, although sales in Europe were affected by cooling demand in the United Kingdom.

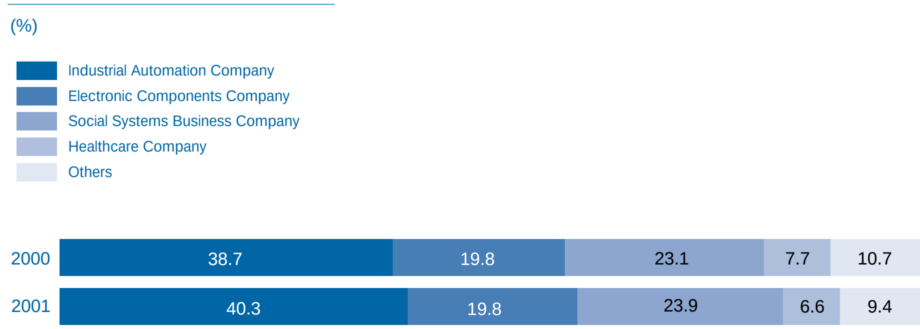
Social Systems Business Company

Net sales for the Social Systems Business Company, excluding intercompany transactions, increased 10.4 percent year-on-year to ¥141.9 billion, and accounted for 23.9 percent of total net sales. Sales of electronic fund transfer systems were affected by restraint in investment among financial institutions, but drew support from government demand for systems to handle Japan's new ¥2,000 note and ¥500 coin. Sales of multi-functional terminals and equipment to handle debit cards also increased. In the public transportation systems sector, sales of equipment to railway companies rose sharply due to the implementation of the PassNet system and equipment purchases by Japan Railways Group companies. Sales decreased in the traffic control and road information systems business because of restrained spending by local governments.

Healthcare Company

Net sales for the Healthcare Company, excluding

Sales by Company



intercompany transactions, decreased 7.8 percent year-on-year to ¥39.3 billion, and accounted for 6.6 percent of total net sales. Domestic consumption remained weak, with the resulting drop in demand igniting downward pressure on product prices. Overseas, the economic slowdown in North America affected sales, while performance in Europe was stable. Sales in Asia were off as demand in several key countries slackened.

Others

Net sales of other divisions decreased 6.0 percent to ¥55.9 billion, and represented 9.4 percent of total net sales. Strong demand for the Creative Service Company's outsourcing services, which reduce indirect costs for clients, led to an increase in sales.

Falling prices and intensifying competition impacted the PC-related equipment business, and sales of information terminals to convenience stores, which had been a growth business, were down. Success in meeting customer needs resulted in strong sales growth in the copier and printer business.

Increase (Decrease) in Sales of Internal Business Companies

	2001	2000	1999
Industrial Automation	**11.2%**	(0.9)%	N/A
Electronic Components	**7.5**	20.6	N/A
Social Systems Business	**10.4**	(5.4)	N/A
Healthcare	**(7.8)**	(2.5)	N/A
Others	**(6.0)**	(1.3)	N/A

Notes: 1. Due to a reorganization in April 1999, figures for increase or decrease in sales corresponding to current internal companies are not available for 1999.
2. The increase or decrease in sales for 2000 is based on the amounts previously reported for 2000, prior to the reclassifications made in the current year.

Review of Operations by Region

Japan

Although consumer spending remained restrained, exports and increased capital spending, particularly IT-related investment, helped the economy enter a modest recovery phase. The Industrial Automation Company, the Electronic Components Company and the Social Systems Business Company each generated sales growth, while reduced demand and lower prices negatively impacted Healthcare Company sales. Total sales to external customers increased 6.7 percent to ¥423.8 billion.

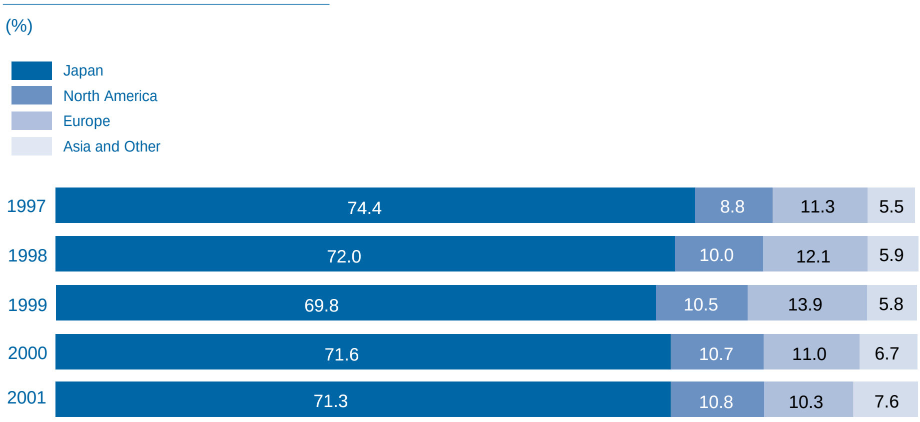
North America

High growth in personal consumption and capital investment focused on IT throughout the first half of the fiscal year cooled rapidly following downward revision of results for IT-related companies in the second half. Despite the impact of the second-half slowdown, the Industrial Automation Company, the Electronic Components Company and the Healthcare Company all posted solid performance. Overall, sales to external customers increased 8.2 percent to ¥64.4 billion.

Europe

During the second half of the fiscal year, rising oil prices and the appreciation of the euro dampened business conditions in Europe. The Industrial Automation Company generated sales growth on a local currency basis, as did the Healthcare Company despite

Sales by Region



growing competition, but the strong euro reduced these gains on translation into yen. The Electronic Components Company faced challenges related to declining demand. Consequently, sales to external customers were down marginally to ¥61.0 billion.

Asia and Other

Despite the impact of the cooling U.S. economy in the second half, the economies of Southeast Asia continued their solid recovery, and growth in China was particularly strong. Favorable conditions for semiconductor-related and electronics products in Southeast Asia spurred sales growth for the Industrial Automation Company and the Electronic Components Company. Both companies also did well in China, although slowing consumer demand reduced Healthcare Company sales there. As a result, sales to external customers increased 20.5 percent to ¥45.0 billion

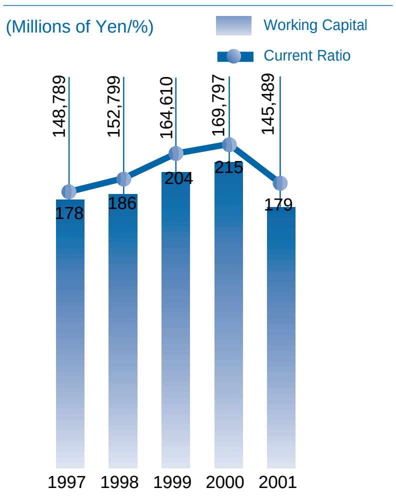
Assets, Liabilities and Shareholders' Equity

As of March 31, 2001, total assets increased ¥13.7 billion, or 2.4 percent, from a year earlier to ¥593.1 billion. Current assets increased ¥11.6 billion, or 3.7 percent, from a year earlier to ¥328.9 billion, with increases in trade notes and accounts receivable, inventories and deferred income taxes offsetting decreases in cash and cash equivalents and short-term investments. Trade notes and accounts receivable increased ¥3.4 billion, or 2.6 percent, from a year earlier to ¥133.8 billion mainly because of the increase in net sales. Inventories rose ¥13.8 billion, or 17.7 percent, from a year earlier to ¥91.6 billion as Omron prepared to meet increased orders received. Deferred income taxes increased ¥3.2 billion to ¥12.2 billion.

