OMRON

ANNUAL REPORT 1999

YEAR ENDED MARCH 31, 1999

CONTENTS

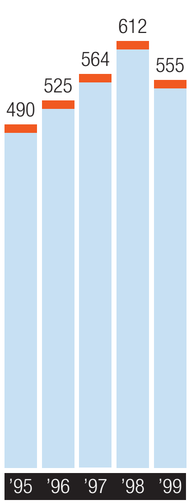
HIGHLIGHTS

OMRON Corporation and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

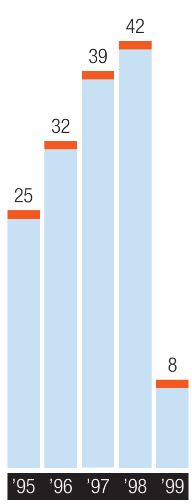
	Millions of yen (except per share data)			Thousands of U.S. dollars (Note 3) (except per share data)
	1999	1998	1997	**1999**
Net sales	**¥555,280**	¥611,795	¥594,261	**$4,589,091**
Income before income taxes and minority interests	**8,249**	42,243	39,248	**68,174**
Net income	**2,174**	18,704	15,739	**17,967**
Net income per share (yen and U.S. dollars, Note 1):				
Basic	**¥ 8.3**	¥71.4	¥60.1	**$0.07**
Diluted	**8.3**	69.8	58.8	**0.07**
Cash dividends per share (yen and U.S. dollars, Note 2)	**13.0**	13.0	13.0	**0.11**
Total assets	**¥580,586**	¥593,129	¥610,930	**$4,798,231**
Total shareholders' equity	**321,258**	343,066	333,102	**2,655,025**
Capital expenditures (cash basis)	**36,696**	35,896	29,956	**303,273**
Research and development expenses	**42,383**	39,914	35,188	**350,273**

Notes: 1. Net income per share amounts are computed based on the Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which is effective from the fiscal year ended March 31, 1998. All prior years' data presented has been restated to conform with the provisions of SFAS No. 128.
2. Cash dividends per share are the amounts applicable to the respective year, including dividends to be paid after the end of the year.
3. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at March 31, 1999, of ¥121=$1.

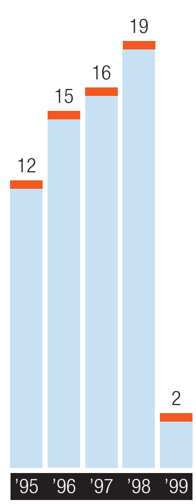
NET SALES
(Billion ¥)



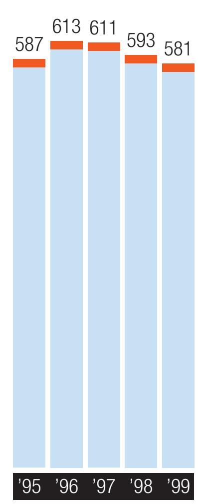
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS
(Billion ¥)



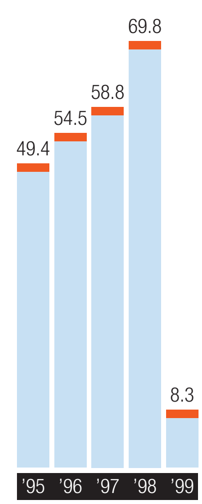
NET INCOME
(Billion ¥)

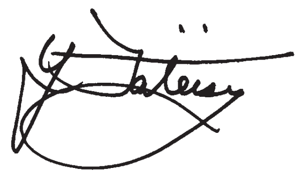


TOTAL ASSETS
(Billion ¥)



NET INCOME PER SHARE (DILUTED)
(¥)





Yoshio Tateisi
Representative Director and Chief Executive Officer

OMRON's Corporate Governance

OMRON Corporation changed the nature of its corporate ideals in May 1998. Aiming at setting its corporate governance in place for the years ahead, OMRON will optimize its management philosophies to respond to the challenges occurring in the social and business environments now and in the future.

The six management philosophies we are focusing on to make our corporate motto of "At work for a better life, a better world for all" a reality are as follows:

- ***Offer maximum satisfaction to customers***
- ***Consistently accept challenges***
- ***Focus on gaining shareholders' trust***
- ***Respect individuals***
- ***Become a responsible corporate citizen***
- ***Maintain corporate ethics while promoting corporate activities***

To obtain shareholders' trust and respond to shareholders' expectations, we must

- ***improve corporate values,***
- ***appropriately distribute corporate profits to shareholders', and***
- ***disclose management data and achieve transparency (accountability).***

As part of concrete measures undertaken in fiscal 1999, ended March 31, 1999, OMRON initiated a share buyback program and retired five million shares and introduced a stock option plan for its directors to encourage them to keep growth in investors' value as their chief management goal.

Business Performance in Fiscal 1999

OMRON recorded an unfavorable performance in fiscal 1999, as did many other Japanese companies. Consolidated net sales decreased 9.2%, to ¥555,280 million. This slump is mainly because domestic sales by the Control Components and Systems Division, our core business division, drastically dropped 21.5% from the previous fiscal year due to a cooling down of the economic environment for domestic investment in equipment. The division's domestic sales accounted for nearly half of total sales. Overseas, stalled Asian economies, a deceleration of European economies from the second half of the term due to depressed exports, and a drop in customers' capital investment in the United States affected the division's sales achievement.

Operating income plummeted 74.3% from the previous fiscal year, to ¥11,849 million, primarily as a result of the sales decrease in the Control Components and Systems Division, which is traditionally the most profitable business unit in OMRON.

Results of Structural Reforms

According to its Seventh Medium-Term Management Plan, from April 1996 to March 1999, OMRON promoted structural reforms to create a growth-oriented structure, establish an innovative cost structure, and revitalize corporate resources.

In fiscal 1999, the final year of the Seventh Medium-Term Management Plan, we had set our overall management goal as 7% return on equity (ROE) and intended to prepare a plan for achieving a two-digit ROE in the Eighth Medium-Term Management Plan. However, OMRON was unable to achieve this target, recording a 0.7% ROE in the fiscal year under review. Moreover, OMRON has postponed the start of its Eighth Medium-Term Management Plan, which had been set to begin in April 1999, because drawing up a new management plan was difficult amid the uncertain prospects of the Japanese economy. Therefore, we will start fiscal 2000 with a short-term management plan, which covers the current fiscal year.

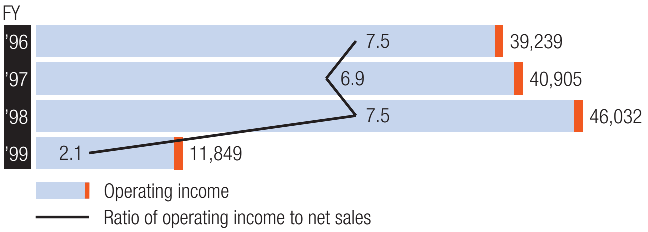
Regarding the creation of a growth-oriented structure, through the Seventh Medium-Term Management Plan, although the business environment appeared daunting, OMRON executed its corporate growth strategies—a set of visionary concepts comprising the areas of intelligent transport systems (ITSs); multimedia-oriented factory automation (FA); and cyber-community-related, total healthcare, and information sensing businesses.

In line with the current business trend of prioritization and focus, OMRON reviewed each operation from the viewpoints of future growth and profit potential, identifying its strengths and working to tighten its focus on the most important issues.

As for establishing an innovative cost structure, we have integrated various administrative systems to create a new infrastructure. OMRON will continue to streamline the functions of its Head Office by simplifying its organizational roles, relocating personnel for strengthening line functions, streamlining business offices, and constantly reviewing its balance sheets. Regarding revitalizing corporate resources, we will continue the structural reform of fixed costs but with more emphasis in certain areas, as described in detail later in this report.

In addition, we have reorganized our sales system by restructuring sales channels, reinforcing direct sales promotion, and concentrating corporate resources on the sensing business.

OPERATING INCOME
(Million ¥)



In fiscal 1999, within our initial budget, we created a growth-oriented structure and strengthened our sales force. We also placed high priority on sharpening our management focus on securing profits and reviewing major projects that affect profits.

To be more growth oriented, we revised business projects and worked on improving our business infrastructure (by such means as suspending the OMRON Total Fair, reviewing office integration, and cutting personnel costs and general expenses). Furthermore, we restructured our business based on the concepts of prioritization and focus, selling off three businesses: OMRON Microcomputer Systems Co., Ltd. (OMS), a company that sells personal computers and peripherals; a semiconductor sales business in Japan; and an electronic cash register business in Europe.

Perspectives

By designating fiscal 2000 as “Year One of OMRON’s Corporate Transformation,” the Company will further progress with reforms in management, business, and fixed cost structures, leading to improved corporate value.

Reforming the Management Structure

As described on pages 5 to 8, the transformation of our management structure is a prerequisite for both employees and divisional units to become self-reliant, eliminating an excessive codependence among management, divisional units, and staff members. To not only survive but to beat the competition in the global market, we urgently need to set up corporate governance systems and execute them through customer-oriented business strategies.

To realize this, while aiming at achieving a simple management style that emphasizes speed and flexibility, we will reform the roles of individual directors and the Board of Directors as a whole by adding the new position of executive director, whose role is to concentrate on OMRON Group management and Groupwide policies and strategies, initiate meaningful discussion on corporate strategy, guide decision making, increase shareholder trust, and improve corporate worth. Managing officers, on the other hand, will focus on the management of individual business units and promote business activities that are more clearly focused on customer needs.

In addition, in April 1999 OMRON introduced an internal company management system that allows the independent operation of businesses to provide the optimal level of customer satisfaction. It is our ultimate vision to turn OMRON into a powerful enterprise group consisting of several different business units, each with their own highly competitive technological strengths.

Reforming the Business Structure

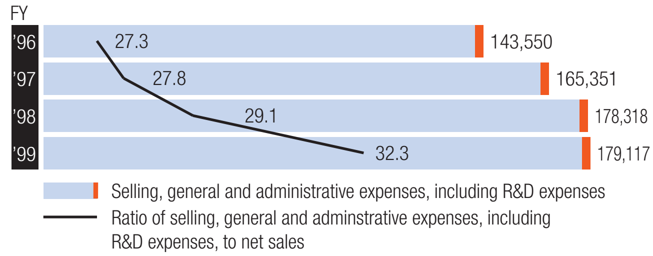
In reforming our business structure, we will further apply the principles of prioritization and focus to each business unit as well as each product type, concentrating our corporate resources on them. By concentrating corporate resources on selected businesses and forming relationships with outside organizations, each internal company will reinforce its own competitive power and improve its value, transforming the entire OMRON Group into a highly profitable corporation.

Furthermore, we will shift a considerable number of administrative staff to frontline sales. This will help OMRON more accurately assess the steadily changing needs of its customers and offer them greater satisfaction.

Reforming the Fixed Cost Structure

In fiscal 1999, the ratio of selling, general and administrative expenses, including R&D expenses, to net sales increased to a record high of 32.3%. This rise is because sales plunged drastically due to the deteriorated economic environment during the final year of OMRON's Seventh Medium-Term Management Plan for which the initial, aggressive expense budget was earmarked. Therefore, OMRON has designated the improvement of overall fixed costs, including selling, general and administrative expenses, as its most important issue. To improve the ratio of selling, general and administrative expenses, including R&D expenses, to net sales to the same level as in the past, we will continue to not only efficiently control expenses but also improve sales efficiency and reduce personnel costs by utilizing human resources effectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
(INCLUDING R&D EXPENSES) TRENDS
(Million ¥)



Utilizing human resources effectively includes:

- Reducing the domestic full-time workforce by 1,000 employees,
- Reducing the number of domestic contract workers (part-time and temporary workers) by 1,000, and
- Shifting a greater share of personnel to frontline positions.