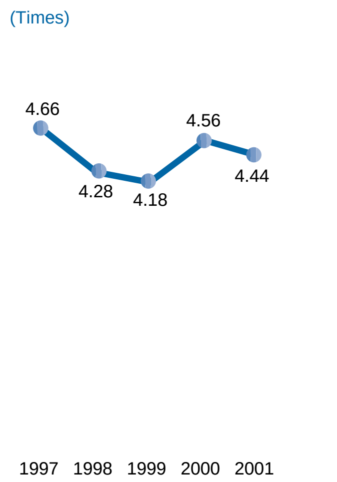
Net property, plant and equipment increased ¥3.1 billion, or 2.0 percent, from a year earlier to ¥159.1 billion due primarily to disciplined capacity expansion to meet growing demand. Investments and other assets decreased ¥1.0 billion, or 1.0 percent, to ¥105.1 billion. A decrease in the market value of investment securities offset an increase in deferred income taxes.

The total of current liabilities, long-term liabilities and minority interests in subsidiaries increased ¥23.8 billion, or 9.8 percent, from a year earlier to ¥267.2 billion. Current liabilities increased ¥35.9 billion, or 24.4 percent, from a year earlier to ¥183.4 billion, primarily because of an increase in the current portion of long-term debt. Bank loans decreased ¥1.3 billion from the prior fiscal year-end to ¥8.9 billion, while trade notes and accounts payable increased due to higher net sales. The current ratio stood at 179 percent, compared to 215 percent as of March 31, 2000, and working capital decreased 14.3 percent to ¥145.5 billion. Long-term debt decreased 44.9 percent to ¥32.0 billion, mainly because Omron will retire a significant portion of long-term debt during the year ending March 2002. As a result, interest-bearing liabilities, defined as the sum of bank loans, the current portion of long-term debt and long-term debt, decreased ¥2.3 billion, or 3.3 percent, from a year earlier to ¥67.2 billion.

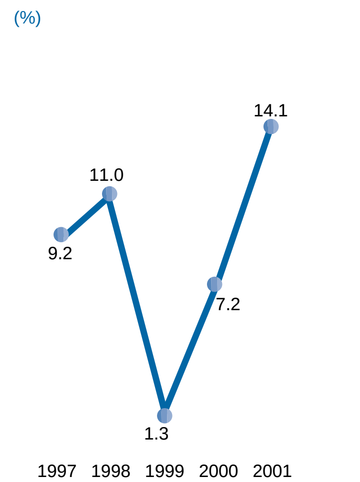
Working Capital and Current Ratio



Inventory Turnover



Return on Tangible Fixed Assets



Shareholders' equity decreased ¥10.1 billion, or 3.0 percent, over the previous fiscal year-end to ¥326.0 billion, mainly because of the use of retained earnings to fund share repurchases, a decrease in unrealized gains on investment securities, and an increase in pension benefit obligations. The ratio of shareholders' equity to total assets stood at 55.0 percent, compared to 58.0 percent a year earlier. The debt/equity ratio was 0.820 times, compared to 0.724 times a year earlier. ROE rose to 6.7 percent from 3.5 percent for the previous fiscal year. In addition, net assets per share of stock issued and outstanding rose to ¥1,311.12 from ¥1,308.64 a year earlier. Foreign currency translation adjustment decreased to ¥13.7 billion from ¥21.0 billion a year earlier due to the depreciation of the yen, and had the effect of reducing shareholders' equity and minority interests. Net unrealized gains on securities decreased to ¥3.6 billion from ¥13.8 billion a year earlier. Omron booked a minimum pension liability adjustment totaling ¥7.3 billion.

Cash Flow

Cash and cash equivalents and short-term investments at March 31, 2001 decreased ¥9.3 billion, or 9.8 percent, from a year earlier to ¥85.6 billion. Exchange rate changes had the effect of increasing cash and cash equivalents by ¥3.1 billion.

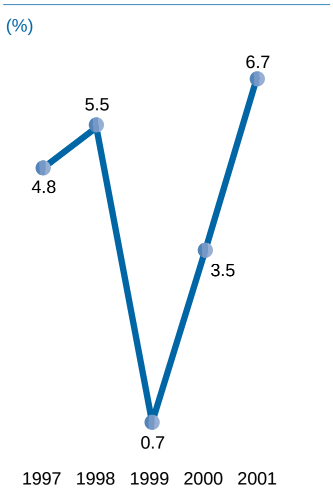
Cash provided by operating activities decreased ¥9.1 billion, or 15.2 percent, to ¥50.8 billion. Higher net income, depreciation and amortization were offset by changes in current assets and liabilities due to sales growth and the pension liability adjustment discussed above.

Cash used in investing activities decreased ¥1.8 billion, or 5.3 percent, from the prior fiscal year to ¥32.4 billion, primarily because of reduced net purchases of short-term investments and investment securities. Capital expenditures increased ¥6.4 billion, or 20.7 percent, year-on-year to ¥37.6 billion.

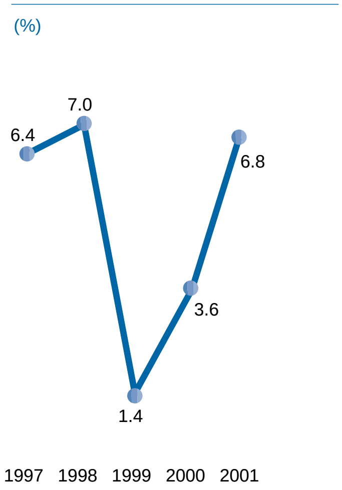
Free cash flow totaled ¥18.4 billion. While net income increased, higher accounts payable and cash reserves set aside for the pending repayment of long-term debt reduced working capital.

Cash used in financing activities totaled ¥24.6 billion due to factors including the repurchase of Omron shares.

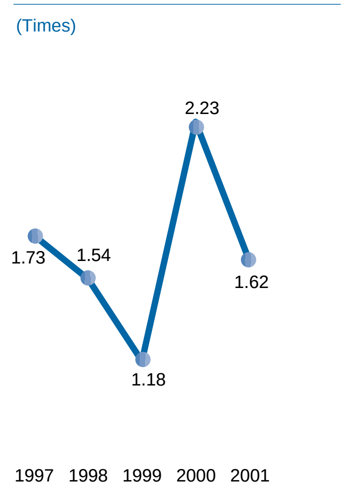
Return on Shareholders' Equity



Return on Assets



Price/Book Value Ratio



Consolidated Balance Sheets

Omron Corporation and Subsidiaries
March 31, 2001 and 2000

ASSETS	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 2) 2001
Current Assets:			
Cash and cash equivalents	**¥ 85,621**	¥ 88,670	**$ 690,492**
Short-term investments (Note 4)	**—**	6,300	**—**
Notes and accounts receivable — trade	**133,798**	130,355	**1,079,016**
Allowance for doubtful receivables	**(2,194)**	(2,001)	**(17,693)**
Inventories (Note 3)	**91,593**	77,807	**738,653**
Deferred income taxes (Note 10)	**12,186**	9,026	**98,274**
Other current assets	**7,875**	7,116	**63,508**
Total Current Assets	**328,879**	317,273	**2,652,250**
Property, Plant and Equipment:			
Land	**50,479**	51,082	**407,089**
Buildings	**113,414**	110,330	**914,629**
Machinery and equipment	**132,945**	129,639	**1,072,137**
Construction in progress	**5,680**	3,933	**45,806**
Total	**302,518**	294,984	**2,439,661**
Accumulated depreciation	**(143,399)**	(138,950)	**(1,156,443)**
Net Property, Plant and Equipment	**159,119**	156,034	**1,283,218**
Investments and Other Assets:			
Investments in and advances to associates	**853**	2,013	**6,879**
Investment securities (Note 4)	**57,500**	69,397	**463,710**
Leasehold deposits	**11,159**	10,608	**89,992**
Deferred income taxes (Note 10)	**17,986**	6,415	**145,048**
Other	**17,648**	17,749	**142,322**
Total Investments and Other Assets	**105,146**	106,182	**847,951**
Total	**¥593,144**	¥579,489	**$4,783,419**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 2) 2001
Current Liabilities:			
Bank loans (Note 5)	**¥ 8,916**	¥ 10,242	**$ 71,903**
Notes and accounts payable — trade	**82,225**	78,467	**663,105**
Accrued expenses	**24,484**	21,430	**197,452**
Income taxes payable	**14,797**	11,334	**119,331**
Other current liabilities (Note 10)	**26,628**	24,741	**214,741**
Current portion of long-term debt (Note 5)	**26,340**	1,262	**212,419**
Total Current Liabilities	**183,390**	147,476	**1,478,951**
Long-Term Debt (Note 5)	**31,957**	57,968	**257,718**
Deferred Income Taxes (Note 10)	**23**	3,725	**185**
Termination and Retirement Benefits (Note 7)	**48,929**	30,629	**394,589**
Other Long-Term Liabilities	**370**	1,114	**2,984**
Minority Interests in Subsidiaries	**2,517**	2,515	**20,298**
Shareholders' Equity (Note 8)**:**			
Common stock, ¥50 par value:			
Authorized: 487,000,000 shares in 2001 and 495,000,000 shares in 2000			
Issued: 249,109,236 shares in 2001 and 257,109,236 shares in 2000	**64,082**	64,082	**516,790**
Additional paid-in capital	**98,705**	98,705	**796,008**
Legal reserve	**7,652**	7,250	**61,710**
Retained earnings	**174,077**	173,804	**1,403,847**
Accumulated other comprehensive loss (Note 14)	**(17,346)**	(7,168)	**(139,887)**
Treasury stock, at cost — 498,000 shares in 2001 and 307,000 shares in 2000	**(1,212)**	(611)	**(9,774)**
Total Shareholders' Equity	**325,958**	336,062	**2,628,694**
Total	**¥593,144**	¥579,489	**$4,783,419**

See notes to consolidated financial statements.

Consolidated Statements of Income

Omron Corporation and Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2001	2000	1999	**2001**
Net Sales	**¥594,259**	¥555,358	¥555,280	**$4,792,411**
Costs and Expenses:				
Cost of sales	**376,194**	358,911	364,314	**3,033,822**
Selling, general and administrative expenses	**131,203**	133,662	136,734	**1,058,089**
Research and development expenses	**42,513**	36,605	42,383	**342,847**
Interest expenses, net (Note 5)	**111**	750	862	**895**
Foreign exchange loss, net	**1,389**	2,841	2,766	**11,202**
Other expenses (income), net (Note 9)	**2,812**	1,553	(28)	**22,677**
Total	**554,222**	534,322	547,031	**4,469,532**
Income before Income Taxes and Minority Interests	**40,037**	21,036	8,249	**322,879**
Income Taxes (Note 10)	**17,318**	9,048	6,044	**139,661**
Income before Minority Interests	**22,719**	11,988	2,205	**183,218**
Minority Interests	**422**	427	31	**3,403**
Net Income	**¥ 22,297**	¥ 11,561	¥ 2,174	**$ 179,815**

	Yen			U.S. dollars (Note 2)
	2001	2000	1999	**2001**
Net Income per Share (Note 12)**:**				
Basic	**¥87.4**	¥45.0	¥ 8.3	**$0.71**
Diluted	**85.3**	44.5	8.3	**0.69**
Cash Dividends per Share (Note 12)	**13.0**	13.0	13.0	**0.10**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Omron Corporation and Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2001	2000	1999	**2001**
Net Income	**¥22,297**	¥11,561	¥ 2,174	**$179,815**
Other Comprehensive Income (Loss), Net of Tax (Note 14)**:**				
Foreign currency translation adjustments:				
Amount arising during the year on investments in foreign entities held at end of year	**7,286**	(9,044)	(6,082)	**58,754**
Reclassification adjustment for the portion realized upon sale or liquidation of investments in foreign entities	**—**	—	40	**—**
Net change in foreign currency translation adjustments during year	**7,286**	(9,044)	(6,042)	**58,754**
Minimum pension liability adjustments	**(7,251)**	7,138	(5,737)	**(58,476)**
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the year	**(8,532)**	9,050	(620)	**(68,809)**
Reclassification adjustment for losses on impairment realized in net income	**391**	1,202	—	**3,150**
Reclassification adjustment for gains realized in net income	**(2,072)**	(1,502)	(898)	**(16,704)**
Net unrealized gains (losses)	**(10,213)**	8,750	(1,518)	**(82,363)**
Other Comprehensive Income (Loss)	**(10,178)**	6,844	(13,297)	**(82,085)**
Comprehensive Income (Loss)	**¥12,119**	¥18,405	¥(11,123)	**$ 97,730**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Omron Corporation and Subsidiaries
Years ended March 31, 2001, 2000 and 1999

		Millions of yen					
	Number of common shares issued	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance, April 1, 1998	262,107,214	¥64,079	¥98,702	¥6,314	¥174,686	¥ (715)	¥ —
Net income					2,174		
Cash dividends, ¥13 per share					(3,372)		
Transfer to legal reserve				497	(497)		
Other comprehensive loss						(13,297)	
Treasury stock							(342)
Share buyback and retirement	(5,000,000)				(6,971)		
Balance, March 31, 1999	257,107,214	64,079	98,702	6,811	166,020	(14,012)	(342)
Net income					11,561		
Cash dividends, ¥13 per share					(3,338)		
Transfer to legal reserve				439	(439)		
Other comprehensive income						6,844	
Treasury stock							(288)
Exercise of stock options							19
Conversion of convertible bonds	2,022	3	3				
Balance, March 31, 2000	257,109,236	64,082	98,705	7,250	173,804	(7,168)	(611)
Net income					**22,297**		
Cash dividends, ¥13 per share					**(3,284)**		
Transfer to legal reserve				**402**	**(402)**		
Other comprehensive loss						**(10,178)**	
Treasury stock							**(749)**
Exercise of stock options							**148**
Share buyback and retirement	**(8,000,000)**				**(18,338)**		
Balance, March 31, 2001	**249,109,236**	**¥64,082**	**¥98,705**	**¥7,652**	**¥174,077**	**¥(17,346)**	**¥(1,212)**