Although we are implementing measures, including Head Office reform, aimed at utilizing human resources more effectively within two years, we will try to complete the program as early as possible.

Although the business environment in fiscal 2000 appears daunting, we will endeavor to avoid a second consecutive year of a decline in profits and will solidify our footing on the revenue recovery path under our profit-oriented management. To these ends, the Company will combine the power of the entire OMRON Group to strive to reach targets while gathering the momentum that will allow it to take the offensive in fiscal 2000.

To reach our goal of becoming a competitive, high-quality growth company in the 21st century, we will continue to progress with our structural reforms.

Management Topics: Reform of Management Structure

OMRON will implement its own sophisticated management structure reforms so that the creation of corporate governance and customer-oriented business operations can be thoroughly accomplished.

AIMS OF REFORMING THE MANAGEMENT STRUCTURE

OMRON is carrying out the necessary management structure reforms for both employees and divisional units to become self-reliant and eliminate an excessive codependence among management and divisional units and among the divisional units themselves.

The functions of Groupwide corporate decision making and the management of individual business operations will be clearly distinguished from each other. This will enable decisions to be made more quickly and flexibly.

AIMS OF REFORMING THE ROLES OF DIRECTORS AND THE BOARD OF DIRECTORS

1) Strengthen OMRON's corporate governance and Groupwide management
2) Enhance the competitive strength of the Company in the global market
3) Increase the speed of decision making at the management level

Directors will be able to concentrate more on OMRON Group management by overseeing the Company's business operations from a more global perspective.

Reforming the directors' roles

We intend to clearly separate decision making at the management level from business implementation. Directors will devote themselves to making OMRON's Group strategies and corporate policies.

The number of directors has been reduced to 7 from 30 to better facilitate essential discussion on Group direction and strategies and quick decision making at the management level.

In addition, the position of Managing Officer has been created for directors who will be responsible for daily business operations.

Reinforcement of management audit function

The functions and authority of auditors will be strengthened so that they can monitor and evaluate OMRON's Board of Directors more strictly and thoroughly in respect to compliance with laws, regulations, and ethics.

ADVISORY BODIES TO THE BOARD OF DIRECTORS

Nominating Advisory Committee

- Recommends nominees for the Board of Directors and as managing officers

Corporate Ethics Advisory Committee to the Board of Directors

- Expresses opinions regarding high ethical standards in management

Corporate Management Advisory Committee to the Board of Directors

- Consults outside experts to get management advice from a broad perspective

AIMS OF INTRODUCING THE INTERNAL COMPANY MANAGEMENT SYSTEM

1) Reinforce OMRON's ability to create market and customer value and practice customer-oriented business operations
2) Speed up decision making in business operations, dispersing the authority necessary for self-reliant business management and business strategy execution Companywide

OMRON is responsible for fulfilling commitments to goals provided by its top management before creating market and customer value by utilizing the advantages of each company's expertise to honor such commitments.

By introducing and establishing an internal company management system, the self-reliance of OMRON's operations will be enhanced and the resultant increase in decision-making speed and market flexibility will be realized.

OUTLINE OF THE COMPANIES

OMRON has been reorganized into five companies and one business development group.

Companies

Industrial Automation Company
Electronic Components Company
Social Systems Business Company
Healthcare Company
Creative Service Company

Business Development Group

To develop areas of business that are not regulated to operate individually, a new supervisory group, the Business Development Group, will be established to provide the necessary administrative and management support.

Industrial Automation Company

The Industrial Automation Company manufactures and sells control components and systems used in automatic systems in industries. Sales by the Control Components and Systems Division in fiscal 1999 accounted for a little more than 40% of OMRON's consolidated net sales, and the overseas sales ratio is approximately 50%, as overseas sales have grown steadily. With a 40% share of the market in Japan, the company is a leader in contributing to the development of manufacturing technologies. Although the business environment appears daunting in domestic corporate capital investment, many business opportunities remain overseas.

Soichi Koshio
Company President,
Industrial Automation Company

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. Focusing on such growth areas, the company will reinforce measures toward systemizing and networking. The company will continue to supply customers with high-technology control systems and promote its abundant lineup of control components. Furthermore, OMRON is expanding its lineup of environment-friendly and measure-of-safety products and next-generation programmable logic controllers (PLCs) that will be the core of next-generation control components and systems. Finally, the company will be implementing measures to boost its marketing efforts by strengthening solution proposal capabilities.

Tsutomu Narita
Company President,
Electronic Components Company

Tadao Tateisi
Company President,
Social Systems Business Company

Tsunehiko Tokumasu
Company President,
Healthcare Company

Electronic Components Company

The Electronic Components Company 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.

More than 50% of the company's consolidated net sales are overseas. The products of the company are indispensable for companies in the Japanese electronics industry and sales are expected to grow further.

The mission of the company is to establish a system that can support the development and supply of advantageous electronic components globally. The company will develop and expand high-technology products, such as microsensors that use semiconductor processes, microconnectors, and multifunction power window switches for vehicles in the global market, aimed at expanding businesses in the future.

Social Systems Business Company

The Social Systems Business Company supplies automatic equipment and systems to railway and subway companies, banks and financial institutions, retail companies, as well as government and municipal offices, thereby contributing to providing society with convenience, amenity, and safety. Typical products of the company are automated teller machines (ATMs), ticket vending machines at train stations, automated passenger gates, and traffic control systems. In these domains, the company is a pioneer, anticipating trends and developing new models, thus winning customer confidence. The company also understands such social changes as Big Bang deregulation in the banking industry and the advancement of information technology (IT), digitization, and networking business opportunities. Following this, the company will provide multiple terminal equipment that features purchasing, ticket reservation, and issuing capabilities; information retrieval functions; conventional ATM functions; as well as new IT-related and public transportation system related products. At the same time, the company will strive to enhance profitability.

Healthcare Company

The Healthcare Company sells healthcare equipment, such as blood pressure monitors, digital thermometers, body-fat monitors, and ultrasonic electronic pulse massagers. Such products draw on OMRON's highly advanced sensing technologies. Healthcare is a growing business, as people today are increasingly concerned with living an active life and maintaining good health. Amid such favorable circumstances, the company has drawn up the following three policies to expand business:

(1) Strengthen the power of technological development: Through core vital sensing technologies, the company will provide customers with added value.
(2) Globalize: The company aims at becoming the number one provider in this area in the world.
(3) Establish a service business: The company will develop software that helps customers monitor and analyze their health conditions in pursuit of healthier lives. Through this healthcare consultation service, the Company aims to establish an integrated healthcare business, thus maximizing customer satisfaction.

Creative Service Company

OMRON began its outsourcing business 10 years ago and established the Creative Service Company subsidiary in 1995. Since then, this subsidiary has been providing the OMRON Group with such outsourcing services as distribution, advertising and public relations, personnel, information systems, administration, employee benefit schemes, and accounting. Now, the company is expanding its business to provide services to companies outside of OMRON as well. In this expansion, it will use the technologies and know-how it has acquired from providing in-house services for OMRON. The outsourcing service industry is expected to grow significantly in the future. Through the establishment of its outsourcing business,

Yoshifumi Kajiya
Company President,
Creative Service Company

the company aims to support OMRON’s further growth and development.

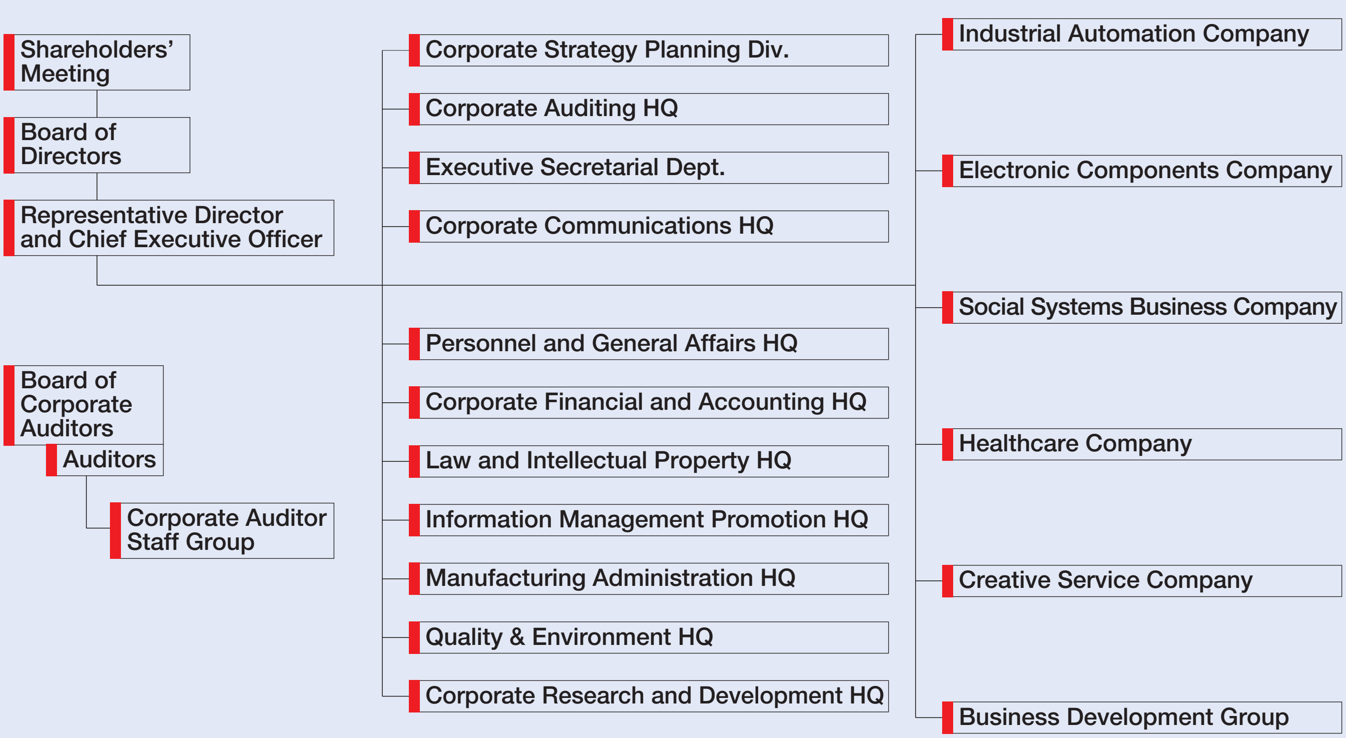
Business Development Group

The Business Development Group consists of businesses with high growth potential. The Office Automation (OA) Major Accounts Division and the Card Business Promotion Division implement mechatronic original-equipment manufacturing (OEM) operations. The OA Major Accounts Division provides the peripheral equipment loaded in OA equipment, such as sorters and bank note recognition units. The Card Business Promotion Division provides various card systems, such as card readers and ID tags, which are indispensable in today’s card-reliant society. The Peripheral Equipment Division and OMRON subsidiaries OMRON Alfa Tech (OAT) and Sanno Consulting (SCC) carry out PC-related business and system integration service business. The Peripheral Equipment Division supplies modems, terminal adapters, image scanners, and uninterrupted power supplies. OAT and SCC provide computer systems that satisfy customers through software and system construction.

Masato Mori
Senior General Manager,
Business Development Group

The markets and customers of each division are changing rapidly. In response, the group will focus on speed and develop and strengthen the business quickly in all divisions of the Group.

OMRON Corporate Organization Chart



BOARD OF DIRECTORS

aSeated (left to right): Nobuo Tateisi, Yoshio Tateisi
Standing (left to right): Akio Imaizumi, Tatsuro Ichihara, Norio Hirai, Hideki Masuda, Soichi Koshio

BOARD OF DIRECTORS

Chairman and Representative Director
Nobuo Tateisi

Representative Director and Chief Executive Officer
Yoshio Tateisi

Directors and Executive Vice Presidents
Soichi Koshio
Hideki Masuda
Norio Hirai
Tatsuro Ichihara

Director and Senior Managing Officer
Akio Imaizumi

CORPORATE AUDITORS
Tomoaki Nishimura
Motoki Tamura
Takayuki Yamashita
Yoshio Nakano

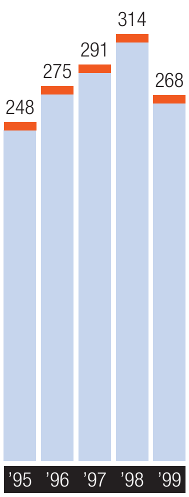
Senior Managing Officers
Tsunehiko Tokumasu
Tsutomu Narita
Tadao Tateisi
Masato Mori
Yoshifumi Kajiya

Managing Officers
Masaaki Sadatomo
Shingo Akechi
Hisao Sakuta
Minoru Tamura
Tsukasa Yamashita
Fujio Tokita
Yutaka Takigawa
Keiichiro Akahoshi
Fumio Tateisi
Shinya Tozawa
Kazuo Nomura
Yasuhira Minagawa
Akihiko Otani
Kuniyasu Kihira
Tsutomu Ozako
Toshio Ochiai
Masaki Kobayashi
Soichi Yukawa
Hiroki Toyama
Kojiro Tobita

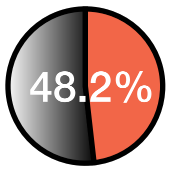
(As of June 25, 1999)

Control Components and Systems

SALES
(Billion ¥)



As Component of Net Sales



In fiscal 1999, the economic downturn accelerated in the domestic market. In addition to stagnated consumption and structural overcapacity, the decline in capital investment due to the worsening of corporate earnings continued in all industries.

Sales by the Control Components and Systems Division, which depend mainly on the demand for production machines accompanying corporate capital investments in the manufacturing industry, were greatly affected by the decline in the domestic market. Overseas, North America saw a downturn in semiconductor production and measurement control businesses, and sales there decreased from the previous fiscal year, mainly due to stagnated Asian economies. In the term under review, total sales for the division fell 14.7% from the previous fiscal year.

Due to the deterioration of the business environment, our customers are tending to refrain from purchasing new equipment and are instead working on improving the productivity of their existing facilities. In other market trends, demand is shifting toward safety and environmental protection markets.

We will promote further proposal-type sales activities by solving problems for our customers from the management level to the production level, providing both products and services in the areas of computerization, standardization, and globalization to realize improvements in productivity.

FA SYSTEMS

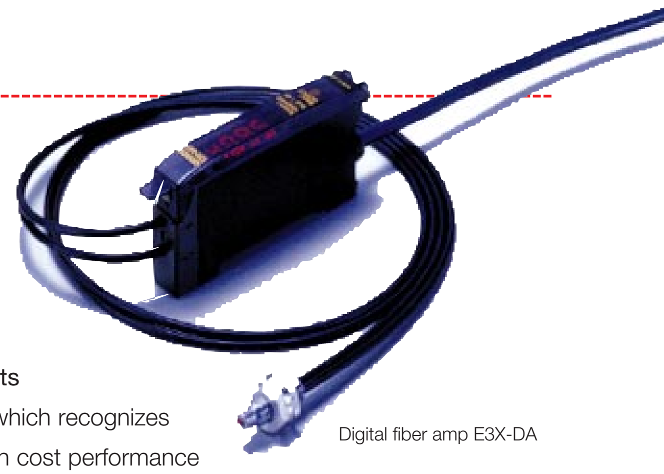
CS1 Programmable controllers and programming software for Windows®

By applying communication functions linking different kinds of networks and improving design efficiency, CS1 realizes the function of a large-size PLC in a medium size. With the concepts of "Windows Support Software" supporting rapid software design and development and "Flexible Networking" flexibly responding to standard networks in OA/FA fields, we have accelerated both factory information and standardization at manufacturing sites.

Enhancing DeviceNet

By adapting I/O Link Units (C-200HW-DRT21), Multiple I/O Terminal (GT1 series), Inverter (3GFV), Digital Controller (E5EK), Intelligent Flag (V600), and RS 232C Interface Unit (DRT1-232C2) for open networks, we not only enhance our product lines for DeviceNet but dedicate ourselves to the spread of DeviceNet in Japan through promoting ODVA (Open DeviceNet Vender Association) activities.

Next-generation programmable controller SYSMAC-CS1



Digital fiber amp E3X-DA

SENSING DEVICES AND COMPONENTS

Reinforcing the lineup of universal sensors and advanced sensors products

We have newly introduced the inspection sensor, VISION SENSOR (F400), which recognizes complex colors, and 3D DIGITAL FINE SCOPE (VC-1000), which boasts high cost performance for high-quality, low-defect production. We developed the OPTICAL THERMOMETER (Z5R) and PLASMA MONITOR (Z5pm) for improving semiconductor production. We also released the DIGITAL FIBER AMPLIFIER (E3X-DA), whose product concepts are easy handling due to clear display and simple select switches as well as high cost performance with selectable functions. We are continuously promoting our lineup of new fiber photoelectric sensors and are researching the market for using the UV POWER MONITORS in the food and PCB industries. In addition, we plan to introduce sensors for safety and environment control in the near future.

Temperature controller
NEO<E5□N>

INDUSTRIAL DEVICES AND COMPONENTS

In Japan, the Energy Conservation Law was amended in April 1999. Due to the stricter controls on energy consumption in factories and offices and the increased number of ISO 14000 certification applications by companies, demand for products in this area is growing.

Demand for temperature controllers, digital panel meters, and electric-powered monitors is rising as efforts to conserve energy increase.

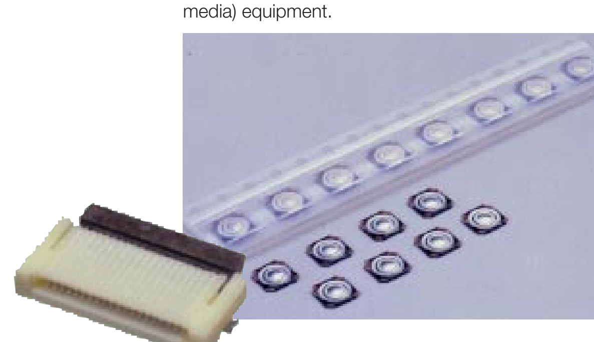
New temperature controller NEO<E5□N>

With a housed power supply using the newest control integrated circuits (ICs), the NEO<E5□N> has achieved 42% lower power consumption with a 22% smaller body. Furthermore, it has a life expectancy three times longer than our conventional types.

CONSUMER AND COMMERCE (C&C) COMPONENTS

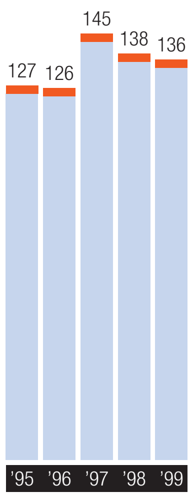
Sales of relays, switches, and connectors were stagnant during the term in review. In the field of C&C components, the competitive edge provided through strategic manufacturing location, product procurement, and pricing on a global scale has become increasingly important in regard to supply-chain management issues. Products in development are microlens arrays for liquid crystal projectors and micromachined sensors (MMSs) developed for housing liquefied petroleum gas and city gas meters. The high-precision MMS sensor has been mass produced for the first time by employing mounted semiconductor sensors.

The ultracompact and high-quality XF2H connector and the B3B tactile switch are used in portable IT (multi-media) equipment.

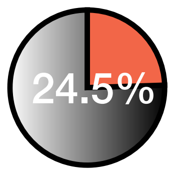


Social Business

SALES
(Billion ¥)



As Component of Net Sales



ELECTRONIC FUND TRANSFER SYSTEMS (EFTS) AND PUBLIC INFORMATION AND TRANSFER SYSTEMS (PITS)

In the public transportation systems market in fiscal 1999, sales slipped due to the decline in the number of large-scale projects that had contributed to the division's sales growth in the previous fiscal year.

Although sales of related equipment for specified customers increased and sales of a new U-type automatic passenger gate rose favorably, overall divisional sales decreased.

As a new market for PITS, a boarding pass reader for the airline industry and automatic fare collection systems for overseas markets were developed by utilizing the know-how gained in developing OMRON's public transportation systems. These products contributed slightly to sales.

In the traffic control systems market, sales remained approximately the same as in the previous fiscal year, despite some deliveries of large traffic control systems to locations in Kyushu being held over to fiscal 2000. One such system has already been delivered there.

In the financial services market, sales stagnated because of capital investment restraint by domestic banks and the unwillingness of consumer-loan businesses to open new outlets. However, export of ATMs to other Asian countries was favorable.

In the retail systems market, although some overseas sales subsidiaries were sold, sales of maintenance services by domestic subsidiaries increased.

As a result of the preceding factors, total sales by the Social Business Division declined 1.7% from the previous fiscal year.

Sales of multimedia ATMs, including the Cyber Gate VQ4511, an open system version of our IX-ATM, and foreign currency exchange machines for the finance market, are expected grow.

Meanwhile, Big Bang deregulation in the banking industry has allowed for automated finance machines, such as cash dispensers and ATMs, to be installed in such retail outlets as convenience stores and service stations. Competition to sell and install these machines has become fierce.

In the financial OEM market, demand for lower costs and shorter delivery times has intensified through market diversification and fierce competition. Among the options we are considering in order to meet this demand is forming alliances with competitors.

A boarding pass reader

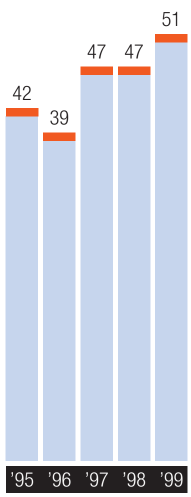
Traffic control systems


Cyber Gate VQ4511

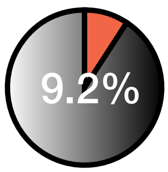
This new fingerprint recognition system is set to revolutionize the security market.

Specialty Products

SALES
(Billion ¥)



As Component of Net Sales



Despite a drop in production by copy machine manufacturers, a downturn in the price of personal computer peripheral devices, and a decline in sales of scanners for overseas markets, sales of automotive electronic components were brisk in North America, while sales of compact car related products manufactured under the new standard were favorable. These factors contributed to an 8.6% growth in sales by the Specialty Products Division in comparison with the previous fiscal year.

AUTOMOTIVE ELECTRONIC COMPONENTS

In North America, mainstay relays occupied the top share of the market, while in the domestic market they maintained the same share as the previous fiscal year. Electric window switch sales increased from the previous term, thanks to OMRON's technological advantages. Keyless entry systems maintained the top share of the market by having the advantage of being a pioneer in the domestic market and expanding into the North American, European, and South Korean markets.

OFFICE AUTOMATION (OA) MAJOR ACCOUNTS

As the trend toward digitization and networking in the field of copy machines is rapidly expanding, we are strengthening our performance in proposing solutions to customers regarding sensing components, paper-handling equipment, and image-processing units.

PERIPHERAL EQUIPMENT

Sales of our core external modems are expected to fall because of the growing popularity of internal modems. For this reason, we will increase our marketing efforts with regard to internal modems and mobile communications related products and focus on the sales of terminal adapters, which are expected to continue to grow.

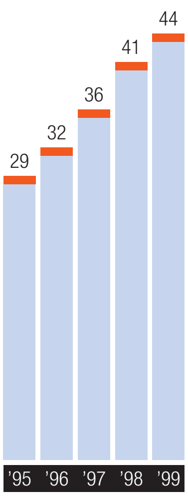
Due to growth in the market for security and identity-confirmation products, sales of the FP-1000 scanner for fingerprint recognition are expected to be substantial.