	Thousands of U.S. dollars (Note 2)					
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance, March 31, 2000	$516,790	$796,008	$58,468	$1,401,645	$ (57,802)	$(4,927)
Net income				**179,815**		
Cash dividends, $0.10 per share				**(26,484)**		
Transfer to legal reserve			**3,242**	**(3,242)**		
Other comprehensive loss					**(82,085)**	
Treasury stock						**(6,040)**
Exercise of stock options						**1,193**
Share buyback and retirement	28	28		**(147,887)**		
Balance, March 31, 2001	**$516,790**	**$796,008**	**$61,710**	**$1,403,847**	**$(139,887)**	**$(9,774)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Omron Corporation and Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2001	2000	1999	**2001**
Operating Activities:				
Net income	**¥22,297**	¥11,561	¥ 2,174	**$179,815**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**32,217**	31,445	31,396	**259,815**
Net loss on sales and disposal of property, plant and equipment	**760**	412	458	**6,129**
Net gain on sales of short-term investments and investment securities	**(3,703)**	(2,783)	(1,725)	**(29,863)**
Loss on impairment of investment securities and other assets	**2,460**	2,072	—	**19,839**
Bad debt expenses	**3,810**	5,638	—	**30,726**
Termination and retirement benefits	**4,990**	5,778	4,178	**40,242**
Deferred income taxes	**(5,402)**	(5,809)	(6,358)	**(43,565)**
Minority interests	**422**	427	31	**3,403**
Loss on sale of business entities	**—**	—	286	**—**
Changes in assets and liabilities, net of effects of business entities sold:				
Notes and accounts receivable — trade, net	**(5,593)**	2,507	2,025	**(45,105)**
Inventories	**(13,320)**	(534)	10,529	**(107,419)**
Other assets	**875**	(3,030)	5,306	**7,056**
Notes and accounts payable — trade	**3,620**	10,062	(11,969)	**29,194**
Income taxes payable	**3,438**	2,633	(5,967)	**27,726**
Accrued expenses and other	**4,140**	(585)	(970)	**33,387**
Other, net	**(215)**	132	189	**(1,734)**
Total adjustments	**28,499**	48,365	27,409	**229,831**
Net cash provided by operating activities	**50,796**	59,926	29,583	**409,646**
Investing Activities:				
Proceeds from sales or maturities of short-term investments and investment securities	**9,746**	32,289	26,780	**78,597**
Purchase of short-term investments and investment securities	**(5,761)**	(37,413)	(22,275)	**(46,460)**
Capital expenditures	**(37,583)**	(31,146)	(36,696)	**(303,089)**
Decrease (increase) in leasehold deposits	**(538)**	1,456	(527)	**(4,339)**
Proceeds from sales of property, plant and equipment	**1,953**	1,081	1,895	**15,750**
Acquisition of minority interests	**(182)**	(447)	(186)	**(1,468)**
Proceeds from sales of business entities	**—**	—	1,998	**—**
Net cash used in investing activities	**(32,365)**	(34,180)	(29,011)	**(261,009)**
Financing Activities:				
Net borrowings (repayments) of short-term bank loans	**(1,371)**	(18,087)	15,515	**(11,057)**
Proceeds from issuance of long-term debt	**715**	775	25,413	**5,766**
Repayments of long-term debt	**(1,650)**	(3,102)	(8,956)	**(13,306)**
Dividends paid	**(3,337)**	(3,371)	(3,372)	**(26,911)**
Share buyback	**(18,338)**	—	(6,971)	**(147,887)**
Treasury stock	**(749)**	—	—	**(6,040)**
Exercise of stock options	**148**	—	—	**1,193**
Net cash provided by (used in) financing activities	**(24,582)**	(23,785)	21,629	**(198,242)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**3,102**	(2,191)	(1,666)	**25,016**
Net Increase (Decrease) in Cash and Cash Equivalents	**(3,049)**	(230)	20,535	**(24,589)**
Cash and Cash Equivalents at Beginning of the Year	**88,670**	88,900	68,365	**715,081**
Cash and Cash Equivalents at End of the Year	**¥85,621**	¥88,670	¥88,900	**$690,492**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Omron Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

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 2001 classifications.

Principles of Consolidation

The consolidated financial statements include the accounts of Omron Corporation (the "Company") and its subsidiaries (together the "Companies"). All significant intercompany accounts and transactions have been eliminated. Costs in excess of the fair value of net assets acquired are amortized on a straight-line basis over five years.

The Companies' investments in companies in which ownership is from 20% to 50% (associates) are stated at cost plus equity in undistributed net income or loss.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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, securities purchased with resale agreements and money market instruments.

Short-Term Investments and Investment Securities

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, net of related taxes, until recognized. Individual securities classified as available-for-sale are reduced to net realizable value by a charge to income for other than temporary declines 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

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Property, Plant and Equipment

Property, plant and equipment is 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.

Advertising Costs

Advertising costs are charged to earnings as incurred. Advertising expense was ¥8,796 million ($70,935 thousand), ¥8,428 million and ¥9,822 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Termination and Retirement Benefits

Termination and retirement benefits are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and are disclosed in accordance with SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The provision for termination and retirement benefits includes those 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. 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.

Derivatives

Currency derivatives (foreign exchange forward contracts and foreign currency options) are used to manage currency risk. Derivative contracts that do not qualify as hedges are marked to market with the related gains and losses included in Foreign exchange loss, net in the consolidated statements of income.

Interest rate swaps are used to manage exposure to fluctuations in interest rates arising from the Companies' existing debt. The amounts receivable or payable under interest rate swap agreements are recognized as adjustments to interest expense.

In June 1998 the Financial Accounting Standards Board ("FASB") issued SFAS No.133 "Accounting for Derivative Instruments and Hedging Activities." In June 2000 the FASB also issued SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133." Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognizes all derivatives as either assets or liabilities in the balance sheet and measure these instruments at fair market value. Changes in the fair market value of derivatives are recorded each period. SFAS No.133, as amended, and No.138 are effective for fiscal years beginning after June 15, 2000. The Companies adopted SFAS No.133 and No.138 as of April 1, 2001. The cumulative effect on retained earnings as of April 1, 2001, of adopting SFAS No.133 and No.138 was immaterial to the consolidated financial statements.

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.

Comprehensive Income

Comprehensive income consists of net income, foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains and losses on available-for-sale securities, and is presented in the consolidated statements of comprehensive income.

Nature of Operations

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 5 regional management centers, Japan, North America, Europe, Asia-Pacific and China. Products, classified by type and market, are organized into five internal companies and one business development group, as described below.

Industrial Automation manufactures and sells control components and systems including programmable logic controllers, sensors and switches used in automatic systems in industries. In the global market, the company offers many services, such as those involving laborsaving automation, environmental protection, safety improvement, and inspection-automization solutions for highly developed production systems.

Electronic Components manufactures and sells electric and electronic components found in such consumer goods as home appliances and automobiles as well as such business equipment as telephone systems, vending machines, and office equipment.

Social Systems Business encompasses the production and sale of automated teller machines, card authorization terminals and point of sales systems for both domestic and overseas markets. Passing gates and automated ticket machines and electronic panels and terminal displays for traffic information and monitoring purposes are also produced for the domestic market.

Healthcare sells blood pressure monitors, digital thermometers, body-fat monitors, nebulizers and infra-red therapy devices aimed at both the consumer and institutional markets.

Creative Service provides such outsourcing services as distribution, advertising and public relations, personnel, information systems, administration, employee benefit schemes and accounting.

Business Development Group consists of businesses with high growth potential. The group provides the peripheral equipment loaded in office automation equipment, card readers, modems, terminal adapters, scanners and uninterrupted power supplies.

Revenue Recognition

The Companies recognize revenue when persuasive evidence of an arrangement including title transfer exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable. These criteria are met when products are shipped or services are performed.

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 translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience of the readers and have been made at the rate of ¥124 to $1, the approximate free rate of exchange at March 31, 2001. Such translations 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
	2001	2000	**2001**
Finished products	**¥52,188**	¥44,080	**$420,875**
Work-in-process	**15,114**	15,242	**121,886**
Materials and supplies	**24,291**	18,485	**195,892**
Total	**¥91,593**	¥77,807	**$738,653**

4. Short-Term Investments and Investment Securities

Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from income and reported in other comprehensive income, net of tax.

Cost, gross unrealized holding gains and losses and fair value of securities, excluding equity securities with no public market value, by major security type at March 31 were as follows:

	Millions of yen							
	2001				2000			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:								
Short-term investments:								
Debt securities	**¥ —**	**¥ —**	**¥ —**	**¥ —**	¥ 5,008	¥ —	¥ —	¥ 5,008
Equity securities	**—**	**—**	**—**	**—**	410	896	(14)	1,292
Total short-term investments	**—**	**—**	**—**	**—**	5,418	896	(14)	6,300
Marketable investment securities:								
Debt securities	**20**	**—**	**—**	**20**	8	—	—	8
Equity securities	**43,392**	**15,646**	**(7,622)**	**51,416**	39,244	27,449	(2,698)	63,995
Total marketable investment securities	**43,412**	**15,646**	**(7,622)**	**51,436**	39,252	27,449	(2,698)	64,003
Total available-for-sale securities	**¥43,412**	**¥15,646**	**¥(7,622)**	**¥51,436**	¥44,670	¥28,345	¥(2,712)	¥70,303

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

	Thousands of U.S. dollars			
	2001			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:				
Short-term investments:				
Debt securities	$ —	$ —	$ —	$ —
Equity securities	—	—	—	—
Total short-term investments	—	—	—	—
Marketable investment securities:				
Debt securities	**161**	**—**	**—**	**161**
Equity securities	**349,936**	**126,177**	**(61,468)**	**414,645**
Total marketable investment securities	**350,097**	**126,177**	**(61,468)**	**414,806**
Total available-for-sale securities	**$350,097**	**$126,177**	**$(61,468)**	**$414,806**

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

Net unrealized holding gains on available-for-sale securities, net of related taxes, decreased by ¥10,213 million ($82,363 thousand) for the year ended March 31, 2001 and increased by ¥8,750 million for the year ended March 31, 2000. Debt securities classified as available-for-sale investment securities mature in various amounts through 2003.

Proceeds from sales of available-for-sale securities were ¥9,372 million ($75,581 thousand), ¥31,964 million and ¥26,478 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Gross realized gains on those sales were ¥3,579 million ($28,863 thousand), ¥3,456 million and ¥3,001 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Gross realized losses on those sales were ¥8 million ($63 thousand), ¥867 million and ¥1,275 million for the years ended March 31, 2001, 2000 and 1999, respectively.

5. Bank Loans and Long-Term Debt

The weighted average annual interest rates of short-term bank loans at March 31, 2001 and 2000 were 2.9% and 3.5%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Unsecured debt:			
Convertible bonds at 1.7%, due in 2004	**¥29,735**	¥29,735	**$239,798**
Loans from banks and other financial institutions, generally at 0.9% to 6.0%, due serially through 2005	**26,415**	29,199	**213,024**
Other	**2,147**	296	**17,315**
Total	**58,297**	59,230	**470,137**
Less portion due within one year	**26,340**	1,262	**212,419**
Long-term debt, less current portion	**¥31,957**	¥57,968	**$257,718**

The annual maturities of long-term debt outstanding at March 31, 2001 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥26,340	$212,419
2003	1,207	9,734
2004	528	4,258
2005	29,941	241,460
2006	129	1,040
2007 and thereafter	152	1,226
Total	¥58,297	$470,137

The convertible bonds may be purchased at any time by the Company or its subsidiaries principally at any price in the open market or otherwise, and may be redeemed at the Company's option prior to maturity. The convertible bonds are redeemable, in whole or in part, beginning October 1997 at 106% of face value, decreasing 1% per year. At March 31, 2001 the convertible bonds were redeemable, in whole or in part, at 103%.

The number of contingently issuable shares of common stock related to the convertible bonds as of March 31, 2001 was 10,026,639 shares. The conversion price per share at March 31, 2001 was ¥2,965 ($23.92), subject to anti-dilutive provisions.

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 customary in Japan, the Company and domestic subsidiaries maintain deposit balances with banks with which they have short- or long-term borrowings. 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, 2001, 2000 and 1999 amounted to ¥1,731 million ($13,960 thousand), ¥1,897 million and ¥2,518 million, respectively.

6. Leases

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, 2001, 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:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 2,208	$ 17,806
2003	2,179	17,573
2004	2,098	16,919
2005	2,025	16,331
2006	1,995	16,089
2007 and thereafter	20,984	169,226
Total	¥31,489	$253,944

Rental expense amounted to ¥11,232 million ($90,581 thousand), ¥11,120 million and ¥15,193 million for the years ended March 31, 2001, 2000 and 1999, respectively.

The Company has a contract with an outside service organization for outsourcing computer services. The contract requires an annual service fee of ¥4,998 million ($40,306 thousand) for the year ending March 31, 2002. The annual service fee will gradually decrease each year during the contract term to ¥4,518 million ($36,435 thousand) for 2008. The contract is cancelable subject to a penalty of 15% of aggregate service fees payable for the remaining term of the contract.

7. Termination and Retirement Benefits

The Company and its domestic subsidiaries sponsor termination and retirement benefit plans which cover substantially all domestic employees. Benefits are based on the employee's years of service, with some plans considering compensation and certain other factors. 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 have a contributory termination and retirement plan which is interrelated with the Japanese government social welfare program and consists of a basic portion requiring employee and employer contributions plus an additional portion established by the employers.

Periodic pension benefits required under the basic portion are prescribed by the Japanese Ministry of Health, Labour and Welfare, commence at age 60 and continue until the death of the surviving spouse. Benefits under the additional portion are usually paid in a lump sum at the earlier of termination or retirement although periodic payments are available under certain conditions.

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
	2001	2000	**2001**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥189,263**	¥180,467	**$1,526,315**
Service cost, less employees' contributions	**8,846**	9,147	**71,339**
Interest cost	**6,624**	6,316	**53,419**
Employees' contributions	**1,010**	1,000	**8,145**
Actuarial (gains) and losses	**4,022**	(4,012)	**32,435**
Benefits paid (including benefits paid by the Companies)	**(3,858)**	(3,655)	**(31,113)**
Benefit obligation at end of year	**¥205,907**	¥189,263	**$1,660,540**
Change in plan assets:			
Fair value of plan assets at beginning of year	**129,137**	97,884	**1,041,428**
Actual return on plan assets	**(12,879)**	25,555	**(103,863)**
Employers' contributions	**6,528**	6,504	**52,645**
Employees' contributions	**1,010**	1,000	**8,145**
Benefits paid	**(1,921)**	(1,806)	**(15,492)**
Fair value of plan assets at end of year	**¥121,875**	¥129,137	**$ 982,863**
Funded status	**(84,032)**	(60,126)	**(677,677)**
Unrecognized net actuarial loss	**49,639**	30,232	**400,314**
Unrecognized transition obligation	**808**	1,078	**6,516**
Net amount recognized	**¥ (33,585)**	¥ (28,816)	**$ (270,847)**
Amounts recognized in the consolidated balance sheets:			
Accrued liability	**¥ (46,895)**	¥ (28,816)	**$ (378,183)**
Intangible assets	**808**	—	**6,516**
Accumulated other comprehensive income (gross of tax)	**12,502**	—	**100,820**
Net amount recognized	**¥ (33,585)**	¥ (28,816)	**$ (270,847)**
Accumulated benefit obligation at end of year	**¥168,769**	¥146,248	**$1,361,040**

The provisions of SFAS No. 87, "Employers' Accounting for Pensions," require the recognition of an additional minimum pension liability for each defined benefit plan to the extent that a plan's accumulated benefit obligation exceeds the fair value of plan assets and accrued pension liabilities. The net change in the minimum pension liability is reflected as other comprehensive income, net of related tax effect. The unrecognized transition obligation and the unrecognized net actuarial loss are being amortized over 15 years.