This power window switch has an antipinching function to prevent the window from closing on arms or other obstacles. When an obstacle is encountered, the switch causes the window to stop and reverse automatically.

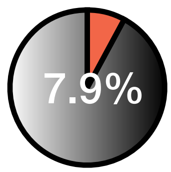
Keyless entry systems allow for remote locking and unlocking of vehicle doors and trunks.

Healthcare

SALES
(Billion ¥)



As Component of Net Sales

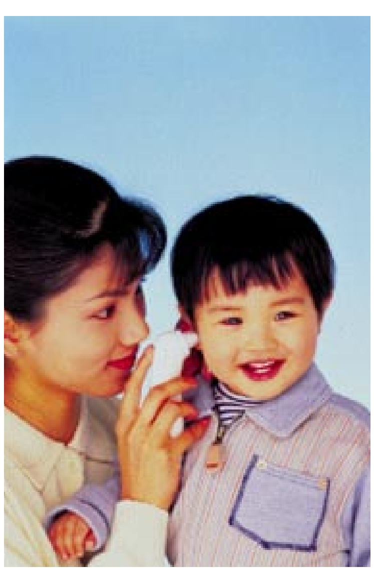


The Healthcare Division achieved steadily rising sales in the domestic market, thanks primarily to its offering a wide range of products that meet the needs of consumers' growing interest in maintaining and improving personal health.

Sales of HBF-302 body-fat monitors, massagers, and fitness equipment targeted at consumers' interest in staying slim and improving overall personal health were favorable. In the core business of blood pressure monitors and digital thermometers, sales of the newly introduced HEM-751 digital handy blood pressure monitor and MC-505 ear-type digital thermometers soared. Overseas, blood pressure monitor sales, which fluctuated in every selling area, were favorable despite fierce price competition, resulting in total sales for the division growing 7.2% from the previous fiscal year.

In the healthcare service business area, we promoted a newly created service supporting people's health improvement. In the midst of selective spending under sluggish consumer consumption, we will continue to create valuable products and introduce them to the market in hopes of raising demand. Furthermore, we will work to develop and offer new retail options in response to changes in consumer buying patterns.

The smallest and lightest blood pressure monitor in the world, the HEM-751 (Upper arm automatic inflation type)

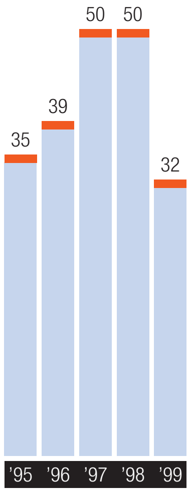


Ear-type digital thermometers take body temperature in seconds using advanced infrared sensor technology.

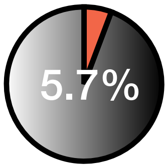
OMRON's body-fat monitor creates a new alternative to the present standard for daily health checks.

Open Systems

SALES
(Billion ¥)



As Component of Net Sales



The movement toward computer investment to sharpen the competitive edge of businesses is still strong. Increasing focus is being placed on innovation and improving efficiency of in-house activities, improving customer service, and strengthening tie-ups with business partners through the use of IT systems. The Open Systems Division provides services, from systems consultation, design, and implementation to the introduction, installation, operation, and maintainance of the systems, together with various kinds of IT infrastructures.

Demand for PC server-centered client server (C/S) system services, such as providing systems infrastructures, introducing and installing the systems, and supplying system operation and maintenance services, is growing.

In the systems consulting, designing, and constructing services, we established a business group specializing in enterprise resources planning and computer telephony integration systems in the second half of fiscal 1999 and acquired a large-scale project extending through fiscal 2000.

The Open Systems Division's alliances with the Control Components and Systems Division and the Social Systems Division are expanding steadily.

We sold OMRON Microcomputer Systems Co., Ltd. (OMS), of the Open Systems Division, to Soft Bank Corporation. Consequently, OMS was excluded from OMRON's consolidated financial accounts after August 1998. OMS's main areas of business involve the wholesale of PC-related hardware, various peripheral devices, and software.

OMRON offers clients added value in IT systems by combining the latest technology with comprehensive services.

ACHIEVING ISO 14001 CERTIFICATION

- Recognizing that achieving ISO 14001 certification is a passport to becoming a global and "green" corporation, OMRON sees the certification as a manifestation of its environmental management attitude toward promoting continuous reductions in environmental burden.
- Domestically, OMRON established its promotion system in 1995 and acquired ISO 14001 certification in November 1996 and December 1996 for its Ayabe Factory and OMRON Ichinomiya, respectively, while overseas, OMRON Manufacturing of the Netherlands B.V. (OMN), a Dutch manufacturing company, achieved ISO 14001 certification around the same time. In addition, to date, ISO 14001 certification has been achieved at all of OMRON's 30 sites worldwide: 16 sites in Japan and 14 sites overseas.
- By further strengthening its efforts Groupwide, the OMRON Group is striving to introduce many innovative ecological products, while working globally to achieve truly environment-friendly offices and factories.
- The OMRON Group's major environmental activities include the reduction of factory waste, the restricted use of harmful substances, and the establishment of a product assessment system. Such efforts have benefited the Company in a number of ways, including greater production efficiency and an improved image among our customers.

DEVELOPMENT OF ENVIRONMENTALLY FRIENDLY PRODUCTS

OMRON is earnestly coping with environmental conservation utilizing the four Rs: Reject, Reduce, Reuse, and Recycle, as keywords. (Reject the use of harmful substances, Reduce impact on the environment, and Recycle and Reuse resources)

It is our responsibility as a member of the global community to always conserve the earth’s limited resources.

In order to continue such environmental activities, many issues must be addressed. OMRON will continue to develop and improve upon its technologies and products utilizing the four Rs as its guide.

ECO-PRODUCTS CERTIFICATION SYSTEM

OMRON’s Eco-Products Certification System was introduced before the introduction of the ISO 14021 Environmental Label Environmental Assertion by Self-Declaration, which is set to become the global standard. OMRON’s Eco-Products Certification System is intended to promote the incorporation of environment-friendly features and functions into OMRON products to enhance their appeal and public recognition. At the same time, this system will help promote OMRON as a truly environmentally sound company to both its customers and the general public.

OMRON will create the standards for producing the Company’s unique eco-products and certify those products that satisfy its in-house standards. In catalogs, pamphlets, and on the products themselves, an eco-label designed by OMRON will be printed or affixed to identify these eco-products.

FIVE-YEAR SUMMARY

OMRON Corporation and Subsidiaries
Years ended March 31

	Millions of yen (except per share data)				
	1999	1998	1997	1996	1995
Net Sales:					
Control Components and Systems	**¥267,503**	¥313,642	¥291,277	¥275,149	¥248,023
Social Business	**135,872**	138,203	145,172	125,623	127,382
Specialty Products	**51,338**	47,263	46,533	38,687	42,465
Healthcare	**43,729**	40,793	36,388	31,618	28,790
Open Systems	**31,908**	50,131	50,187	38,621	34,672
Others	**24,930**	21,763	24,704	15,591	8,368
	555,280	611,795	594,261	525,289	489,700
Costs and Expenses:					
Cost of sales	**364,314**	387,445	388,005	342,500	324,666
Selling, general and administrative expenses	**136,734**	138,404	130,163	109,117	100,333
Research and development expenses	**42,383**	39,914	35,188	34,433	31,223
Interest expenses, net	**862**	682	1,591	2,044	5,102
Other, net	**2,738**	3,107	66	4,943	3,428
	547,031	569,552	555,013	493,037	464,752
Income before Income Taxes and Minority Interests	**8,249**	42,243	39,248	32,252	24,948
Income Taxes	**6,044**	23,371	22,952	17,039	12,358
Minority Interests	**31**	168	557	626	438
Net Income	**2,174**	18,704	15,739	14,587	12,152
Net Income per Share (yen, Note 1):					
Basic	**¥ 8.3**	¥71.4	¥60.1	¥55.7	¥50.8
Diluted	**8.3**	69.8	58.8	54.5	49.4
Cash Dividends per Share (yen, Note 2)	**13.0**	13.0	13.0	13.0	13.0
Capital Expenditures (cash basis)	**¥ 36,696**	¥ 35,896	¥ 29,956	¥ 34,079	¥ 30,954
Total Assets	**580,586**	593,129	610,930	612,929	587,414
Total Shareholders' Equity	**321,258**	343,066	333,102	318,194	297,035

Notes: 1. Net income per share amounts are computed based on the Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which is effective from the fiscal year ended March 31, 1998. All prior years' data presented has been restated to conform with the provisions of SFAS No. 128.
2. Cash dividends per share are the amounts applicable to the respective year, including dividends to be paid after the end of the year.

SALES

During fiscal 1999, ended March 31, 1999, the third and final year of the Seventh Medium-Term Management Plan, OMRON focused on achieving three structural reforms, namely, creating a growth-oriented structure, establishing an innovative cost structure, and revitalizing corporate resources. To these ends, we strove to improve business performance by developing new products, strengthening our sales force, and restructuring our various businesses.

In the course of restructuring, we sold a personal computer and peripherals sales subsidiary, our semiconductor sales business in Japan, and our electronic cash register business in Europe.

However, during the fiscal year under review, a drastic drop in private-sector capital investment, such as that in the domestic semiconductor industry, and sluggish capital investment overseas led to a significant decrease in sales by the Control Components and Systems Division. Consequently, OMRON's consolidated net sales fell 9.2%, to ¥555,280 million ($4,589 million), from the previous fiscal year.

Increases or decreases in sales by each product group or division are as follows:

	1999	1998	1997
Control Components and Systems	**(14.7)%**	7.7%	5.9%
Social Business	**(1.7)**	(4.8)	15.6
Specialty Products	**8.6**	1.6	20.3
Healthcare	**7.2**	12.1	15.1
Open Systems	**(36.4)**	(0.1)	29.9
Others	**14.6**	(11.9)	58.5

The composition of net sales is as follows:

	1999	1998	1997
Control Components and Systems	**48.2%**	51.3%	49.0%
Social Business	**24.5**	22.6	24.5
Specialty Products	**9.2**	7.7	7.8
Healthcare	**7.9**	6.7	6.1
Open Systems	**5.7**	8.2	8.4
Others	**4.5**	3.5	4.2

CONTROL COMPONENTS AND SYSTEMS:

Divisional performance was mixed in fiscal 1999. OMRON's major product group, the Control Components and Systems Division, saw a 14.7% drop in net sales compared with the previous fiscal year, due to the unfavorable business environment created by the stagnant investment conditions in Japan and downturns in semiconductor production, machine tool, and measurement control businesses in the United States as well as sluggish economies in Asia. In contrast, there was a slight sales increase in Europe.

SOCIAL BUSINESS:

The Social Business Division was formed in 1998 by combining the Electronic Fund Transfer Systems (EFTS) Division and the Public Information and Transfer Systems (PITS) Division into a single division. Despite an increase in sales by the maintenance and service business of a domestic subsidiary, fiscal 1999 sales by the Social Business Division decreased 1.7% from the previous fiscal year, due mainly to the decrease in the number of big projects involving public transportation infrastructure, the stagnation in demand for electronic fund transfer systems in the Japanese market, and the selling off of some overseas sales subsidiaries.

SPECIALTY PRODUCTS:

In fiscal 1999, sales by the Specialty Products Division were up a solid 8.6% from the previous fiscal year. Despite inventory adjustments by copy machine makers, downturns in the prices of peripheral devices for personal computers and a decline in sales of scanners for overseas markets, our compact car related products manufactured under the new standard contributed to a rise in sales of automotive electronic components in the domestic market. Overseas, sales of automotive electronic components were brisk, supported by the strong automotive industry in the United States.