Key assumptions utilized in calculating the actuarial present value of benefit obligations are as follows:

	2001	2000	1999
Discount rate	**3.0%**	3.5%	3.5%
Compensation increase rate	**3.0**	3.6	3.6
Expected long-term rate of return on plan assets	**4.0**	4.0	3.5

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
	2001	2000	**2001**
Service cost, less employees' contributions	**¥ 8,846**	¥ 9,147	**$ 71,339**
Interest cost on projected benefit obligation	**6,624**	6,316	**53,419**
Expected return on plan assets	**(4,451)**	(4,088)	**(35,895)**
Amortization	**2,215**	2,652	**17,863**
Net expense	**¥13,234**	¥14,027	**$106,726**

The Companies also have unfunded noncontributory termination plans administered by the Companies. These plans provide lump-sum termination benefits and 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 consolidated liability for the noncontributory termination plans as of March 31, 2001 and 2000 was ¥2,034 million ($16,406 thousand) and ¥1,813 million, respectively. The consolidated expense for the noncontributory termination and retirement plans for the years ended March 31, 2001, 2000 and 1999 was ¥1,015 million ($8,185 thousand), ¥1,041 million and ¥84 million, respectively.

8. Shareholders' Equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with the minimum of the par value thereof, to be recorded as common stock. The portion recorded as common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as common stock are credited to additional paid-in capital.

Under the Code, the Company is required to record an amount at least equal to 10% of the amounts paid as an appropriation of retained earnings, including dividends and other distributions, to be appropriated and set aside as a legal reserve until such reserve equals 25% of the common stock. This reserve is not available for dividends but may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

The Company may transfer portions of additional paid-in capital and legal reserve to common stock by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to common stock by resolution of the shareholders.

Under the Code, the amount legally available for dividends is based on retained earnings as recorded in the books of the Company for Japanese financial reporting purposes. At March 31, 2001, retained earnings amounting to ¥85,285 million ($687,782 thousand) were available for future dividends subject to legal reserve requirements.

Stock Options

In June 1998, the Company introduced stock-based compensation plans. Stock options are granted to directors and certain officers to purchase shares of common stock at a price not less than market price at the date of grant. Options are granted with vesting periods of 1-2 years. As of March 31, 2001, options outstanding are summarized as follows:

Grant date	Authorized and granted shares	Option exercise price	Exercisable term	Exercised and (forfeited) shares
June 25, 1998	158,000	¥2,162	July 1, 1999 - June 30, 2001	73,000
June 25, 1999	158,000	¥1,839	July 1, 2001 - June 30, 2004	(5,000)
June 27, 2000	260,000	¥2,936	July 1, 2002 - June 30, 2005	—

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its stock option plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for this plan. Compensation cost for the plan determined based on the fair value of the options at the grant date consistent with SFAS No. 123 would have been insignificant.

Share Buyback and Retirement

During 2001, the Company reduced the number of authorized shares as a result of the buyback and subsequent retirement of 8,000,000 shares of common stock.

9. Other Expenses (Income), net

Other expenses (income), net for the years ended March 31, 2001, 2000 and 1999 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Loss on relocation	**¥2,312**	¥ —	¥ —	**$18,645**
Loss on impairment of investment securities and other assets	**2,460**	2,072	—	**19,839**
Net loss (gain) on sales and disposal of property, plant and equipment, excluding loss on relocation	**(43)**	412	458	**(347)**
Net gain on sales of short-term investments and investment securities	**(3,703)**	(2,783)	(1,725)	**(29,863)**
Other, net	**1,786**	1,852	1,239	**14,403**
Total	**¥2,812**	¥ 1,553	¥ (28)	**$22,677**

During the year ended March 31, 2001 the Company recognized a net loss of ¥2,312 million ($18,645 thousand) as a result of an office relocation plan, primarily consisting of the relocation of the headquarters within Kyoto, Japan.

10. Income Taxes

The provision for income taxes for the years ended March 31, 2001, 2000 and 1999 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Current income tax expense	**¥22,720**	¥14,857	¥12,426	**$183,226**
Deferred income tax benefit, exclusive of the following	**(5,367)**	(5,809)	(8,591)	**(43,282)**
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	**(35)**	—	(142)	**(283)**
Adjustments of deferred tax assets and liabilities for enacted changes in tax rates	**—**	—	2,351	**—**
Total	**¥17,318**	¥ 9,048	¥ 6,044	**$139,661**

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

	2001	2000	1999
Normal Japanese statutory rates	**42.0%**	42.0%	48.0%
Increase (decrease) in taxes resulting from:			
Permanently non-deductible items	**2.4**	2.8	30.2
Losses of subsidiaries for which no tax benefit was provided	**2.6**	2.9	10.1
Difference in subsidiaries' tax rates	**(2.5)**	(3.0)	(18.1)
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	**(0.1)**	—	(1.7)
Effects of enacted change in tax rates	**—**	—	28.5
Recognition of tax credit carryforwards of an overseas subsidiary	**—**	—	(28.5)
Other, net	**(1.1)**	(1.7)	4.8
Effective tax rates	**43.3%**	43.0%	73.3%

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 42.0% in 2001 and 2000, and 48.0% in 1999. An amendment to Japanese tax regulations was enacted into law on March 31, 1999. As a result of this amendment, the normal income tax rate was reduced from 48.0% to 42.0% effective April 1, 1999. Deferred income tax assets and liabilities as of March 31, 1999 were measured at the newly enacted tax rate.

The approximate effects of temporary differences and tax credit and loss carryforwards that gave rise to deferred tax balances at March 31, 2001 and 2000 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2001		2000		**2001**	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventory valuation	**¥ 1,882**	**¥ —**	¥ 1,477	¥ —	**$ 15,180**	**$ —**
Accrued bonuses and vacations	**4,067**	**—**	3,224	—	**32,802**	**—**
Termination and retirement benefits	**10,809**	**—**	9,312	—	**87,167**	**—**
Enterprise taxes	**1,094**	**—**	896	—	**8,826**	**—**
Intercompany profits	**2,270**	**—**	2,208	—	**18,304**	**—**
Marketable securities	**—**	**3,370**	—	10,766	**—**	**27,180**
Allowance for doubtful receivables	**611**	**116**	879	308	**4,927**	**932**
Bad debt expenses	**4,118**	**—**	2,368	—	**33,210**	**—**
Gain on sale of land	**—**	**1,311**	—	1,076	**—**	**10,572**
Minimum pension liability adjustment	**5,251**	**—**	—	—	**42,344**	**—**
Other temporary differences	**8,596**	**4,424**	5,464	4,416	**69,318**	**35,675**
Tax credit carryforwards	**3,473**	**—**	3,245	—	**28,006**	**—**
Subsidiaries' operating loss carryforwards	**4,415**	**—**	5,104	—	**35,607**	**—**
Subtotal	**46,586**	**9,221**	34,177	16,566	**375,691**	**74,359**
Valuation allowance	**(7,795)**	**—**	(6,485)	—	**(62,864)**	**—**
Total	**¥38,791**	**¥9,221**	¥27,692	¥16,566	**$312,827**	**$74,359**

The total valuation allowance increased by ¥1,310 million ($10,565 thousand), ¥1,681 million and ¥2,162 million in 2001, 2000 and 1999, respectively.

As of March 31, 2001, certain subsidiaries had operating loss carryforwards approximating ¥11,065 million ($89,234 thousand) available for reduction of future taxable income, most of which expire in various amounts through 2006.

The Company has not provided for Japanese income taxes on unremitted earnings of subsidiaries to the extent that they are believed to be indefinitely reinvested. The unremitted earnings of the foreign subsidiaries which are considered to be indefinitely reinvested and for which Japanese income taxes have not been provided were ¥50,052 million ($403,645 thousand) and ¥41,900 million at March 31, 2001 and 2000, respectively. It is not practicable to estimate the amount of unrecognized deferred Japanese income taxes on these unremitted earnings. Dividends received from domestic subsidiaries are expected to be substantially free of tax.

11. Foreign Operations

Net sales and total assets of foreign subsidiaries for the years ended March 31, 2001, 2000 and 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Net sales	**¥170,434**	¥158,122	¥167,546	**$1,374,468**
Total assets	**¥141,966**	¥115,532	¥122,039	**$1,144,887**

12. Amounts per Share

The Company accounts for its earnings 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
	2001	2000	1999	**2001**
Net income	**¥22,297**	¥11,561	¥2,174	**$179,815**
Effect of dilutive securities:				
Convertible bonds, due 2004	**325**	325	—	**2,626**
Diluted net income	**¥22,622**	¥11,886	¥2,174	**$182,441**

	Number of shares		
	2001	2000	1999
Weighted average common shares outstanding	**255,031,698**	256,841,987	260,649,752
Dilutive effect of:			
Convertible bonds, due 2004	**10,026,639**	10,028,349	—
Stock options	**62,449**	28,106	—
Diluted common shares outstanding	**265,120,786**	266,898,442	260,649,752

For the year ended March 31, 1999, the assumed conversion of convertible bonds, giving effect to the incremental shares and the adjustment to reduce interest expenses, was anti-dilutive and has, therefore, been excluded from the computation.

For the year ended March 31, 1999, the assumed exercise of stock options, giving effect to the incremental shares, was anti-dilutive and has been excluded from the computation.

Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.

13. Supplemental Information for Cash Flows

Supplemental cash flow information for the years ended March 31, 2001, 2000 and 1999 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Interest paid	**¥ 1,765**	¥ 1,980	¥ 2,450	**$ 14,234**
Income taxes paid	**19,257**	12,543	18,417	**155,298**
Non-cash investing and financing activities:				
Liabilities assumed in connection with capital expenditures	**1,803**	3,467	5,559	**14,540**

14. Other Comprehensive Income (Loss)

The change in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2001, 2000 and 1999 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Foreign currency translation adjustments:				
Beginning balance	**¥(20,998)**	¥(11,954)	¥ (5,912)	**$(169,336)**
Change for the year	**7,286**	(9,044)	(6,042)	**58,754**
Ending balance	**(13,712)**	(20,998)	(11,954)	**(110,582)**
Minimum pension liability adjustments:				
Beginning balance	**—**	(7,138)	(1,401)	**—**
Change for the year	**(7,251)**	7,138	(5,737)	**(58,476)**
Ending balance	**(7,251)**	—	(7,138)	**(58,476)**
Unrealized gains on available-for-sale securities:				
Beginning balance	**13,830**	5,080	6,598	**111,534**
Change for the year	**(10,213)**	8,750	(1,518)	**(82,363)**
Ending balance	**3,617**	13,830	5,080	**29,171**
Total accumulated other comprehensive income (loss):				
Beginning balance	**(7,168)**	(14,012)	(715)	**(57,802)**
Change for the year	**(10,178)**	6,844	(13,297)	**(82,085)**
Ending balance	**¥(17,346)**	¥ (7,168)	¥(14,012)	**$(139,887)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2001, 2000 and 1999 were as follows:

	Millions of yen								
	2001			2000			1999		
	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
Foreign currency translation adjustments:									
Amount arising during the year on investments in foreign entities held at end of year	**¥ 7,286**	**¥ —**	**¥ 7,286**	¥ (9,044)	¥ —	¥(9,044)	¥ (6,082)	¥ —	¥ (6,082)
Reclassification adjustment for the portion realized upon sale or liquidation of investments in foreign entities	**—**	**—**	**—**	—	—	—	40	—	40
Net change in foreign currency translation adjustments during the year	**7,286**	**—**	**7,286**	(9,044)	—	(9,044)	(6,042)	—	(6,042)
Minimum pension liability adjustments	**(12,502)**	**5,251**	**(7,251)**	13,891	(6,753)	7,138	(11,032)	5,295	(5,737)
Unrealized gains (losses) on available-for-sale securities:									
Unrealized holding gains (losses) arising during period	**(14,711)**	**6,179**	**(8,532)**	15,604	(6,554)	9,050	(1,194)	574	(620)
Reclassification adjustment for losses on impairment realized in net income	**674**	**(283)**	**391**	2,072	(870)	1,202	—	—	—
Reclassification adjustment for gains realized in net income	**(3,571)**	**1,499**	**(2,072)**	(2,589)	1,087	(1,502)	(1,726)	828	(898)
Net unrealized gains (losses)	**(17,608)**	**7,395**	**(10,213)**	15,087	(6,337)	8,750	(2,920)	1,402	(1,518)
Other comprehensive income (loss)	**¥(22,824)**	**¥12,646**	**¥(10,178)**	¥19,934	¥(13,090)	¥ 6,844	¥(19,994)	¥6,697	¥(13,297)

	Thousands of U.S. dollars		
	2001		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	**$ 58,754**	**$ —**	**$ 58,754**
Reclassification adjustment for the portion realized upon sale or liquidation of investments in foreign entities	**—**	**—**	**—**
Net change in foreign currency translation adjustments during the year	**58,754**	**—**	**58,754**
Minimum pension liability adjustments	**(100,820)**	**42,344**	**(58,476)**
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	**(118,636)**	**49,827**	**(68,809)**
Reclassification adjustment for losses on impairment realized in net income	**5,431**	**(2,281)**	**3,150**
Reclassification adjustment for gains realized in net income	**(28,800)**	**12,096**	**(16,704)**
Net unrealized gains (losses)	**(142,005)**	**59,642**	**(82,363)**
Other comprehensive income (loss)	**$(184,071)**	**$101,986**	**$(82,085)**

15. Financial Instruments and Risk Management

Financial Instruments

The following table presents the carrying amount and estimated fair value as of March 31, 2001 and 2000, of the Companies' financial instruments, both on and off the balance sheet.

	Millions of yen				Thousands of U.S. dollars	
	2001		2000		**2001**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Nonderivatives:						
Long-term debt, including current portion	**¥(58,297)**	**¥(62,460)**	¥(59,230)	¥(68,213)	**$(470,137)**	**$(503,710)**
Derivatives:						
Included in Other current assets (Other current liabilities):						
Forward exchange contracts	**(377)**	**(377)**	269	269	**(3,040)**	**(3,040)**
Foreign currency options	**(334)**	**(334)**	—	—	**(2,694)**	**(2,694)**
Interest rate swaps	**—**	**(49)**	—	(45)	**—**	**(395)**

The following methods and assumptions were used to estimate the fair value 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, bank loans and notes and accounts payable:
The carrying amounts approximate fair values.