HEALTHCARE:

The Healthcare Division achieved 7.2% sales growth in fiscal 1999 compared with the previous fiscal year thanks to consumers' growing interest in self-maintenance and the improvement of health as well as steady expansion in sales achieved by offering a wide range of products that meet consumer needs. Overseas, sales of our mainstay digital thermometers were brisk.

OPEN SYSTEMS:

Sales by the Open Systems Division in fiscal 1999 plunged 36.4% from the previous fiscal year. The Open Systems Division focused on supplying, introducing, and installing systems infrastructure centering on personal computer servers as well as expanding the operation and maintenance services it provides to customers. On the other hand, OMRON Microcomputer Systems Co., Ltd. (OMS), was sold to streamline the business.

Sales by foreign subsidiaries in fiscal 1999 generated 30.2% of net sales due to sluggish domestic sales, compared with 28.0% of net sales in fiscal 1998 and 25.6% in fiscal 1997.

COSTS, EXPENSES, AND INCOME

The ratios of costs, expenses, and income to net sales are as follows:

	1999	1998	1997
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**65.6**	63.3	65.3
Gross profit	**34.4**	36.7	34.7
Selling, general and administrative expenses	**24.6**	22.6	21.9
Research and development expenses	**7.6**	6.5	5.9
Interest expenses, net	**0.1**	0.1	0.3
Income before income taxes and minority interests	**1.5**	6.9	6.6
Income taxes	**1.1**	3.8	3.9
Net income	**0.4**	3.1	2.6

The cost of sales declined marginally, to ¥364,314 million ($3,011 million), during the period under review. Despite this decline, the ratio of gross profit to net sales deteriorated to 34.4% in fiscal 1999, down from 36.7% in fiscal 1998, due to the fall in net sales.

However, selling, general and administrative expenses dropped slightly, to ¥136,734 million ($1,130 million), from the previous fiscal year, while research and development expenses increased 6.2%, to ¥42,383 million ($350 million).

In addition, interest expenses, net, increased to ¥862 million ($7 million) mainly because of higher debt. Foreign exchange loss—net, totaled ¥2,766 million ($23 million). Income before income taxes and minority interests plunged 80.5%, to ¥8,249 million ($68 million) from the previous fiscal year, leading to a decrease in income taxes. Minority interests fell to ¥31 million ($0.3 million).

Net income plummeted 88.4%, to ¥2,174 million ($18 million), from the previous fiscal year, resulting in a reduction in basic net income per share amounts, from ¥71.4 in fiscal 1998 to ¥8.3 ($0.07) in the fiscal year under review, and a fall in diluted net income per share, from ¥69.8 to ¥8.3 ($0.07). Nevertheless, cash dividends per share applicable to the period were maintained at ¥13.0 ($0.11). ROA and ROE in fiscal 1999 were 1.4% and 0.7%, respectively, compared with 7.0% and 5.5% in the previous fiscal year.

FINANCIAL POSITION

Total current assets in fiscal 1999 decreased 2.0%, to ¥322,263 million ($2,663 million), from the previous fiscal year-end, largely because of declines in inventories and short-term investments. The inventory turnover rate decreased to 4.2 from 4.3. Total current liabilities, dropped 10.9%, to ¥157,653 million ($1,303 million), due mainly to decreases in notes and accounts payable—trade, accrued liabilities, income taxes payable, and the current portion of long-term debt. As a result, working capital increased ¥12,811 million, to ¥164,610 million ($1,360 million). The current ratio was 2.04, compared with 1.86 at the previous fiscal year-end.

Cash and cash equivalents at the beginning of the year were ¥68,365 million ($565 million). Net cash provided by operating activities declined to ¥29,583 million ($244 million). Depreciation and amortization, the main component of cash flows from operating activities, edged up 0.9%, to ¥31,396 million ($259 million), from the previous fiscal year. Net cash used in investing activities climbed to ¥29,011 million ($240 million) and included capital expenditures of ¥36,696 million ($303 million), a rise of 2.2%. Net cash provided by financing activities was ¥21,629 million ($179 million), mainly reflecting proceeds from issuance of long-term debt of ¥25,413 million ($210 million). Repayments of long-term debt were down, at ¥8,956 million ($74 million).

Reflecting the above cash outflows and inflows, cash and cash equivalents at the end of the year were ¥88,900 million ($735 million). Total indebtedness—bank loans, current portion of long-term debt, and long-term debt—increased 59.0% to ¥86,723 million ($717 million). Long-term debt increased to ¥56,610 million ($468 million).

Total shareholders' equity decreased 6.4%, to ¥321,258 million ($2,655 million), from the previous fiscal year due mainly to climbs in certain elements of accumulated other comprehensive income (loss), such as cumulative translation adjustments and minimum pension liability adjustments. Total shareholders' equity as a percentage of total assets fell to 55.3%, compared with 57.8% at the previous fiscal year-end. ROE was 0.7%, compared with 5.5% at the previous fiscal year-end.

MEASURES TO ACCOMODATE THE EURO

OMRON has started shifting the currency for most of its business transactions with its subsidiaries in Europe to the euro since April 1999. Group subsidiaries' sales in countries that use the euro account for approximately 10% of consolidated net sales and are expected to be greatly impacted by the introduction of the euro in settling their transactions. We are aware that the impact could be fierce price competition caused by price equilibrium or leveling as well as the extinction of foreign exchange risks among old local currencies in the countries using the euro when currency unification is achieved. However, we feel it difficult to evaluate fairly and adequately how much profits will be affected by the commercial transactions of these Group subsidiaries.

We expect that fiscal 1999 expenses related to euro currency introduction measures and other such necessary expenses after fiscal 1999 will not be large. Up to now, and since the introduction of the euro in January 1999, no crises have occured.

YEAR 2000 COMPLIANCE MEASURES

1. Outline

Recognizing the importance of responding to the year 2000 problem, with respect to internal computer systems, OMRON has been implementing Companywide countermeasures since November 1996, with each division participating in finding its own most effective solution. In addition, OMRON has launched year 2000 countermeasures for its infrastructure and facilities.

In November 1998, OMRON established the Year 2000 Readiness Project Team (headed by OMRON's head of Corporate Research and Development Headquarters) to further integrate the Company's efforts with regard to both the products it markets and OMRON's in-house information infrastructure. The main responsibilities of the Year 2000 Readiness Project Team are to make sure the necessary actions are carried out properly and in a well-balanced manner from a global perspective. These actions are: (1) checking and inspecting concerned systems and equipment; (2) compiling and storing the records of completed tasks; (3) communicating the necessary information to OMRON customers and associates; and (4) handling customer and associate inquiries.

In February 1999, OMRON's Year 2000 Readiness Project Team released to all domestic and overseas Group companies the *Year 2000 Guidebook.* This guidebook outlines plans for identifying, renovating, testing, and implementing year 2000 countermeasures. The guidebook itself is divided into two sections, one that outlines the basic rules to follow in dealing with year 2000 problems and one that gives guidelines for preparing OMRON's infrastructure, products, and supply chain to ensure a stable supply of products to customers after the start of the year 2000.

2. Current Situation

The implementation of countermeasures in each field is proceeding as per the completion deadlines set out in OMRON's *Year 2000 Guidebook.* In some cases, the implementation of countermeasures may not meet these OMRON deadlines, however, they will be in place before such a time as they could cause serious problems.

System Type	Target	Counter-measures Completion Deadlines	Status
Management information systems	Companywide sales, production, and accounting applications	End of December 1998	Completed. These systems have been accepting dates past the year 2000 since February 15, 1999.
Divisional systems	Divisional applications and systems	End of March 1999	Mostly completed. Will be completed before problems occur.
Production facilities	Production line facilities and equipment	End of March 1999	Some countermeasures have been delayed due to holdups at the vendor side.
Office environment	Personal use PCs and associated networks	End of September 1999	Some items will need to have their dates reset after December 31, 1999.
R&D environment	CAD tools, design and development equipment	End of June 1999	
Location infrastructure	Building facilities and common equipment at business locations	End of June 1999	
Logistics center facilities	Equipment located at logistics centers	End of June 1999	
Vendor/ distributor facilities	Confirming the readiness of parts vendors and OMRON distributors, etc. Includes confirmation of computer systems used by vendors for electronic data interchange	End of June 1999	With respect to electronic data interchange: • Ensure data exchange formats conform to industry standards • No changes planned for nonindustry standard data exchange formats (will use "Windowing" for two-digit year dates)

Information regarding the current readiness of OMRON products can be found at www.omron.com/y2k/.

3. Testing

In order to confirm the efficacy of year 2000 countermeasures, in addition to the isolated testing of each system type, we are planning and carrying out dual testing of interconnected systems. Such dual testing is also being carried out with respect to important vendor systems connected to OMRON systems.

4. Countermeasure Costs

We estimate that OMRON Corporation and OMRON Group companies will spend a total of ¥2.6 billion implementing year 2000 countermeasures with relation to products, internal information systems, and equipment and facilities (this figure includes human resources costs and payments to outside vendors). We had used ¥2.0 billion of this figure by March 1999.

We do not expect that the cost of implementing year 2000 countermeasures will have a large influence on OMRON Corporation or OMRON Group profits or cash flows.

5. Risk Management

In preparation for the unlikely event that system failures do occur, through forecasting problem scenarios OMRON is working on a risk management plan (scheduled to have been completed by the end of June 1999) which will enable it to contain and respond to problems as quickly as possible. This plan, concentrating on mission critical systems, will also enable us to ensure that if problems do occur, there will be no stoppages and that the situation will quickly be resolved. The plan also outlines communication procedures and chain-of-command details.

This document is intended to show OMRON's efforts in ensuring that problems arising due to the changeover in date to the year 2000 are kept to an absolute minimum. It is not a legally binding document nor a guarantee.

CONSOLIDATED BALANCE SHEETS

OMRON Corporation and Subsidiaries
March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**1999**	1998*	**1999**
Current Assets:			
Cash and cash equivalents	**¥ 88,900**	¥ 68,365	**$ 734,711**
Short-term investments (Note 4)	**1,054**	6,142	**8,711**
Notes and accounts receivable—trade	**134,183**	138,149	**1,108,950**
Allowance for doubtful receivables	**(2,450)**	(3,301)	**(20,248)**
Inventories (Note 3)	**79,535**	94,981	**657,314**
Deferred income taxes (Note 9)	**11,336**	11,798	**93,686**
Other current assets	**9,705**	12,613	**80,206**
Total Current Assets	**322,263**	328,747	**2,663,330**
Property, Plant and Equipment:			
Land	**50,598**	50,166	**418,165**
Buildings	**111,263**	107,974	**919,529**
Machinery and equipment	**135,197**	143,809	**1,117,331**
Construction in progress	**4,326**	4,124	**35,752**
Total	**301,384**	306,073	**2,490,777**
Accumulated depreciation	**(138,489)**	(135,591)	**(1,144,537)**
Net Property, Plant and Equipment	**162,895**	170,482	**1,346,240**
Investments and Other Assets:			
Investments in and advances to associates	**1,770**	1,843	**14,628**
Investment securities (Note 4)	**54,114**	55,336	**447,223**
Leasehold deposits	**12,035**	11,730	**99,463**
Deferred income taxes (Note 9)	**8,834**	7,507	**73,008**
Other	**18,675**	17,484	**154,339**
Total Investments and Other Assets	**95,428**	93,900	**788,661**
Total	**¥580,586**	¥593,129	**$4,798,231**

See notes to consolidated financial statements.