(2) Short-term investments and 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 included in investments have no public market value, and it is not practicable to estimate their fair values.

(3) Long-term debt:
For convertible bonds, the fair values are estimated based on quoted market prices. For other, the fair values are estimated using the 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.

(1) Interest rate swap contracts:
The Companies enter into interest rate swap agreements to manage exposure to fluctuations in interest rates. These agreements involve the exchange of interest obligations on fixed and floating interest rate debt without exchange of the underlying principal amounts. The agreements generally mature at the time the related debt matures. The differential paid or received on interest rate swap agreements is recognized as an adjustment to interest expense. Notional amounts are used to express the volume of interest rate swap agreements. The notional amounts do not represent cash flows and are not subject to risk of loss. In the unlikely event the counterparty fails to meet the terms of an interest rate swap agreement, the Companies' exposure is limited to the interest rate differential. Management considers the exposure to credit risk to be minimal since the counterparties are major financial institutions.

At March 31, 2001 and 2000, the notional amounts on which the Companies had interest rate swap agreements outstanding aggregated ¥4,500 million ($36,290 thousand) and ¥4,000 million, respectively. The estimated fair values of interest rate swap contracts are based on present value of discounted future cash flow analysis.

(2) Foreign exchange forward contracts and foreign currency options:

The Companies enter into foreign exchange forward contracts and combined purchased and written foreign currency option contracts to hedge foreign currency transactions (primarily the U.S. dollar and the EURO) on a continuing basis for periods consistent with their committed exposure. Some of the contracts involve the exchange of two foreign currencies, according to local needs in foreign subsidiaries. The terms of the currency derivatives are rarely more than 10 months. The credit exposure of foreign exchange contracts are represented by the fair value of the contracts at the reporting date. Management considers the exposure to credit risk to be minimal since the counterparties are major financial institutions.

The notional amounts of contracts to exchange foreign currency (forward contracts) outstanding at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Related to future sales:			
Forward exchange contracts	**¥17,130**	¥15,374	**$138,145**
Foreign currency options	**10,445**	—	**84,234**

The notional amounts do not represent the amounts exchanged by the parties to derivatives and are not a measure of the Companies' exposure through its use of derivatives. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The Companies hedge certain exposures to fluctuations in foreign currency exchange rates that occur prior to conversion of foreign currency denominated monetary assets and liabilities into the functional currency. Prior to conversion to the functional currency, these assets and liabilities are translated at spot rates in effect on the balance sheet date. The effects of changes in spot rates are reported in earnings and included in Foreign exchange loss, net in the consolidated statements of income. Because monetary assets and liabilities are marked to spot rates with the resulting gains and losses recorded in earnings, currency forward contracts and options designated as hedges of the monetary assets and liabilities are also marked to spot rates with the resulting gains and losses similarly recognized in earnings. Gains and losses on forward contracts and options are included in Foreign exchange loss, net in the consolidated statements of income, and offset losses and gains on the net monetary assets and liabilities hedged.

Gains or losses on forward exchange contracts and currency options purchased and written that do not qualify for deferral for accounting purposes are recognized in income on a current basis and recorded in Foreign exchange loss, net in the consolidated statements of income.

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 75% 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 with them funds to serve as security for ongoing credit sales.

Guarantees

Contingent liabilities at March 31, 2001 with respect to loans guaranteed were ¥2,144 million ($17,290 thousand), of which ¥1,204 million ($9,710 thousand) were jointly and severally guaranteed with six other unrelated companies. According to an agreement between the seven companies, any losses on these guarantees are to be equally borne among the companies.

16. Related Party Transaction

In August 2000, the Company entered into an operating lease agreement for a new head office, including land and a building, with a company owned by the family of the Company's founder, including the Company's chairman and representative director, representative director and chief executive officer, and certain managing officers. This lease agreement has an initial non-cancelable lease term of 20 years and requires a monthly rental payment of ¥106 million ($854 thousand) and a security deposit of ¥2,600 million ($20,968 thousand) which is refundable when the agreement expires. During 2001, the Company paid ¥954 million ($7,694 thousand) for monthly rentals and ¥2,600 million ($20,968 thousand) for the security deposit.

Independent Auditors' Report

Deloitte
Touche
Tohmatsu

To the Board of Directors and Shareholders of Omron Corporation

We have audited the accompanying consolidated balance sheets of Omron Corporation and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards No.131, "Disclosures about Segments of an Enterprise and Related Information," has not been presented in the accompanying consolidated financial statements. In our opinion, presentation concerning operating segments and other information is required for a complete presentation of the Company's consolidated financial statements.

In our opinion, except for the omission of segment information as discussed in the third paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omron Corporation and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for convenience.

Deloitte Touche Tohmatsu

Osaka, Japan
May 7, 2001

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Date of Establishment
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Industrial Property Rights
Number of patents:
2,380 (Japan)
1,414 (Overseas)
Number of patents pending:
6,293 (Japan)
578 (Overseas)

Number of Employees
25,067

Paid–in Capital
¥64,082 million

Common Stock
Authorized: 495,000,000 shares
Issued: 249,109,236 shares
Number of shareholders: 25,299

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Ticker Symbol Number
6645

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(As of March 31, 2001)

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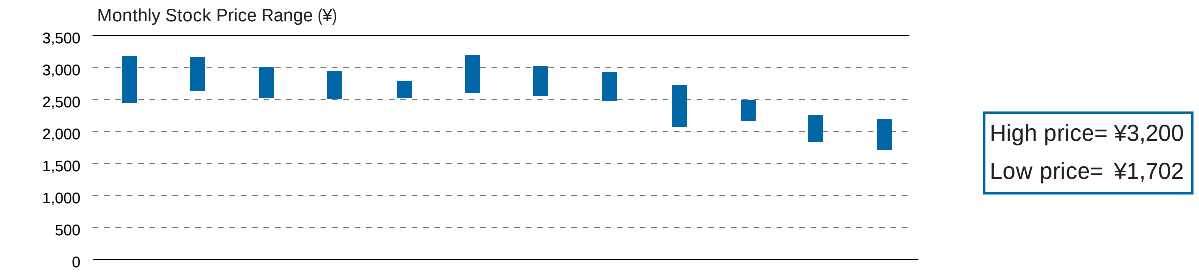

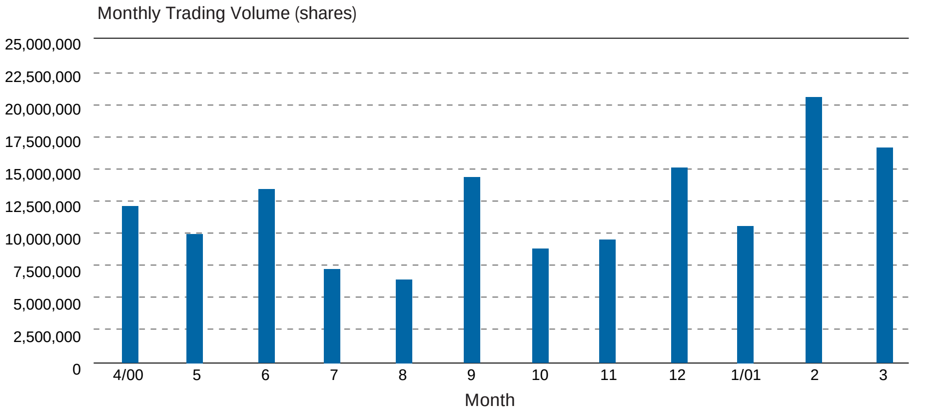

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