** As restated, see Notes 1 and 15*

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1999	Millions of yen 1998*	Thousands of U.S. dollars (Note 2) 1999
Current Liabilities:			
Bank loans (Note 5)	**¥ 27,946**	¥ 12,578	**$ 230,959**
Notes and accounts payable—trade	**70,971**	88,756	**586,537**
Accrued expenses	**20,924**	23,117	**172,926**
Income taxes payable	**9,020**	15,011	**74,545**
Other current liabilities	**26,625**	29,020	**220,041**
Current portion of long-term debt (Note 5)	**2,167**	8,466	**17,909**
Total Current Liabilities	**157,653**	176,948	**1,302,917**
Long-Term Debt (Note 5)	**56,610**	33,500	**467,851**
Deferred Income Taxes (Note 9)	**908**	11,335	**7,504**
Termination and Retirement Benefits (Note 7)	**40,076**	24,913	**331,207**
Other Long-Term Liabilities	**1,525**	367	**12,603**
Minority Interests in Subsidiaries	**2,556**	3,000	**21,124**
Shareholders' Equity (Note 8):			
Common stock, ¥50 par value—			
Authorized: 495,000,000 shares in 1999 and 500,000,000 shares in 1998			
Issued: 257,107,214 shares in 1999 and 262,107,214 shares in 1998	**64,079**	64,079	**529,579**
Additional paid-in capital	**98,702**	98,702	**815,719**
Legal reserve	**6,811**	6,314	**56,289**
Retained earnings	**166,020**	174,686	**1,372,066**
Accumulated other comprehensive income (loss) (Note 13)	**(14,012)**	(715)	**(115,802)**
Treasury stock	**(342)**	—	**(2,826)**
Total Shareholders' Equity	**321,258**	343,066	**2,655,025**
Total	**¥580,586**	¥593,129	**$4,798,231**

See notes to consolidated financial statements.

** As restated, see Notes 1 and 15*

CONSOLIDATED STATEMENTS OF INCOME

OMRON Corporation and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1999	1998*	1997	**1999**
Net Sales	**¥555,280**	¥611,795	¥594,261	**$4,589,091**
Costs and Expenses:				
Cost of sales	**364,314**	387,445	388,005	**3,010,859**
Selling, general and administrative expenses	**136,734**	138,404	130,163	**1,130,033**
Research and development expenses	**42,383**	39,914	35,188	**350,273**
Interest expenses, net (Note 5)	**862**	682	1,591	**7,124**
Foreign exchange loss—net	**2,766**	4,419	860	**22,859**
Other income, net	**(28)**	(1,312)	(794)	**(231)**
Total	**547,031**	569,552	555,013	**4,520,917**
Income before Income Taxes and Minority Interests	**8,249**	42,243	39,248	**68,174**
Income Taxes (Note 9)	**6,044**	23,371	22,952	**49,951**
Income before Minority Interests	**2,205**	18,872	16,296	**18,223**
Minority Interests	**31**	168	557	**256**
Net Income	**¥ 2,174**	¥ 18,704	¥ 15,739	**$ 17,967**

	Yen			U.S. dollars (Note 2)
Net Income per Share (Note 11):				
Basic	**¥ 8.3**	¥71.4	¥60.1	**$0.07**
Diluted	**8.3**	69.8	58.8	**0.07**
Cash Dividends per Share (Note 11)	**13.0**	13.0	13.0	**0.11**

See notes to consolidated financial statements.

** As restated, see Notes 1 and 15*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

OMRON Corporation and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1999	1998	1997	**1999**
Net Income	**¥ 2,174**	¥18,704	¥15,739	**$ 17,967**
Other Comprehensive Income (Loss), Net of Tax (Note 13):				
Foreign currency translation adjustments:				
Amount arising during the year on investments in foreign entities held at year-end	**(6,082)**	(2,592)	5,737	**(50,264)**
Reclassification adjustments for the portion realized upon sale or liquidation of investments in foreign entities	**40**	—	—	**330**
Net change in foreign currency translation adjustments during the year	**(6,042)**	(2,592)	5,737	**(49,934)**
Minimum pension liability adjustments	**(5,737)**	745	2,493	**(47,413)**
Unrealized gains on available-for-sale securities:				
Unrealized holding gains arising during period	**(2,416)**	(3,489)	(6,424)	**(19,967)**
Less: reclassification adjustment for gains realized in net income	**898**	4	771	**7,421**
Net unrealized gains	**(1,518)**	(3,485)	(5,653)	**(12,546)**
Other Comprehensive Income (Loss)	**(13,297)**	(5,332)	2,577	**(109,893)**
Comprehensive Income (Loss)	**¥(11,123)**	¥13,372	¥18,316	**$ (91,926)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

OMRON Corporation and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

		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, 1996	262,107,214	¥64,079	¥98,702	¥5,473	¥147,900	¥ 2,040	¥ —
Net income					15,739		
Cash dividends, ¥13.0 per share					(3,408)		
Transfer to legal reserve				490	(490)		
Other comprehensive income						2,577	
Balance, March 31, 1997	262,107,214	64,079	98,702	5,963	159,741	4,617	—
Net income					18,704		
Cash dividends, ¥13.0 per share					(3,408)		
Transfer to legal reserve				351	(351)		
Other comprehensive loss						(5,332)	
Balance, March 31, 1998	262,107,214	64,079	98,702	6,314	174,686	(715)	—
Net income					**2,174**		
Cash dividends, ¥13.0 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)**

	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, 1998	$529,579	$815,719	$52,182	$1,443,686	$ (5,909)	$ —
Net income				**17,967**		
Cash dividends, $0.11 per share				**(27,868)**		
Transfer to legal reserve			**4,107**	**(4,107)**		
Other comprehensive loss					**(109,893)**	
Treasury stock						**(2,826)**
Share buyback and retirement				**(57,612)**		
Balance, March 31, 1999	**$529,579**	**$815,719**	**$56,289**	**$1,372,066**	**$(115,802)**	**$(2,826)**

See notes to consolidated financial statements.
** As restated, see Notes 1 and 15*

CONSOLIDATED STATEMENTS OF CASH FLOWS

OMRON Corporation and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 2)
	1999	1998	1997	**1999**
Operating Activities:				
Net income	**¥ 2,174**	¥18,704	¥15,739	**$ 17,967**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**31,396**	31,129	31,234	**259,471**
Loss on sales of property, plant and equipment	**458**	268	771	**3,785**
Valuation loss on property held for sale	**—**	—	2,040	**—**
Net gain on sale of short-term investments and investment securities	**(1,725)**	(1)	(2,828)	**(14,256)**
Termination and retirement benefits	**4,178**	2,004	4,574	**34,529**
Deferred income taxes	**(6,358)**	(634)	(62)	**(52,545)**
Minority interests	**31**	168	557	**256**
Loss on sale of business entities	**286**	—	—	**2,364**
Changes in assets and liabilities, net of effects of business entities sold:				
Notes and accounts receivable—trade, net	**2,025**	(3,537)	(7,927)	**16,736**
Inventories	**10,529**	(8,412)	(4,163)	**87,016**
Other assets	**5,306**	(7,004)	(2,080)	**43,851**
Notes and accounts payable—trade	**(11,969)**	(4,315)	12,000	**(98,917)**
Income taxes payable	**(5,967)**	(1,998)	4,711	**(49,314)**
Accrued expenses and other	**(970)**	4,425	3,232	**(8,017)**
Other, net	**189**	1,289	(629)	**1,562**
Total adjustments	**27,409**	13,382	41,430	**226,521**
Net cash provided by operating activities	**29,583**	32,086	57,169	**244,488**
Investing Activities:				
Proceeds from sales or maturities of short-term investments and investment securities	**26,780**	21,285	43,671	**221,322**
Purchase of short-term investments and investment securities	**(22,275)**	(1,427)	(45,904)	**(184,091)**
Capital expenditures	**(36,696)**	(35,896)	(29,956)	**(303,273)**
(Increase) decrease in leasehold deposits	**(527)**	5	285	**(4,355)**
Proceeds from sales of property, plant and equipment	**1,895**	1,335	2,818	**15,661**
Acquisition of minority interests	**(186)**	(2,933)	(312)	**(1,537)**
Proceeds from sale of business entities	**1,998**	—	—	**16,513**
Net cash used in investing activities	**(29,011)**	(17,631)	(29,398)	**(239,760)**
Financing Activities:				
Net borrowings (repayments) of short-term bank loans	**15,515**	(2,864)	3,738	**128,223**
Proceeds from issuance of long-term debt	**25,413**	648	5,446	**210,025**
Repayments of long-term debt	**(8,956)**	(18,013)	(43,634)	**(74,016)**
Dividends paid	**(3,372)**	(3,408)	(3,407)	**(27,868)**
Share buyback	**(6,971)**	—	—	**(57,612)**
Net cash provided by (used in) financing activities	**21,629**	(23,637)	(37,857)	**178,752**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1,666)**	(1,741)	1,510	**(13,769)**
Net Increase (Decrease) in Cash and Cash Equivalents	**20,535**	(10,923)	(8,576)	**169,711**
Cash and Cash Equivalents at Beginning of the Year	**68,365**	79,288	87,864	**565,000**
Cash and Cash Equivalents at End of the Year	**¥88,900**	¥68,365	¥79,288	**$734,711**

See notes to consolidated financial statements.

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 as generally accepted in the United States, except for the omission of segment information as required by the Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." The recognition and measurement provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," were applied in the current year, retroactively to April 1, 1994, and all prior years' financial statements have been restated. The principal adjustments include accrual of certain expenses, accounting for termination and retirement benefits, accrual of deferred income taxes relating to these adjustments and other temporary differences, and accounting for prior years' stock dividends at market value.

Certain reclassifications have been made to amounts previously reported in order to conform to 1999 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 the 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, securities purchased with resale agreements and money market instruments.

Short-Term Investments and Investment Securities

In 1999, the Companies adopted SFAS No. 115. Under this statement, the Companies classify all their marketable debt and equity securities as available-for-sale and carry them at market value with a corresponding recognition of the net unrealized holding gains or losses as a separate component of other comprehensive income, net of tax, until recognized. Prior to the adoption of SFAS No. 115, marketable debt and equity securities were carried at the lower of aggregate cost or market. The Companies have restated the prior years' consolidated financial statements to reflect the effects of the retroactive adoption of SFAS No. 115. A summary of the effects of the restatement is presented in Note 15. 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.

Advertising Costs

Advertising costs are charged to earnings as incurred. Advertising expense was ¥9,822 million ($81,174 thousand), ¥10,329 million and ¥8,473 million for the years ended March 31, 1999, 1998 and 1997, respectively.

Termination and Retirement Benefits

Termination and retirement benefits are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions." The Companies adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," in the year ended March 31, 1999. SFAS No. 132 revises employers' disclosures about pensions and other postretirement benefit plans. SFAS No. 132 does not change the recognition and measurement of the plans, and does not affect the Companies' consolidated financial position and results of operations. All prior years' disclosures have been restated to conform with the provisions of SFAS

No. 132. Provision for termination and retirement benefits includes those for directors and corporate auditors of the Company.

Stock Purchase Plan

In June 1998, the Company introduced stock-based compensation plans under which stock options are granted to directors to purchase shares of common stock at a price not less than market price at the date of grant. 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 was immaterial.

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, 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 currency option contracts) are used to manage currency risk. Gains and losses on hedges of existing assets or liabilities denominated in foreign currencies are recognized in income currently, as are the offsetting foreign exchange losses and gains on the items hedged. Gains and losses related to qualifying hedges of firm commitments denominated in foreign currencies are deferred and are recognized as adjustments to the hedged transaction when such transaction occurs. 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 expenses.

Cash Dividends

Cash dividends are reflected in the consolidated financial statements at proposed amounts in the years 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

The Companies adopted SFAS No. 130, "Reporting Comprehensive Income," from the year beginning April 1, 1998. 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. SFAS No. 130 requires only additional disclosures in the consolidated financial statements and does not affect the Companies' financial position and results of operations. All prior years' consolidated financial statements have been reclassified to conform with the provisions of SFAS No. 130.

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 five regional management centers: Japan, North America, Europe, Asia-Pacific and China. Products, classified by type and market, are organized into five principal business units, as described below.

Control Components and Systems include a wide range of products, including sensors, relays, switches, printed circuit boards and computer systems for factory automation. These products are primarily used by manufacturers of electronic and high-technology equipment with certain products aimed at the consumer and industrial markets.

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

Specialty Products include the production of automotive electronic components for use by the automotive industry and high-technology electronic components and equipment directed at the office automation industries.

Healthcare includes blood pressure monitors, nebulizers and infrared therapy devices aimed at both the consumer and institutional markets.

Open Systems supply network and personal computer systems to institutional and individual consumers.

New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 requires that an entity recognizes all derivatives as either assets or liabilities in the balance sheet and measures these instruments at fair market value. Changes in the fair market value of derivatives are recorded each period. The Companies will adopt SFAS No. 133 for the year beginning April 1, 2000. The effect on the Companies' consolidated financial statements of adopting SFAS No. 133 has not been determined. In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This SOP 98-1 which is effective for financial statements for fiscal years beginning after December 15, 1998 provides guidance on accounting for the costs of computer software developed or obtained to solely meet the entities' internal use. The Companies are in the process of evaluating the effect of SOP 98-1.

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 ¥121 to $1, the approximate free rate of exchange at March 31, 1999. 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, 1999 and 1998 consisted of:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Finished products	**¥47,653**	¥56,665	**$393,826**
Work-in-process	**14,107**	17,707	**116,587**
Materials and supplies	**17,775**	20,609	**146,901**
Total	**¥79,535**	¥94,981	**$657,314**

4. Short-Term Investments and Investment Securities

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							
	1999				1998			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Short-term investments:								
Debt securities	**¥ 20**	**¥ —**	**¥ —**	**¥ 20**	¥ 3,913	¥ —	¥ —	¥ 3,913
Equity securities	**722**	**399**	**(87)**	**1,034**	854	1,442	(67)	2,229
Total short-term investments	**742**	**399**	**(87)**	**1,054**	4,767	1,442	(67)	6,142
Marketable investment securities:								
Debt securities	**11**	**—**	**—**	**11**	25	—	—	25
Equity securities	**39,070**	**16,562**	**(6,328)**	**49,304**	39,447	17,675	(5,584)	51,538
Total marketable investment securities	**39,081**	**16,562**	**(6,328)**	**49,315**	39,472	17,675	(5,584)	51,563
Total	**¥39,823**	**¥16,961**	**¥(6,415)**	**¥50,369**	¥44,239	¥19,117	¥(5,651)	¥57,705

	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	Thousands of U.S. dollars			
	1999			
Short-term investments:				
Debt securities	**$ 165**	**$ —**	**$ —**	**$ 165**
Equity securities	**5,967**	**3,298**	**(719)**	**8,546**
Total short-term investments	**6,132**	**3,298**	**(719)**	**8,711**
Marketable investment securities:				
Debt securities	**91**	**—**	**—**	**91**
Equity securities	**322,893**	**136,876**	**(52,298)**	**407,471**
Total marketable investment securities	**322,984**	**136,876**	**(52,298)**	**407,562**
Total	**$329,116**	**$140,174**	**$(53,017)**	**$416,173**

Net unrealized holding gains on available-for-sale securities, net of related taxes, decreased by ¥1,518 million ($12,545 thousand) and ¥3,485 million for the years ended March 31, 1999 and 1998, respectively. Debt securities classified as available-for-sale investment securities mature in various amounts through 2001.

Proceeds from sales of available-for-sale securities were ¥26,478 million ($218,826 thousand), ¥21,160 million and ¥43,671 million for the years ended March 31, 1999, 1998 and 1997, respectively.

Gross realized gains on those sales were ¥3,001 million ($24,802 thousand) and ¥2,828 million for the years ended March 31, 1999 and 1997, respectively, and were not material for the year ended March 31, 1998.

Gross realized losses were ¥1,275 million ($10,537 thousand) and ¥1,255 million for the years ended March 31, 1999 and 1997, respectively, and were not material for the year ended March 31, 1998.

5. Bank Loans and Long-Term Debt

The weighted average annual interest rates of short-term bank loans at March 31, 1999 and 1998 were 2.5% and 5.2%, respectively.

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Unsecured debt:			
Convertible bonds at 1.7%, due 2004	**¥29,741**	¥29,741	**$245,793**
Notes:			
Loans from banks and other financial institutions, generally at 0.6% to 6.0%, due serially through 2004	**28,794**	11,615	**237,967**
Other	**242**	610	**2,000**
Total	**58,777**	41,966	**485,760**
Less portion due within one year	**2,167**	8,466	**17,909**
Long-term debt, less current portion	**¥56,610**	¥33,500	**$467,851**

The annual maturities of long-term debt outstanding at March 31, 1999 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2000	¥ 2,167	$ 17,909
2001	694	5,736
2002	25,551	211,165
2003	181	1,496
2004	13	107
2005 and thereafter	30,171	249,347
Total	¥58,777	$485,760

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.

The number of contingently issuable shares of common stock related to the convertible bonds as of March 31, 1999 was 10,028,661 shares.

The conversion price per share at March 31, 1999 was ¥2,965 ($24.51), subject to antidilutive 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, 1999, 1998 and 1997 amounted to ¥2,518 million ($20,810 thousand), ¥2,412 million and ¥3,557 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, 1999, future minimum rental payments applicable to noncancelable leases having initial or remaining noncancelable lease terms in excess of one year were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2000	¥1,909	$15,777
2001	1,703	14,074
2002	804	6,645
2003	738	6,099
2004	606	5,008
2005 and thereafter	2,426	20,050
Total	¥8,186	$67,653

Rental expense amounted to ¥15,193 million ($125,562 thousand), ¥13,917 million and ¥11,105 million for the years ended March 31, 1999, 1998 and 1997, respectively.

Since December 1997, the Company has entered into an agreement with an outside service organization for outsourcing computer services. The contract requires an annual service fee of ¥4,460 million ($36,860 thousand) for the year ending March 31, 1999. The annual service fee will gradually decrease each year during the initial contract term of 10 years to ¥3,769 million 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 portions, prescribed by the Japanese Ministry of Health 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
	1999	1998	**1999**
Change in benefit obligations:			
Benefit obligations at beginning of year	**¥154,614**	¥143,941	**$1,277,802**
Service cost	**10,227**	8,670	**84,521**
Interest cost	**5,411**	5,758	**44,719**
Plan amendments	**1,030**	0	**8,512**
Actuarial gains and losses	**10,653**	(2,496)	**88,041**
Benefits paid	**(1,468)**	(1,259)	**(12,132)**
Benefit obligation at end of year	**¥180,467**	¥154,614	**$1,491,463**
Change in plan assets:			
Fair value of plan assets at beginning of year	**92,927**	85,316	**767,992**
Actual return on plan assets	**(1,035)**	1,556	**(8,554)**
Employers' contributions	**6,448**	6,324	**53,289**
Employees' contributions	**1,012**	990	**8,364**
Benefits paid	**(1,468)**	(1,259)	**(12,132)**
Fair value of plan assets at end of year	**¥ 97,884**	¥ 92,927	**$ 808,959**
Funded status	**(82,583)**	(61,687)	**(682,504)**
Unrecognized net actuarial loss	**58,095**	41,122	**480,124**
Unrecognized transition obligation	**1,348**	1,618	**11,140**
Net amount recognized	**¥ (23,140)**	¥ (18,947)	**$ (191,240)**
Amounts recognized in the statement of cash flows consist of:			
Accrued liability	**¥ (38,379)**	¥ (23,422)	**$ (317,182)**
Intangible assets	**1,348**	1,618	**11,140**
Accumulated other comprehensive income (gross of tax)	**13,891**	2,857	**114,802**
Net amount recognized	**¥ (23,140)**	¥ (18,947)	**$ (191,240)**
Accumulated benefit obligation at end of year	**¥136,263**	¥116,349	**$1,126,141**

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 deferred tax benefits. 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:

	1999	1998	1997
Discount rate	**3.5%**	4.0%	4.0%
Compensation increase rate	**3.6**	3.8	3.8
Expected long-term rate of return on plan assets	**3.5**	3.5	3.5

The expense recorded for the contributory termination and retirement plan included the following components for the years ended March 31, 1999 and 1998:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Service cost, less employees' contributions	**¥10,227**	¥ 8,670	**$ 84,521**
Interest cost on projected benefit obligation	**5,411**	5,758	**44,719**
Expected return on plan assets	**(3,252)**	(2,938)	**(26,876)**
Net amortization and deferral	**1,982**	2,168	**16,380**
Employees' contributions	**(1,012)**	(990)	**(8,364)**
Net expense	**¥13,356**	¥12,668	**$110,380**

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 liabilities for the noncontributory termination plans as of March 31, 1999 and 1998 were ¥1,697 million ($14,025 thousand) and ¥1,488 million, respectively. The consolidated expenses for the noncontributory termination and retirement plans for the years ended March 31, 1999, 1998 and 1997 were ¥84 million ($694 thousand), ¥146 million and ¥420 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 which is to be recorded as common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as common stock have been 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, 1999, retained earnings amounting to ¥100,120 million ($827,438 thousand) were available for future dividends, subject to the legal reserve requirements.

9. Income Taxes

The provision for income taxes for the years ended March 31, 1999, 1998 and 1997 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Current income tax expense	**¥12,426**	¥24,579	¥22,915	**$102,694**
Deferred income tax expense (benefit), exclusive of the following	**(8,591)**	(1,305)	342	**(71,000)**
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	**(142)**	(176)	(305)	**(1,174)**
Adjustments of deferred tax assets and liabilities for enacted change in tax rates	**2,351**	273	—	**19,430**
Total	**¥ 6,044**	¥23,371	¥22,952	**$ 49,950**

The effective income tax rates of the Companies differ from the normal Japanese statutory rates as follows for the years ended March 31, 1999, 1998 and 1997:

	1999	1998	1997
Normal Japanese statutory rates	**48.0%**	51.0%	51.0%
Increase (decrease) in taxes resulting from:			
Permanently nondeductible items	**30.2**	6.0	9.1
Losses of subsidiaries for which no tax benefit was provided	**10.1**	1.0	0.2
Difference in subsidiaries' tax rates	**(18.1)**	(6.0)	(3.7)
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	**(1.7)**	(0.4)	(0.8)
Effects of enacted change in tax rates	**28.5**	0.6	—
Recognition of tax credit carryforward of an overseas subsidiary	**(28.5)**	—	—
Other, net	**4.8**	3.1	2.7
Effective tax rates	**73.3%**	55.3%	58.5%

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 48.0% in 1999 and 51.0% in 1998 and 1997. Amendments to Japanese tax regulations were enacted into law on March 31, 1998 and 1999. As a result of these amendments, the normal income tax rates were reduced from 51.0% to 48.0% effective April 1, 1998 and from 48.0% to 42.0% effective April 1, 1999, respectively. Deferred income tax assets and liabilities as of March 31, 1999 and 1998 were measured at the respective newly enacted tax rates.

The approximate effects of temporary differences and tax credit and loss carryforwards that gave rise to deferred tax balances at March 31, 1999 and 1998 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	1999		1998		**1999**	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventory valuation	**¥ 1,676**	**¥ —**	¥ 1,476	¥ —	**$ 13,851**	**$ —**
Accrued bonuses and vacations	**2,152**	**—**	2,188	—	**17,785**	**—**
Termination and retirement benefits	**6,266**	**—**	5,085	—	**51,785**	**—**
Enterprise taxes	**568**	**—**	1,129	—	**4,694**	**—**
Intercompany profits	**2,522**	**—**	3,218	—	**20,843**	**—**
Marketable securities	**—**	**4,429**	—	6,464	**—**	**36,603**
Allowance for doubtful receivables	**407**	**209**	462	467	**3,364**	**1,727**
Gain on sale of land	**—**	**1,076**	—	1,229	**—**	**8,893**
Minimum pension liability adjustment	**5,834**	**—**	1,372	—	**48,215**	**—**
Other temporary differences	**4,709**	**5,169**	3,514	5,004	**38,917**	**42,719**
Tax credit carryforwards	**5,954**	**—**	—	—	**49,207**	
Subsidiaries' operating loss carryforwards	**4,311**	**—**	3,256	—	**35,628**	**—**
Subtotal	**34,399**	**10,883**	21,700	13,164	**284,289**	**89,942**
Valuation allowance	**(4,804)**	**—**	(2,642)	—	**(39,702)**	**—**
Total	**¥29,595**	**¥10,883**	¥19,058	¥13,164	**$244,587**	**$89,942**

The total valuation allowance increased by ¥2,162 million ($17,868 thousand) in 1999 and decreased by ¥1,689 million and ¥715 million in 1998 and 1997, respectively.

As of March 31, 1999, certain subsidiaries had operating loss carryforwards approximating ¥10,822 million ($89,438 thousand) available for reduction of future taxable income, most of which expire in various amounts through 2010.

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 that are considered to be indefinitely reinvested and for which Japanese income taxes have not been provided were ¥37,175 million ($307,231 thousand) and ¥35,315 million at March 31, 1999 and 1998, 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.

10. Foreign Operations

Net sales and total assets of foreign subsidiaries for the years ended March 31, 1999, 1998 and 1997 were as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Net sales	**¥167,546**	¥171,181	¥151,992	**$1,384,678**
Total assets	**122,039**	143,247	132,714	**1,008,587**

11. Amounts per Share

The Company adopted SFAS No. 128, "Earnings per Share," in the year ended March 31, 1998. SFAS No. 128 establishes standards for computing and presenting net income per share and simplifies the standards for computing net income per share previously found in APB Opinion No. 15, "Earnings per Share." SFAS No. 128 replaces the presentation of primary net income per share with a presentation of basic net income per share. SFAS No. 128 also requires dual presentation of basic and diluted net income per share on the face of the statements of income for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic and diluted net income per share computation.

All prior years' net income per share data presented were restated to conform with the provisions of SFAS No. 128.

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 all convertible bonds and has been computed on the basis that all convertible bonds were converted at the beginning of the year.

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

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Net income	**¥2,174**	¥18,704	¥15,739	**$17,967**
Effect of dilutive securities:				
Convertible bonds, due 2004	**—**	292	275	**—**
Diluted net income	**¥2,174**	¥18,996	¥16,014	**$17,967**

	Number of shares		
	1999	1998	1997
Weighted average common shares outstanding	**260,649,752**	262,107,214	262,107,214
Dilutive effect of:			
Convertible bonds, due 2004	**—**	10,028,661	10,028,661
Diluted common shares outstanding	**260,649,752**	272,135,875	272,135,875

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 are the amounts applicable to the respective year, including dividends to be paid after the end of the year.

12. Supplemental Information for Cash Flows

Supplemental cash flow information for the years ended March 31, 1999, 1998 and 1997 was as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Interest paid	**¥ 2,450**	¥ 2,347	¥ 3,718	**$ 20,248**
Income taxes paid	**18,417**	25,804	18,151	**152,207**
Noncash investing and financing activities:				
Liabilities assumed in connection with capital expenditures	**5,559**	4,547	5,602	**45,942**
Exchange of investment securities:				
Investment securities surrendered	**—**	—	(1,989)	**—**
Investment securities received	**—**	—	3,197	**—**

13. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) by each component for the years ended March 31, 1999, 1998 and 1997 was as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	**1999**
Foreign currency translation adjustments:				
Beginning balances	**¥ (5,912)**	¥ (3,320)	¥ (9,057)	**$ (48,859)**
Change for the year	**(6,042)**	(2,592)	5,737	**(49,934)**
Ending balances	**(11,954)**	(5,912)	(3,320)	**(98,793)**
Minimum pension liability adjustments:				
Beginning balances	**(1,401)**	(2,146)	(4,639)	**(11,579)**
Change for the year	**(5,737)**	745	2,493	**(47,413)**
Ending balances	**(7,138)**	(1,401)	(2,146)	**(58,992)**
Unrealized gains on available-for-sale securities:				
Beginning balances	**6,598**	10,083	15,736	**54,529**
Change for the year	**(1,518)**	(3,485)	(5,653)	**(12,546)**
Ending balances	**5,080**	6,598	10,083	**41,983**
Total accumulated other comprehensive income (loss):				
Beginning balances	**(715)**	4,617	2,040	**(5,909)**
Change for the year	**(13,297)**	(5,332)	2,577	**(109,893)**
Ending balances	**¥(14,012)**	¥ (715)	¥ 4,617	**$(115,802)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 1999, 1998 and 1997 was as follows:

	Millions of yen								
	1999			1998			1997		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:									
Amount arising during the year on investments in foreign entities held at end of year	**¥ (6,082)**	**¥ —**	**¥ (6,082)**	¥(2,592)	¥ —	¥(2,592)	¥ 5,737	¥ —	¥ 5,737
Reclassification adjustments 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	**(6,042)**	**—**	**(6,042)**	(2,592)	—	(2,592)	5,737	—	5,737
Minimum pension liability adjustments	**(11,032)**	**5,295**	**(5,737)**	1,520	(775)	745	5,088	(2,595)	2,493
Unrealized gains on available-for-sale securities:									
Unrealized holding gains arising during period	**(4,646)**	**2,230**	**(2,416)**	(7,118)	3,629	(3,489)	(13,110)	6,686	(6,424)
Less: reclassification adjustment for gains realized in net income	**1,726**	**(828)**	**898**	7	(3)	4	1,573	(802)	771
Net unrealized gains	**(2,920)**	**1,402**	**(1,518)**	(7,111)	3,626	(3,485)	(11,537)	5,884	(5,653)
Other comprehensive income (loss)	**¥(19,994)**	**¥6,697**	**¥(13,297)**	¥(8,183)	¥2,851	¥(5,332)	¥ (712)	¥3,289	¥2,577

	Thousands of U.S. dollars		
	1999		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	**$ (50,264)**	**$ —**	**$ (50,264)**
Reclassification adjustments for the portion realized upon sale or liquidation of investments in foreign entities	**330**	**—**	**330**
Net change in foreign currency translation adjustments during the year	**(49,934)**	**—**	**(49,934)**
Minimum pension liability adjustments	**(91,173)**	**43,760**	**(47,413)**
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	**(38,397)**	**18,430**	**(19,967)**
Less: reclassification adjustment for gains realized in net income	**14,264**	**(6,843)**	**7,421**
Net unrealized gains	**(24,133)**	**11,587**	**(12,546)**
Other comprehensive income (loss)	**$(165,240)**	**$55,347**	**$(109,893)**

14. Financial Instruments and Risk Management

Financial Instruments

The following table presents the carrying amounts and estimated fair values as of March 31, 1999 and 1998 of the Companies' financial instruments, both on and off the balance sheets.

	Millions of yen				Thousands of U.S. dollars	
	1999		1998		1999	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Nonderivatives:						
Long-term debt, including current portion	**¥(58,777)**	**¥(59,301)**	¥(41,966)	¥(42,170)	**¥(485,760)**	**¥(490,091)**
Derivatives:						
Included in other current assets (other current liabilities):						
Options purchased	**—**	**—**	288	208	**—**	**—**
Forward exchange contracts	**(16)**	**(62)**	(267)	(307)	**(132)**	**(512)**
Interest rate swaps	**—**	**(172)**	—	(59)	**—**	**(1,421)**

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, for which 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 issues, except capital lease obligations, 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 that 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, 1999 and 1998, the notional amounts on which the Companies had interest rate swap agreements outstanding aggregated ¥12,000 million ($99,174 thousand) and ¥6,000 million, respectively. The estimated fair values of interest rate swap contracts are based on the present values of discounted future cash flow analysis.

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

The Companies enter into foreign exchange forward contracts and engage in the purchase and writing of foreign currency option contracts to hedge foreign currency transactions (primarily the U.S. dollar, the deutsche mark and other European currencies) 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 and currency purchase options are represented by the positive 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) and currency options purchased and outstanding at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Related to receivables and future sales:			
Forward contracts	**¥13,974**	¥24,867	**$115,488**
Options purchased	**—**	8,885	**—**

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 the conversion of the functional currency, these assets and liabilities are translated at the 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. The Company hedges its exposure to changes in foreign exchange with forward contracts. Because monetary assets and liabilities are marked to spot and recorded in earnings, forward contracts designated as hedges of the monetary assets and liabilities are also marked to spot with the resulting gains and losses similarly recognized in earnings. Gains and losses on forward contracts 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.

The Companies hedge future sales denominated in foreign currencies with purchased and written currency options to reduce the effective cost of the purchased options. The premiums paid for currency options purchased and premiums received for currency options written are included in other assets and other liabilities, respectively, in the consolidated balance sheets and are amortized to Foreign exchange loss—net in the consolidated statements of income over the terms of the agreements. 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 which 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. Bad debts have been minimal. The Company normally requires customers to deposit with it funds to serve as security for ongoing credit sales.

Guarantees

Contingent liabilities at March 31, 1999 with respect to loans guaranteed were ¥2,681 million ($22,157 thousand), of which ¥1,400 million ($11,570 thousand) are jointly and severally guaranteed with other unrelated companies.

15. Restatement of Financial Statements

The Companies applied SFAS No. 115 in the current year, and the prior years' consolidated financial statements have been restated. The following table presents a summary of the effects.

Consolidated Statements of Income:

	Millions of yen	
	1998	
	As previously reported	As restated
Net income (due to a change in enacted tax rates)	¥18,300	¥18,704
Net income per share (in yen):		
Basic	69.8	71.4
Diluted	68.3	69.8

Consolidated Balance Sheets:

	Millions of yen	
	1998	
	As previously reported	As restated
Short-term investments	¥ 4,767	¥ 6,142
Investment securities	43,245	55,336
Deferred income taxes (liability)	5,531	11,335
Retained earnings	174,282	174,686
Net unrealized gains on securities included in accumulated other comprehensive income	—	6,598
Shareholders' equity	336,064	343,066

Consolidated Statements of Shareholders' Equity:

	Millions of yen	
	Net unrealized gains on securities included in accumulated other comprehensive income	
	As previously reported	As restated
Balance, April 1, 1996	¥—	¥15,736
Other comprehensive loss	—	(5,653)
Balance, March 31, 1997	—	¥10,083
Other comprehensive loss	—	(3,485)
Balance, March 31, 1998	¥—	¥ 6,598

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, 1999 and 1998, 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, 1999, 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. 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 ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," (which superseded SFAS No. 14 "Financial Reporting for Segments of a Business Enterprise" in 1999), 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 report dated May 18, 1998, we expressed an opinion that the consolidated financial statements as of March 31, 1998, and for the years then ended contained a departure from generally accepted accounting principles because the Company had not adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Effective April 1, 1998, as discussed in Notes 1 and 15, the Company adopted retroactively to April 1, 1994 SFAS No. 115 and restated its prior years' consolidated financial statements. Accordingly, our present opinion on the prior years' financial statements, as presented herein, is different from that expressed in our previous report.

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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999 in conformity with accounting principles generally accepted in the United States.

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.

Osaka, Japan
May 11, 1999

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

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DATE OF ESTABLISHMENT
May 10, 1933

INDUSTRIAL PROPERTY RIGHTS
Number of patents:
2,514 (Japan)
1,385 (Overseas)
Number of patents pending:
6,493 (Japan)
593 (Overseas)

NUMBER OF EMPLOYEES
23,742

PAID-IN CAPITAL
¥64,079 million

COMMON STOCK
Authorized: 495,000,000 shares
Issued: 257,107,214 shares
Number of shareholders: 27,733

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Osaka Securities Exchange
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